

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

Commission File No. 1-8923

HEALTH CARE REIT, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

34-1096634  
(I.R.S. Employer  
Identification Number)

One SeaGate, Suite 1500, Toledo, Ohio  
(Address of principal executive office)

43604  
(Zip Code)

(419) 247-2800  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock, \$1.00 par value	New York Stock Exchange
8.875% Series B Cumulative Redeemable Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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; and (2) has been subject to such filing requirements for the past 90 days.

Yes    X                      No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.    X  
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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes    X                      No  
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The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant, computed by reference to the closing sales price of such shares on the New York Stock Exchange as of the last business day of the Registrant's most recently completed second fiscal quarter was \$1,122,960,000. As of February 20, 2003, there were 40,294,976 shares of common

stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the annual stockholders' meeting to be held May 1, 2003, are incorporated by reference into Part III.

HEALTH CARE REIT, INC.  
2002 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

GENERAL

Health Care REIT, Inc., a Delaware corporation, is a self-administered, equity real estate investment trust that invests in health care facilities, primarily skilled nursing and assisted living facilities. We also invest in specialty care facilities. As of December 31, 2002, long-term care facilities, which include skilled nursing and assisted living facilities, comprised approximately 92% of our investment portfolio. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

As of December 31, 2002, we had \$1,537,257,000 of real estate investments, inclusive of credit enhancements, in 244 facilities located in 33 states and managed by 44 different operators. At that date, the portfolio included 160 assisted living facilities, 76 skilled nursing facilities and eight specialty care facilities.

Our primary objectives are to protect stockholders' capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments from annual increases in rental and interest income and portfolio growth. To meet these objectives, we invest primarily in long-term care facilities managed by experienced operators and diversify our investment portfolio by operator and geographic location.

We anticipate investing in additional health care facilities through operating lease arrangements with, and mortgage loans for, qualified health care operators. Capital for future investments may be provided by borrowing under our revolving credit facilities, public offerings or private placements of debt or equity or the incurrence of secured indebtedness.

References herein to "we," "us," "our" or the "Company" refer to Health Care REIT, Inc. and its subsidiaries unless specifically noted otherwise.

PORTFOLIO OF PROPERTIES

The following table shows our portfolio as of December 31, 2002:

Type of Facility	Investments (1) (In thousands)	Percentage of Portfolio	Number of Facilities	Number of Beds/Units	Investment per Bed/Unit(2)	Number of Operators(3)	Number of States(3)
Assisted Living Facilities	\$ 879,104	57%	160	10,610	\$ 85,098	27	31
Skilled Nursing Facilities	539,904	35%	76	10,482	51,508	17	16
Specialty Care Facilities	118,249	8%	8	1,304	105,325	6	5
Totals	\$1,537,257	100%	244	22,396			

(1) Investments include real estate investments and credit enhancements which amounted to \$1,529,412,000 and \$7,845,000, respectively.

(2) Investment Per Bed/Unit was computed by using the total investment amount of \$1,580,142,000 which includes real estate investments, credit enhancements and unfunded commitments for which initial funding has commenced which amounted to \$1,529,412,000, \$7,845,000 and \$42,885,000, respectively.

(3) We have investments in properties located in 33 states and managed by 44 different operators.

ASSISTED LIVING FACILITIES

An assisted living facility is a special combination of housing, personalized supportive services and health care designed to meet the needs -- both scheduled and unscheduled -- of those who need help with activities of daily living. More intensive medical needs of the resident within assisted living facilities may be provided by home health providers. Assisted living facilities represent less costly and less institutional-like alternatives for the care of the elderly or the frail.

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#### SKILLED NURSING FACILITIES

Skilled nursing facilities provide inpatient skilled nursing and personal care services as well as rehabilitative, restorative and transitional medical services. In some instances, skilled nursing facilities supplement hospital care by providing specialized care for medically complex patients whose conditions require intense medical and therapeutic services, but who are medically stable enough to have these services provided in facilities that are less expensive than acute care hospitals.

#### SPECIALTY CARE FACILITIES

Our specialty care facilities include acute care hospitals, long-term acute care hospitals and other specialty care hospitals. Acute care hospitals provide a wide range of inpatient and outpatient services including, but not limited to, surgery, rehabilitation, therapy and clinical laboratories. Long-term acute care hospitals provide inpatient services for patients with complex medical conditions that require more intensive care, monitoring or emergency support than that available in most skilled nursing facilities. Other specialty care hospitals provide specialized inpatient and outpatient services for specific illnesses or diseases including, among others, orthopedic, neurosurgical and behavioral care services.

#### INVESTMENTS

We invest in income producing health care facilities with a primary focus on long-term care facilities, which include skilled nursing and assisted living facilities. We also invest in specialty care facilities. We diversify our investment portfolio by operator and geographic location.

In determining whether to invest in a facility, we focus on the following: (a) the experience of the management team; (b) the historical and projected financial and operational performance of the facility; (c) the credit of the tenant or borrower; (d) the security for the lease or loan; and (e) the capital committed to the facility by the tenant or borrower. We conduct market research and analysis for all potential investments. In addition, we review the value of all facilities, the interest rates and debt service coverage requirements of any debt to be assumed and the anticipated sources for repayment of any debt.

Our investments are primarily operating leases and mortgage loans. Construction financing is provided, but only as a part of a long-term operating lease or mortgage loan. Substantially all of our investments are designed with escalating rate structures. Depending upon market conditions, we believe that appropriate new investments will be available in the future with substantially the same spreads over our costs of capital.

Operating leases and mortgage loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and mortgage loans are generally cross-defaulted and cross-collateralized with other mortgage loans, operating leases or agreements between the Company and the operator and its affiliates.

At December 31, 2002, 88% of our owned real property was subject to master leases. A master lease is a lease of multiple facilities from us to one tenant

entity under a single lease agreement. From time to time, we may acquire additional facilities that are then leased to the tenant under the master lease. The tenant is required to make one monthly payment that represents rent on all the properties that are subject to the master lease. Typically, the master lease tenant can exercise its right to purchase the facilities or to renew the lease only with respect to all leased facilities at the same time. This "bundling" feature benefits us because the tenant cannot limit the purchase or renewal to the better performing facilities and terminate the leasing arrangement with respect to the poorer performing facilities. This spreads our risk among the entire group of facilities within the master lease. The bundling feature may provide a similar advantage if the master lease tenant is in bankruptcy. Subject to certain restrictions, a debtor in bankruptcy has the right to assume or reject each of its leases. It is our intent that a tenant who is in bankruptcy would be required to assume or reject the master lease as a whole, rather than making the decision on a facility by facility basis.

We typically invest in or finance up to 90% of the appraised value of a property. Economic terms normally include annual rate increases and fair market value based purchase options in operating leases.

We monitor our investments through a variety of methods determined by the type of health care facility and operator. Our monitoring process includes review of monthly financial statements for each facility, quarterly review of operator credit, annual facility 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 facility-specific data. Additionally, we conduct extensive research to ascertain industry trends and risks.

Through monitoring and research, we evaluate the operating environment in each facility's market to determine whether payment risk is likely to increase. When we identify unacceptable levels of payment risk, we seek to mitigate, eliminate or transfer the risk. We typically categorize the risk as operator, facility or market risk. For operator risk, we typically find a substitute operator to run the facility. For facility risk, we usually work with the operator to institute facility level management changes to address the risk. Finally, for market risk,

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we often encourage an operator to change its capital structure, including refinancing or raising additional equity. Through these monitoring and research efforts, we are typically able to intervene at an early stage and address payment risk.

#### OPERATING LEASES

Each facility, which includes the land, buildings, improvements and related rights, owned by us is leased to an operator pursuant to a long-term operating lease. As discussed above, most of our leased properties are subject to master leases. The leases generally have a fixed term of 10 to 15 years and contain one or more five to 10-year renewal options. Each lease is a net lease requiring the tenant to pay rent and all additional charges incurred in the operation of the leased property. The tenants are required to repair, rebuild and maintain the leased properties.

The net value of our completed leased properties aggregated approximately \$1,286,985,000 at December 31, 2002. The straight-line rents on the original lease basis of our completed leased properties are approximately 11.9% per annum on average at December 31, 2002. Our rental yield from leases depends upon a number of factors, including the initial rent charged, up-front fees and any rental adjustments. The base rents for the renewal periods are generally fixed rents set at a spread above the Treasury yield for the corresponding period.

We currently provide for construction of a facility by the tenant as a part of a long-term operating lease. 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. We also typically charge a commitment fee at the commencement of construction. The construction period commences upon funding and terminates upon the earlier of the completion of the applicable facility or the end of a specified period, generally 12 to 18 months. During the construction period, we purchase completed construction from the operator in accordance with agreed upon terms and conditions which require, among other things, a site visit by a Company representative. During the construction period, we generally require additional credit enhancement in the form of payment and performance bonds and/or completion guaranties. At December 31, 2002, we had outstanding construction financings of \$19,833,000 for leased properties and were committed to providing additional financing of approximately \$42,885,000 to complete construction.

#### MORTGAGE LOANS

Our investments in mortgage loans are typically structured to provide us with interest income, principal amortization and commitment fees and are generally secured by a first mortgage lien.

At December 31, 2002, the average interest rate was approximately 11.9% per annum on our outstanding mortgage loan balances. Our yield on mortgage loans depends upon a number of factors, including the stated interest rate, average principal amount outstanding during the term of the loan, the amount of the commitment fee charged at the inception of the loan and any interest rate adjustments.

The mortgage loans made through December 31, 2002 are generally subject to seven to 10-year terms with 25-year amortization schedules that provide for a balloon payment of the outstanding principal balance at the end of the term. Generally, the mortgage loans provide five to seven years of prepayment protection.

#### SUBDEBT INVESTMENTS

Subdebt investments are unsecured loans made to operators of facilities. Generally, these instruments are for five to seven-year terms. At December 31, 2002, the average interest rate was approximately 13.4% per annum on our outstanding subdebt investment balances. At December 31, 2002, we had provided subdebt financing to four operators.

#### EQUITY INVESTMENTS

We have an investment in Atlantic Healthcare Finance L.P., a property group that specializes in the financing, through sale and leaseback transactions, of nursing and care homes located in the United Kingdom. This investment is accounted for under the equity method of accounting because we have the ability to exercise significant influence, but not control, over the company due to our 31% ownership interest.

Other equity investments, which consist of investments in private and public companies for which we do not have the ability to exercise influence, 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 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.

BORROWING POLICIES

We may incur long-term indebtedness through public offerings or private placements to institutional investors. For short-term purposes, we may, from time to time, obtain lines of credit or other short-term borrowings from banks or others.

When terms are deemed favorable, we may invest in properties subject to existing mortgage indebtedness. In addition, we may obtain financing for unleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis.

Under documents pertaining to existing indebtedness, we are subject to various restrictions with respect to secured and unsecured indebtedness.

MAJOR OPERATORS

The following table summarizes certain information about our operator concentration as of December 31, 2002 (dollars in thousands):

Concentration by investment:	Number of Facilities	Total Investment(1)	Percent of Investment(2)
	-----	-----	-----
Commonwealth Communities L.L.C	14	\$ 195,552	13%
Merrill Gardens L.L.C	18	137,094	9%
Life Care Centers of America, Inc.	17	119,054	8%
Home Quality Management, Inc.	19	116,664	8%
Alterra Healthcare Corp.	45	106,319	7%
Remaining Operators	131	862,574	55%
	-----	-----	-----
Total	244	\$ 1,537,257	100%
	=====	=====	=====

Concentration by revenue:	Number of Facilities	Total Revenues(3)	Percent of Revenue(4)
	-----	-----	-----
Merrill Gardens L.L.C	18	\$ 16,271	10%
Commonwealth Communities L.L.C	14	15,987	10%
Alterra Healthcare Corp.	45	14,207	9%
Home Quality Management, Inc.	19	13,948	8%
Life Care Centers of America, Inc.	17	10,548	6%
Remaining Operators	131	95,920	57%
	-----	-----	-----
Total	244	\$ 166,881	100%
	=====	=====	=====

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- (1) Investments include real estate investments and credit enhancements which amounted to \$1,529,412,000 and \$7,845,000, respectively.
- (2) Investments with our top five operators comprised 42% of total investments at December 31, 2001.
- (3) Revenues include gross revenues and revenues from discontinued operations for the year ended December 31, 2002.
- (4) Revenues from our top five operators were 40% and 38% for the years ended

December 31, 2001 and 2000, respectively.

#### COMPETITION

We compete with other real estate investment trusts, real estate partnerships, banks, insurance companies, finance companies, government sponsored agencies, tax and tax-exempt bond funds and other investors in the acquisition, leasing and financing of health care facilities. The operators of our facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients and residents based on a number of factors including quality of care, reputation, physical appearance of facilities, services offered, family preferences, physicians, staff and price.

#### EMPLOYEES

As of December 31, 2002, we employed 30 full-time employees.

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#### CERTAIN GOVERNMENT REGULATIONS

##### HEALTH LAW MATTERS - GENERALLY

We invest in assisted living, skilled nursing and specialty care facilities, which represent approximately 57%, 35% and 8%, respectively, of our investments at December 31, 2002.

Typically, operators of assisted living facilities do not receive significant funding from governmental programs and are regulated by the states, not the federal government. Operators of skilled nursing and specialty care facilities are subject to federal and state laws that relate to the quality of the medical and/or nursing care provided, ancillary services (e.g., respiratory, occupational, physical and infusion therapy), qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment, distribution of pharmaceuticals, reimbursement and rate setting and operating policies. In addition, as described below, some of our facility operators are subject to extensive laws and regulations pertaining to health care fraud and abuse, including kickbacks, physician self-referrals and false claims.

#### LICENSING

The primary regulations that affect assisted living facilities are the states' licensing laws. In granting and renewing these licenses, the regulatory authorities consider numerous factors that relate directly to a facility's physical plant and operations, including, but not limited to, admission and discharge standards and staffing and training in general. A decision to grant or renew a license is also affected by a facility's record with respect to consumer rights and medication guidelines and rules.

Generally, our skilled nursing and specialty care facilities are required to be licensed on an annual or bi-annual basis and to be certified for participation in the Medicare and Medicaid programs through various regulatory agencies that determine compliance with federal, state and local laws. The failure of our facility operators to maintain or renew any required license or regulatory approval could prevent them from continuing operations at a property. In addition, if a facility is found out of compliance with the conditions of participation in Medicare, Medicaid or other health care programs, or if a facility is otherwise excluded from those programs, the facility may be barred from participation in government health insurance programs. Any of these occurrences may impair the ability of our operators to meet their obligations to us. If we have to replace a facility operator, our ability to replace the operator may be affected by federal and state rules and policies governing changes in control. Under current Medicare and Medicaid rules and regulations and provider contracts, a successor operator that assumes an existing provider

agreement will typically be subject to certain liabilities of the previous operator, including overpayments, underpayments, terms under any existing plan of correction and possibly sanctions and penalties. If a successor operator chooses to apply for a new Medicare provider agreement, the successor operator may experience interruptions and delays in reimbursement during the processing of its application for a new provider agreement. This may result in delays, an inability to find a replacement operator, a significant working capital commitment from us to a new operator or other difficulties.

#### REIMBURSEMENT

**Assisted Living Facilities.** Almost all of the revenues received by the operators of our assisted living facilities are from private pay sources (including Social Security) with a small amount from Medicaid waiver programs. Approximately 63% of our revenues for the year ended December 31, 2002, were attributable to assisted living facilities. At December 31, 2002, only six of our 27 assisted living operators utilized Medicaid waivers, and Medicaid residents are generally a small percentage of total census at each of these facilities.

Rates paid by self-pay residents are set by the facilities and are largely determined by local market conditions and operating costs. Generally, facilities receive a higher payment per day for a self-pay or private insurance patient than for a Medicaid beneficiary who requires a comparable level of care. Thus, the revenues generated by operators of our assisted living facilities may be adversely affected by the mix of the patients, their payment sources, the acuity level of care required and reductions in reimbursement levels which could in turn have a material adverse effect on an operators' ability to meet their obligations to us.

Most states have Medicaid waiver programs that allow Medicaid recipients to use benefits for alternatives to skilled nursing such as assisted living. The National Academy for State Health Policy reports that Medicaid waiver programs served about 102,000 residents in assisted living or residential care settings in 2002. The level of reimbursement varies significantly from state to state, but rarely includes reimbursement for the rental portion of the monthly rate. In addition, some operators are hesitant to accept Medicaid residents because participation in the waiver program often entails increased state oversight and regulatory requirements.

**Skilled Nursing Facilities and Specialty Care Facilities.** Skilled nursing and specialty care facilities typically receive most of their revenues from Medicare and Medicaid, with the balance representing private pay, including private insurance. Consequently, skilled nursing and specialty care facilities rely heavily on government reimbursement of capital and operating expenses. Changes in federal or state reimbursement policies, including changes in payment rates as a result of federal or state regulatory action, or delays by fiscal intermediaries may also adversely affect an operator's ability to cover its expenses. Skilled nursing and specialty care facilities are subject to periodic pre- and post-payment reviews and other audits by federal and state authorities. A review or audit of claims against a

facility operator could result in recoupments, denials or delays of payments in the future, which could have a material adverse effect on the operator's ability to meet its obligations to us. Due to the significant judgments and estimates inherent in payor settlement accounting, no assurance can be given as to the adequacy of any reserves maintained by our facility operators for potential adjustments to reimbursements for payor settlements. Due to budgetary constraints, governmental payors often limit payments to skilled nursing and specialty care facilities. As a result of government reimbursement programs being subject to such budgetary pressures and legislative and administrative actions, an operator's ability to meet its obligations to us may be significantly impaired.

Medicare Reimbursement and Skilled Nursing Facilities. For the third quarter ended September 30, 2002, approximately 15% of the revenue sources from our skilled nursing facilities (which comprised 33% of our revenues for the year ended December 31, 2002) were directly attributable to Medicare reimbursement. In an effort to reduce federal spending on health care, the federal government enacted the Balanced Budget Act of 1997 which contained extensive changes to the Medicare and Medicaid programs intended to reduce the projected payments under these programs. The Balanced Budget Act of 1997 fundamentally altered Medicare payment methodologies for skilled nursing facilities by mandating the institution of the skilled nursing facility prospective payment system. This system differs significantly from the prior cost based reimbursement system. Among other things, it sets per diem rates based on 1995 cost reports as adjusted by a variety of factors, including, but not limited to, costs associated with 44 patient utilization group categories. The payments received under the skilled nursing facility prospective payment system cover services for Medicare patients, including all ancillary services (such as respiratory, physical, and occupational therapy) and certain covered medications. The skilled nursing facility prospective payment system caused Medicare spending for skilled nursing facility services to decrease and those reductions in Medicare payments resulted in immediate financial difficulties thereby causing a number of skilled nursing facility operators to seek bankruptcy protection.

Since the Balanced Budget Act's passage in 1997, the federal government has taken steps to ameliorate the financial impact on affected providers. For example, under the Balanced Budget Refinement Act and the Benefits Improvement and Patient Protection Act of 2000, some of the mandatory reductions in Medicare payment increases were reversed or delayed, and skilled nursing facilities received temporary per diem payment increases for certain high cost patients. However, the relief prescribed by these laws, rules and regulations expired as of September 30, 2002.

The Medicare program announced in July 2002 that skilled nursing facilities would receive a 2.6% increase in Medicare payments for federal fiscal year 2003 (resulting in nearly \$400 million more in overall reimbursement) and that no refinements would be made to the existing case-mix classification system for fiscal year 2003. The expectation that skilled nursing facilities will continue to receive an estimated \$1 billion in temporary add-on payments until federal fiscal year 2004 will be offset, however, by the expiration of other temporary add-on payments previously provided by the Balanced Budget Refinement Act and the Benefits Improvement and Patient Protection Act of 2000. The loss of these temporary add-on payments will result in an overall decrease in federal fiscal year 2003 payments as compared to fiscal year 2002 payments. Additionally, it is unclear how potential case-mix refinements, if eventually implemented, may impact Medicare reimbursement to skilled nursing facility operators. Thus, despite some temporary payment relief, the skilled nursing facility prospective payment system has resulted, and will likely continue to result, in reduced reimbursement for operators of skilled nursing facilities as compared to prior years.

Medicare Reimbursement and Specialty Care Facilities. For the third quarter ended September 30, 2002, approximately 33% of the revenue sources from our specialty care facilities (which comprised 4% of our revenues for the year ended December 31, 2002) were directly attributable to Medicare. Some of these facilities are acute care hospitals that provide a wide range of inpatient and outpatient services, including, but not limited to, surgery, rehabilitation, therapy and clinical laboratories. Other of these facilities are long-term acute care hospitals that provide inpatient services for patients with complex medical conditions that require more intensive care, monitoring or emergency support than that available in most skilled nursing facilities. Some of our other specialty care facilities provide specialized inpatient and outpatient services for specific illnesses or diseases, including, among others, orthopedic, neurosurgical and behavioral care services.

Hospitals are reimbursed by Medicare under prospective payment system reimbursement methodologies. Reimbursement for these facilities is determined on the basis of fixed, prospective rates. In some cases, a hospital might be able to qualify for an outlier payment if the hospital's charges exceed a threshold. The Center for Medicare and Medicaid Services is re-evaluating its outlier

methodology in response to allegations that some hospitals increased their outlier reimbursement by substantially increasing charges. If any of the operators of our specialty care facilities were found to have substantially increased charges in an attempt to increase outlier payments, there is a risk that such operators could be investigated and required to refund a portion of outlier payments received plus possible penalties.

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Congress has limited increases in prospective payment system payments. These limited increases may not be sufficient to cover specialty care facilities' increasing costs of providing care. Failure to increase reimbursement to cover increased costs, or reductions or freezes in payment rates, will have an adverse impact on operators of our specialty care facilities.

The inpatient rehabilitation facilities are in the midst of fundamental changes in how they are reimbursed by Medicare. These facilities had been reimbursed on the basis of reasonable costs. However these facilities are now being reimbursed on the basis of a new prospective payment system for inpatient rehabilitation facilities, including freestanding rehabilitation hospitals and rehabilitation units of acute care hospitals. Under the inpatient rehabilitation facility prospective payment system, rehabilitation hospitals beginning in January 2002 were required to complete a patient assessment instrument upon admission and discharge for all Medicare Part A fee-for-service patients. Each patient is placed into a functional-related group on the basis of impairment, age, co-morbidities, functional capability of the patient and other factors the Medicare program deems appropriate to improve the explanatory power of functional independence measure function related groups. The group determines the base payment rate for the Medicare-covered Part A services furnished by the inpatient rehabilitation facility during the beneficiary's episode of care. Inpatient rehabilitation facility prospective payment system rates encompass the inpatient capital costs and operating costs, including routine and ancillary costs, of furnishing covered rehabilitation services. Other indirect operating costs (including, among other things, bad debts, approved educational activities and non-physician anesthetist's services) are not included.

The ability of our operators of inpatient rehabilitation facilities to adjust to the shift from reasonable cost reimbursement to the prospective payment system will impact the cash flow of these facilities. Failure to control costs or manage the care provided under the inpatient rehabilitation facility prospective payment system would have an adverse impact on our operators' ability to meet their obligations to us.

Medicaid Reimbursement. Medicaid, a cooperative federal/state program providing health coverage for the indigent, is the primary payor source for residents in our skilled nursing and specialty care facilities. For the third quarter ended September 30, 2002, approximately 65% of the revenues of our skilled nursing facilities and 53% of the revenues of our specialty care facilities were attributable to Medicaid payments. The federal government and the states share responsibility for financing Medicaid. The federal matching rate, known as the federal Medicaid assistance percentage, varies by state based on changes in per capita income. Currently, many state Medicaid programs use a cost-based reimbursement system in which the rate that a facility receives may be based on the costs it historically incurred in providing patient care. Many of these programs compute a per diem rate of reimbursement that is applied prospectively. Certain states provide for efficiency incentives, subject to cost ceilings. Reasonable costs typically include allowances for administrative and general costs and costs of property and equipment (e.g., depreciation and fair rental). Many of these programs are subject to retrospective adjustment under which a facility operator might be required to refund payments that exceed incurred costs.

States are facing increasingly difficult fiscal conditions. Personal income and corporate tax revenues are declining due to the downturn in the economy. The weak economy also strains social service programs because Medicaid is

means-tested and more people qualify for assistance as incomes fall. Further, the population continues to age regardless of economic conditions and health care costs, particularly for prescription drugs, continue to increase above the rate of inflation. Therefore, the demands under the Medicaid system are increasing during a period when the pressure is mounting to cut state expenditures in order to balance budgets. Medicaid is typically the second largest item in state budgets after elementary and secondary education. In most states, Medicaid does not fully reimburse the cost of providing skilled nursing services. Furthermore, the Balanced Budget Act of 1997 repealed the Boren Amendment which required states to fund Medicaid expenditures in an amount that would allow operators to provide care in conformity with applicable laws and safety standards. Consequently, Medicaid funding is vulnerable to state balanced budget requirements. The federal Medicaid assistance percentage, although designed to change in relation to changes in a state's per capita income, lags the state's changing economic conditions. Consequently, states may be forced to decrease Medicaid expenditures or slow the rate of growth by freezing rates or restricting eligibility. Budget shortfall projections are inexact estimates that are ultimately determined by actual tax collections. Nonetheless, the scale and scope of the current shortfalls as reported by the National Conference of State Legislatures make it clear that many states will be forced to reduce spending in order to balance their budgets for fiscal year 2003.

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The reimbursement methodologies applied to health care facilities continue to evolve. Federal and state authorities have considered and may seek to implement new or modified reimbursement methodologies that may negatively impact health care facility operations. These changes, if implemented, may result in a material adverse effect on our skilled nursing and specialty care facility operations. No assurance can be given that current revenue sources or levels will be maintained. Accordingly, there can be no assurance that payments under a government reimbursement program are currently or will, in the future, be sufficient to fully reimburse the facility operators for their operating and capital expenses. As a result, the operators' ability to meet their obligations to us could be adversely impacted.

#### OTHER RELATED LAWS

Skilled nursing and specialty care facilities (and assisted living facilities that receive Medicaid payments) are subject to federal, state and local laws and regulations (including those laws and regulations prohibiting fraud and abuse), which govern the operations and financial and other arrangements that may be entered into by health care providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by governmental programs. Other laws require providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service. Still other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed facility and the quality of care provided. Sanctions for violation of these laws and regulations may include, but are not limited to, criminal and/or civil penalties and fines and a loss of licensure and immediate termination of governmental payments. In certain circumstances, violation of certain rules (such as those prohibiting abusive and fraudulent behavior) with respect to one facility may subject other facilities under common control or ownership to sanctions, including disqualification from participation in the Medicare and Medicaid programs. In the ordinary course of its business, a facility operator is regularly subjected to inquiries, investigations and audits by federal and state agencies that oversee these laws and regulations.

Each skilled nursing and specialty care facility (and any assisted living facility that receives Medicaid payments) is subject to the federal anti-kickback statute which generally prohibits persons from offering, providing, soliciting or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service, for which payment may be

made under a federal health care program such as the Medicare and Medicaid programs. Skilled nursing and specialty care facilities are also subject to the federal Ethics in Patient Referral Act of 1989, commonly referred to as the Stark Law. The Stark Law generally prohibits the submission of claims to Medicare for payment if the claim results from a physician referral for certain designated services and the physician has a financial relationship with the health service provider that does not qualify under one of the exceptions for a financial relationship under the Stark Law. Similar prohibitions on physician self-referrals and submission of claims apply to state Medicaid programs. Further, skilled nursing and specialty care facilities (and assisted living facilities that receive Medicaid payments) are subject to substantial financial penalties under the Civil Monetary Penalties Act and the False Claims Act and, in particular, actions under the False Claims Act's "whistleblower" provisions. Private enforcement of health care fraud has increased due in large part to amendments to the False Claims Act that encourage private individuals to sue on behalf of the government. These whistleblower suits by private individuals, known as qui tam actions, may be filed by almost anyone, including present and former patients and nurses and other employees. These actions could have a material adverse effect on a facility operator's liquidity, financial condition and results of operations which could adversely affect the ability of the operator to meet its obligations to us. Finally, various state false claim and anti-kickback laws also may apply to each facility operator. Violation of any of these statutes can result in criminal and/or civil penalties that could have a material adverse effect on the ability of an operator to meet its obligations to us.

The Health Insurance Portability and Accountability Act of 1996, which became effective January 1, 1997, greatly expanded the definition of health care fraud and related offenses and broadened its scope to include private health care plans in addition to government payors. This law also greatly increased funding for the Department of Justice, Federal Bureau of Investigation and the Office of the Inspector General of the Department of Health and Human Services to audit, investigate and prosecute suspected health care fraud. Additionally, the administrative simplification provisions of this law provide for communication of health information through standard electronic transaction formats and for the privacy and security of health information. In order to comply with the regulations, health care providers must undergo significant operational and technical changes, and these modifications may represent significant costs for our health care providers. These additional costs may, in turn, adversely affect the ability of our operators to meet their obligations to us.

Finally, government investigation and enforcement of health care laws has increased dramatically over the past several years and is expected to continue. Some of these enforcement actions represent novel legal theories and expansions in the application of false claims laws. For example, there have been a number of complaints filed and settlements entered into by the United States Attorneys Office in the Eastern District of Pennsylvania alleging that the failure to meet certain conditions of participation renders claims for care false on the theory that inadequate care was provided. The costs for an operator of a health care facility associated with both defending enforcement actions and the undertakings in settlement agreements can be substantial and could have a material adverse effect on the ability of an operator to meet its obligations to us.

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## TAXATION

### FEDERAL INCOME TAX CONSEQUENCES

The following summary of the taxation of the Company and the material federal tax consequences to the holders of our stock is for general information only and is not tax advice. The tax treatment of our stockholders will depend on a stockholder's particular situation, and this summary only applies to stockholders that hold their stock as capital assets. This discussion does not deal with special tax situations applicable to insurance companies, financial

institutions or broker-dealers.

This summary does not discuss all of the aspects of U.S. federal income taxation that may be relevant to you in light of your particular investment or other circumstances. In addition, this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This summary is based on current U.S. federal income tax law. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of purchasing, owning and disposing of our stock as set forth in this summary. Before you purchase our stock, you should consult your own tax advisor regarding the particular U.S. federal, state, local, foreign and other tax consequences of acquiring, owning, and selling of our stock.

#### General

We elected to be taxed as a real estate investment trust (or REIT) commencing with our first fiscal year. We intend to remain qualified as a REIT, but there is no guarantee that we will qualify or remain qualified as a REIT for subsequent years. Qualification and taxation as a REIT depends upon our ability to meet a variety of qualification tests imposed under federal income tax law with respect to our income, assets, distribution level and diversity of share ownership as discussed below under "--Qualification as a REIT."

In any year in which we qualify as a REIT, in general, we will not be subject to federal income tax on that portion of our REIT taxable income or capital gain that is distributed to stockholders. We may, however, be subject to tax at normal corporate rates on any taxable income or capital gain not distributed. If we elect to retain and pay income tax on our net long-term capital gain, stockholders are required to include their proportionate share of our undistributed long-term capital gain in income, but they will receive a refundable credit for their share of any taxes paid by us on a gain.

Despite the REIT election, we may be subject to federal income and excise tax as follows:

- [ ] To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our "REIT taxable income," as adjusted, we will be subject to tax on the undistributed amount at regular corporate tax rates.
- [ ] We may be subject to the "alternative minimum tax" on certain items of tax preference to the extent that this tax exceeds our regular tax;
- [ ] If we have net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on this income;
- [ ] Any net income from prohibited transactions (which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than dispositions of foreclosure property and dispositions of property due to an involuntary conversion) will be subject to a 100% tax;
- [ ] If we fail to satisfy either the 75% or 95% gross income tests (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a 100% tax on an amount equal to (1) the gross income attributable to the greater of the amounts by which we failed the 75% or 95% test, multiplied by (2) a fraction intended to reflect our profitability;
- [ ] If we fail to distribute during each year at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for the year (other than capital gain that we elect to retain and pay tax on) and (3) any undistributed taxable income from

preceding periods, we will be subject to a 4% excise tax on the excess of the required distribution over amounts actually distributed; and

- [ ] We will also be subject to a tax of 100% on the amount of any rents from real property, deductions or excess interest paid to us by any of our "taxable REIT subsidiaries" that would be reduced through reapportionment under certain federal income tax principles in order to more clearly reflect income of the taxable REIT subsidiary. See "--Other Tax Considerations--Investments in Taxable REIT Subsidiaries."

If we acquire any assets from a corporation which is or has been a "C" corporation in a carryover basis transaction, we could be liable for specified liabilities that are inherited from the "C" corporation. A "C" corporation is generally defined as a corporation that is required to pay full corporate level federal income tax. If we recognize gain on the disposition of the assets during the 10-year period beginning on the date on which the assets were acquired by us, then to the extent of the assets' "built-in gain" (i.e., the excess of the fair market value of the asset over the adjusted basis in the asset, in each case determined as of the beginning of the 10-year period), we will be subject to tax on the gain at the highest regular corporate rate applicable. The results described in this paragraph with respect to the recognition of built-in gain assume that the built-in gain assets, at the time the built-in gain assets were subject to a

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conversion transaction where a "C" corporation elected REIT status or a REIT acquired the assets from a "C" corporation, were not treated as sold to an unrelated party and gain recognized.

#### Qualification as a REIT

A REIT is defined as a corporation, trust or association:

- (1) which is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;
- (3) which would be taxable as a domestic corporation but for the federal income tax law relating to REITs;
- (4) which is neither a financial institution nor an insurance company;
- (5) the beneficial ownership of which is held by 100 or more persons in each taxable year of the REIT except for its first taxable year;
- (6) not more than 50% in value of the outstanding stock of which is owned during the last half of each taxable year, excluding its first taxable year, directly or indirectly, by or for five or fewer individuals (which includes certain entities) (the "Five or Fewer Requirement"); and
- (7) which meets certain income and asset tests described below.

Conditions (1) to (4), inclusive, must be met during the entire taxable year and condition (5) must be met during at least 335 days of a taxable year of 12 months or during a proportionate part of a taxable year of less than 12 months. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a "look-through" exception in the case of condition (6).

Based on publicly available information, we believe we have satisfied the share ownership requirements set forth in (5) and (6) above. In addition, our Amended

and Restated By-Laws provide for restrictions regarding ownership and transfer of shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in (5) and (6) above. These ownership and transfer restrictions are described in Article VI of our Amended and Restated By-Laws. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in (5) and (6) above.

We have complied with, and will continue to comply with, regulatory rules to send annual letters to certain of our stockholders requesting information regarding the actual ownership of our stock. If despite sending the annual letters, we do not know, or after exercising reasonable diligence would not have known, whether we failed to meet the Five or Fewer Requirement, we will be treated as having met the Five or Fewer Requirement. If we fail to comply with these regulatory rules, we will be subject to a monetary penalty. If our failure to comply was due to intentional disregard of the requirement, the penalty would be increased. However, if our failure to comply was due to reasonable cause and not willful neglect, no penalty would be imposed.

We may own a number of properties through wholly owned subsidiaries. A corporation will qualify as a "qualified REIT subsidiary" if 100% of its stock is owned by a REIT and the REIT does not elect to treat the subsidiary as a taxable REIT subsidiary. A "qualified REIT subsidiary" will not be treated as a separate corporation, and all assets, liabilities and items of income, deductions and credits of a "qualified REIT subsidiary" will be treated as assets, liabilities and items (as the case may be) of the REIT. A "qualified REIT subsidiary" is not subject to federal income tax, and our ownership of the voting stock of a qualified REIT subsidiary will not violate the restrictions against ownership of securities of any one issuer which constitute more than 10% of the value or total voting power of the issuer or more than 5% of the value of our total assets, as described below under "--Asset Tests."

If we invest in a partnership, a limited liability company or a trust taxed as a partnership or as a disregarded entity, we will be deemed to own a proportionate share of the partnership's, limited liability company's or trust's assets. Likewise, we will be treated as receiving our share of the income and loss of the partnership, limited liability company or trust, and the gross income will retain the same character in our hands as it has in the hands of the partnership, limited liability company or trust. These "look-through" rules apply for purposes of the income tests and assets tests described below.

Income Tests. There are two separate percentage tests relating to our sources of gross income that we must satisfy for each taxable year.

[ ] At least 75% of our gross income (excluding gross income from certain sales of property held primarily for sale) must be directly or indirectly derived each taxable year from "rents from real property," other income from investments relating to real property or mortgages on real property or certain income from qualified temporary investments.

[ ] At least 95% of our gross income (excluding gross income from certain sales of property held primarily for sale) must be directly or indirectly derived each taxable year from any of the sources qualifying for the 75% test and from dividends (including dividends from taxable REIT subsidiaries), interest, gain from the sale or disposition of stock securities and payments to us under an interest rate swap, cap agreement, option, futures contract, forward rate agreement or any similar financial instrument entered into by us to hedge indebtedness incurred or to be incurred.

Rents received by us will qualify as "rents from real property" for purposes of satisfying the gross income tests for a REIT only if several conditions are met:

- [ ] The amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will not be excluded merely because they are based on a fixed percentage or percentages of receipts or sales.
- [ ] Rents received from a tenant will not qualify as rents from real property if the REIT, or an owner of 10% or more of the REIT, also directly or constructively owns 10% or more of the tenant, unless the tenant is our taxable REIT subsidiary and certain other requirements are met with respect to the real property being rented.
- [ ] If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as "rents from real property."
- [ ] For rents to qualify as rents from real property, we generally must not furnish or render services to tenants, other than through a taxable REIT subsidiary or an "independent contractor" from whom we derive no income, except that we may directly provide services that are "usually or customarily rendered" in the geographic area in which the property is located in connection with the rental of real property for occupancy only, or are not otherwise considered "rendered to the occupant for his convenience."

For taxable years beginning after August 5, 1997, a REIT has been permitted to render a de minimis amount of impermissible services to tenants and still treat amounts received with respect to that property as rent from real property. The amount received or accrued by the REIT during the taxable year for the impermissible services with respect to a property may not exceed 1% of all amounts received or accrued by the REIT directly or indirectly from the property. The amount received for any service or management operation for this purpose shall be deemed to be not less than 150% of the direct cost of the REIT in furnishing or rendering the service or providing the management or operation. Furthermore, impermissible services may be furnished to tenants by a taxable REIT subsidiary subject to certain conditions, and we may still treat rents received with respect to the property as rent from real property.

The term "interest" generally does not include any amount if the determination of the amount depends in whole or in part on the income or profits of any person, although an amount generally will not be excluded from the term "interest" solely by reason of being based on a fixed percentage of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are eligible for relief. These relief provisions will be generally available if:

- [ ] Our failure to meet the tests was due to reasonable cause and not due to willful neglect,
- [ ] We attach a schedule of the sources of our income to our return; and
- [ ] Any incorrect information on the schedule was not due to fraud with intent to evade tax.

It is not now possible to determine the circumstances under which we may be entitled to the benefit of these relief provisions. If these relief provisions apply, a 100% tax is imposed on an amount equal to (a) the gross income attributable to the greater of the amount by which we failed the 75% or 95% test, multiplied by (b) a fraction intended to reflect our profitability.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy several tests relating to the nature and diversification of our assets determined in accordance with generally accepted accounting principles. At least 75% of the value of our total assets must be represented by real estate assets, cash, cash items (including receivables arising in the ordinary course of our

operation), government securities and qualified temporary investments. Although the remaining 25% of our assets generally may be invested without restriction, we are prohibited from owning securities representing more than 10% of either the vote or value of the outstanding securities of any issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary (the "10% vote and value test"). Further, no more than 20% of the total assets may be represented by securities of one or more taxable REIT subsidiaries and no more than 5% of the value of our total assets may be represented by securities of any non-governmental issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary. Each of the 10% vote and value test and the 20% and 5% asset tests must be satisfied at the end of any quarter. There are special rules which provide relief if the value related tests are not satisfied due to changes in the value of the assets of a REIT.

#### Investments in Taxable REIT Subsidiaries

For taxable years beginning after December 31, 2000, REITs may own more than 10% of the voting power and value of securities in taxable REIT subsidiaries. We and any taxable corporate entity in which we own an interest are allowed to jointly elect to treat the entity as a "taxable REIT subsidiary."

One of our subsidiaries has elected to be treated as a taxable REIT subsidiary. Taxable REIT subsidiaries are subject to full corporate level federal taxation on their earnings but are permitted to engage in certain types of activities which cannot be performed directly by REITs without jeopardizing their REIT status. Our taxable REIT subsidiary will attempt to minimize the amount of these taxes, but there can be no assurance whether or the extent to which measures taken to minimize taxes will be successful. To the extent our taxable REIT subsidiary is required to pay federal, state or local taxes, the cash available for distribution as dividends to us from our taxable REIT subsidiary will be reduced.

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The amount of interest on related-party debt that a taxable REIT subsidiary may deduct is limited. Further, a 100% tax applies to any interest payments by a taxable REIT subsidiary to its affiliated REIT to the extent the interest rate is not commercially reasonable. A taxable REIT subsidiary is permitted to deduct interest payments to unrelated parties without any of these restrictions.

The Internal Revenue Service may reallocate costs between a REIT and its taxable REIT subsidiary where there is a lack of arms'-length dealing between the parties. Any deductible expenses allocated away from a taxable REIT subsidiary would increase its tax liability. Further, any amount by which a REIT understates its deductions and overstates those of its taxable REIT subsidiary will, subject to certain exceptions, be subject to a 100% tax.

Additional taxable REIT subsidiary elections may be made in the future for additional entities in which we own an interest.

Annual Distribution Requirements. We are, in order to avoid being taxed as a regular corporation, required to make distributions (other than capital gain distributions) to our stockholders which qualify for the dividends paid deduction in an amount at least equal to (A) the sum of (i) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the after-tax net income, if any, from foreclosure property, minus (B) a portion of certain items of non-cash income. These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for that year and if paid on or before the first regular distribution payment after the declaration. The amount distributed must not be preferential. This means that every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class. To the extent that we do not distribute all of our net capital gain or

distribute at least 90%, but less than 100%, of our "REIT taxable income," as adjusted, we will be subject to tax on the undistributed amount at regular corporate tax rates. Finally, as discussed above, we may be subject to an excise tax if we fail to meet certain other distribution requirements. We intend to make timely distributions sufficient to satisfy these annual distribution requirements.

It is possible that we, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement, or to distribute the greater amount as may be necessary to avoid income and excise taxation, due to, among other things, (a) timing differences between (i) the actual receipt of income and actual payment of deductible expenses and (ii) the inclusion of income and deduction of expenses in arriving at our taxable income, or (b) the payment of severance benefits that may not be deductible to us. In the event that timing differences occur, we may find it necessary to arrange for borrowings or, if possible, pay dividends in the form of taxable stock dividends in order to meet the distribution requirement.

Under certain circumstances, in the event of a deficiency determined by the Internal Revenue Service, we may be able to rectify a resulting failure to meet the distribution requirement for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in our deduction for distributions paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency distributions; however, we will be required to pay applicable penalties and interest based upon the amount of any deduction taken for deficiency distributions.

#### Failure to Qualify as a Real Estate Investment Trust

If we fail to qualify for taxation as a REIT in any taxable year, we will be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible nor will any particular amount of distributions be required to be made in any year. All distributions to stockholders will be taxable as ordinary income to the extent of current and accumulated earnings and profits allocable to these distributions and, subject to certain limitations, will be eligible for the dividends received deduction for corporate stockholders. Unless entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to statutory relief. Failure to qualify for even one year could result in our need to incur indebtedness or liquidate investments in order to pay potentially significant resulting tax liabilities.

#### Federal Income Taxation of Stockholders

Treatment of Taxable U.S. Stockholders. The following summary applies to you only if you are a "U.S. stockholder". A "U.S. stockholder" is a stockholder of shares of stock who, for United States federal income tax purposes, is:

- [ ] a citizen or resident of the United States;
- [ ] a corporation, partnership or other entity created or organized in or under the laws of the United States or of any state or in the District of Columbia, unless, in the case of a partnership, Treasury Regulations provide otherwise;
- [ ] an estate the income of which is subject to United States federal income taxation regardless of its source; or
- [ ] a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

So long as we qualify for taxation as a REIT, distributions on shares of our stock made out of the current or accumulated earnings and profits allocable to

these distributions (and not designated as capital gain dividends) will be includable as ordinary income for federal income tax purposes. None of these distributions will be eligible for the dividends received deduction for U.S. corporate stockholders.

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Distributions that are designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year), without regard to the period for which you held our stock. However, if you are a corporation, you may be required to treat a portion of some capital gain dividends as ordinary income.

If we elect to retain and pay income tax on any net long-term capital gain, you would include in income, as long-term capital gain, your proportionate share of this net long-term capital gain. You would also receive a refundable tax credit for your proportionate share of the tax paid by us on these retained capital gains and you would have an increase in the basis of your shares of our stock in an amount equal to your includable capital gains less your share of the tax deemed paid.

You may not include in your federal income tax return any of our net operating losses or capital losses. Federal income tax rules may also require that certain minimum tax adjustments and preferences be apportioned to you. In addition, any distribution declared by us in October, November or December of any year on a specified date in any such month shall be treated as both paid by us and received by you on December 31 of that year, provided that the distribution is actually paid by us no later than January 31 of the following year.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed under "--General" and "--Qualification as a REIT - Annual Distribution Requirements" above. As a result, you may be required to treat as taxable dividends certain distributions that would otherwise result in a tax-free return of capital. Moreover, any "deficiency dividend" will be treated as a dividend (an ordinary dividend or a capital gain dividend, as the case may be), regardless of our earnings and profits. Any other distributions in excess of current or accumulated earnings and profits will not be taxable to you to the extent these distributions do not exceed the adjusted basis of your shares of our stock. You will be required to reduce the tax basis of your shares of our stock by the amount of these distributions until the basis has been reduced to zero, after which these distributions will be taxable as capital gain, if the shares of our stock are held as a capital asset. The tax basis as so reduced will be used in computing the capital gain or loss, if any, realized upon sale of the shares of our stock. Any loss upon a sale or exchange of shares of our stock which were held for six months or less (after application of certain holding period rules) will generally be treated as a long-term capital loss to the extent you previously received capital gain distributions with respect to these shares of our stock.

Upon the sale or exchange of any shares of our stock to or with a person other than us or a sale or exchange of all shares of our stock (whether actually or constructively owned) with us, you will generally recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and your adjusted tax basis in these shares of our stock. This gain will be capital gain if you held these shares of our stock as a capital asset.

Gain from the sale or exchange of our shares held for more than one year is taxed at a maximum long-term capital gain rate, which is currently 20%. Some taxpayers may be eligible for a lower long-term capital gain rate if our shares are acquired after December 31, 2000, and held for at least five years. Pursuant to Internal Revenue Service guidance, we may classify portions of our capital gain dividends as gains eligible for the long-term capital gains rate or as gain taxable to individual stockholders at a maximum rate of 25%.

Treatment of Tax-Exempt U.S. Stockholders. Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts ("Exempt Organizations"), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("UBTI"). The Internal Revenue Service has issued a published revenue ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on this ruling, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of the shares of our stock with debt, a portion of its income from us will constitute UBTI pursuant to the "debt financed property" rules. Likewise, a portion of the Exempt Organization's income from us would constitute UBTI if we held a residual interest in a real estate mortgage investment conduit.

In addition, in certain circumstances, a pension trust that owns more than 10% of our stock is required to treat a percentage of our dividends as UBTI. This rule applies to a pension trust holding more than 10% of our stock only if (i) the percentage of our income that is UBTI (determined as if we were a pension trust) is at least 5%, (ii) we qualify as a REIT by reason of the modification of the Five or Fewer Requirement that allows beneficiaries of the pension trust to be treated as holding shares in proportion to their actuarial interests in the pension trust, and (iii) either (a) one pension trust owns more than 25% of the value of our stock or (b) a group of pension trusts individually holding more than 10% of the value of our stock collectively own more than 50% of the value of our stock.

Backup Withholding and Information Reporting. Under certain circumstances, you may be subject to backup withholding at applicable rates on payments made with respect to, or cash proceeds of a sale or exchange of, shares of our stock. Backup withholding will apply only if you:

- fail to furnish your taxpayer identification number ("TIN") to the person required to withhold;
- furnish an incorrect TIN;
- are notified by the Internal Revenue Service that you have failed to properly report payments of interest and dividends; or

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- under certain circumstances, fail to certify, under penalty of perjury, that you have furnished a correct TIN and have not been notified by the Internal Revenue Service that you are subject to backup withholding for failure to report interest and dividend payments.

Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. You should consult with a tax advisor regarding qualification for exemption from backup withholding, and the procedure for obtaining an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to payment to a stockholder will be allowed as a credit against the stockholder's United States federal income tax liability and may entitle the stockholder to a refund, provided that the required information is provided to the Internal Revenue Service. In addition, withholding a portion of capital gain distributions made to stockholders may be required for stockholders who fail to certify their non-foreign status.

Taxation of Foreign Stockholders. The following summary applies to you only if you are a foreign person. The federal taxation of foreign persons is a highly complex matter that may be affected by many considerations.

Distributions to you of cash generated by our real estate operations, but not by the sale or exchange of our capital assets, generally will be subject to U.S. withholding tax at a rate of 30%, unless an applicable tax treaty reduces that tax and you file with us the required form evidencing the lower rate.

In general, you will be subject to United States federal income tax on a graduated rate basis rather than withholding with respect to your investment in our stock if the investment is "effectively connected" with your conduct of a trade or business in the United States. A corporate foreign stockholder that receives income that is, or is treated as, effectively connected with a United States trade or business may also be subject to the branch profits tax, which is payable in addition to regular United States corporate income tax. The following discussion will apply to foreign stockholders whose investment in us is not so effectively connected. We expect to withhold United States income tax, as described below, on the gross amount of any distributions paid to you unless (i) you file an Internal Revenue Service Form W-8ECI with us claiming that the distribution is "effectively connected" or (ii) certain other exceptions apply.

Distributions by us that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to you under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") as if these distributions were gains "effectively connected" with a United States trade or business. Accordingly, you will be taxed at the normal capital gain rates applicable to a U.S. stockholder on these amounts, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Distributions subject to FIRPTA may also be subject to a branch profits tax in the hands of a corporate foreign stockholder that is not entitled to treaty exemption.

We will be required to withhold from distributions subject to FIRPTA, and remit to the Internal Revenue Service, 35% of designated capital gain dividends, or, if greater, 35% of the amount of any distributions that could be designated as capital gain dividends. In addition, if we designate prior distributions as capital gain dividends, subsequent distributions, up to the amount of the prior distributions not withheld against, will be treated as capital gain dividends for purposes of withholding.

Unless our shares constitute a "United States real property interest" within the meaning of FIRPTA or are effectively connected with a U.S. trade or business, a sale of our shares by you generally will not be subject to United States taxation. Our shares will not constitute a United States real property interest if we qualify as a "domestically controlled REIT." We do, and expect to continue to, qualify as a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by foreign stockholders. However, if you are a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions apply, you will be subject to a 30% tax on capital gains. In any event, a purchaser of our shares from you will not be required under FIRPTA to withhold on the purchase price if the purchased shares are "regularly traded" on an established securities market or if we are a domestically controlled REIT. Otherwise, under FIRPTA, the purchaser may be required to withhold 10% of the purchase price and remit that amount to the Internal Revenue Service.

Backup withholding tax and information reporting will generally not apply to distributions paid to you outside the United States that are treated as (i) dividends to which the 30% or lower treaty rate withholding tax discussed above applies; (ii) capital gains dividends; or (iii) distributions attributable to gain from the sale or exchange by us of United States real property interests. Payment of the proceeds of a sale of stock within the United States or conducted through certain U.S. related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalty of perjury that he or she is not a U.S. person (and the payor does not have actual knowledge that the beneficial owner is a U.S. person) or otherwise established an exemption. You may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service.

Recent Legislation and Potential Legislation or Other Actions Affecting Tax Consequences

President Bush has proposed that dividends received by individuals from corporations be excluded from income tax to the extent the corporation paid federal income tax. This exclusion would generally not apply to REITs. The proposal would permit most corporations to retain after-tax proceeds with its stockholders receiving a basis increase in their shares as if a dividend had been

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distributed and reinvested. The National Association of Real Estate Investment Trusts, the industry trade organization, believes that to the extent a REIT pays corporate taxes (either through a taxable REIT subsidiary or by retaining 10% of its taxable income), a REIT's stockholders will receive a basis increase.

Current and prospective stockholders should recognize that the present federal income tax treatment of an investment in us may be modified by legislative, judicial or administrative action at any time and that any action may affect investments and commitments previously made. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in federal tax laws and interpretations of these laws could adversely affect the tax consequences of an investment in us.

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INTERNET ACCESS TO OUR SEC FILINGS

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as our proxy statements and other materials that are filed with, or furnished to, the Securities and Exchange Commission are made available, free of charge, on our Internet web site at [www.hcreit.com](http://www.hcreit.com), as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission.

SUBSIDIARIES

We have formed subsidiaries in connection with our real estate transactions. As of February 20, 2003, our wholly-owned subsidiaries consisted of the following entities:

NAME OF SUBSIDIARY	STATE OF ORGANIZATION AND TYPE OF ENTITY	DATE OF ORGANIZATION
HCRI Pennsylvania Properties, Inc.	Pennsylvania corporation	November 1, 1993
HCRI Overlook Green, Inc.	Pennsylvania corporation	July 9, 1996
HCRI Texas Properties, Inc.	Delaware corporation	December 27, 1996
HCRI Texas Properties, Ltd.	Texas limited partnership	December 30, 1996
HCRI Friendship, LLC	Virginia limited liability company	February 21, 1997
HCRI St. Charles, LLC	Virginia limited liability company	February 21, 1997
HCRI Satyr Hill, LLC	Virginia limited liability company	November 24, 1997
Health Care REIT International, Inc.	Delaware corporation	February 11, 1998
HCN Atlantic GP, Inc.	Delaware corporation	February 20, 1998
HCN Atlantic LP, Inc.	Delaware corporation	February 20, 1998
HCRI Nevada Properties, Inc.	Nevada corporation	March 27, 1998
HCRI Southern Investments I, Inc.	Delaware corporation	June 11, 1998
HCRI Louisiana Properties, L.P.	Delaware limited partnership	June 11, 1998

HCN BCC Holdings, Inc.	Delaware corporation	September 25, 1998
HCRI Tennessee Properties, Inc.	Delaware corporation	September 25, 1998
HCRI Limited Holdings, Inc.	Delaware corporation	September 25, 1998
Pennsylvania BCC Properties, Inc.	Pennsylvania corporation	September 25, 1998
HCRI North Carolina Properties, LLC	Delaware limited liability company	December 10, 1999
HCRI Massachusetts Properties, Inc.	Delaware corporation	March 17, 2000
HCRI Massachusetts Properties Trust	Massachusetts trust	March 30, 2000
HCRI Indiana Properties, Inc.	Delaware corporation	June 15, 2000
HCRI Indiana Properties, LLC	Indiana limited liability company	June 16, 2000
HCRI Holdings Trust	Massachusetts trust	September 9, 2000
HCRI Maryland Properties, LLC	Maryland limited liability company	July 19, 2001
HCRI Massachusetts Properties Trust II	Massachusetts trust	September 26, 2001
HCRI Beachwood, Inc.	Ohio corporation	October 11, 2001
HCRI Broadview, Inc.	Ohio corporation	October 11, 2001
HCRI Westlake, Inc.	Ohio corporation	October 11, 2001
HCRI Westmoreland, Inc.	Delaware corporation	October 16, 2001
HCRI Wisconsin Properties, LLC	Wisconsin limited liability company	December 11, 2001
HCRI North Carolina Properties I, Inc.	North Carolina corporation	January 1, 2002
HCRI North Carolina Properties II, Inc.	North Carolina corporation	January 1, 2002
HCRI North Carolina Properties III, Limited Partnership	North Carolina limited partnership	January 1, 2002
HCRI Kentucky Properties, LLC	Kentucky limited liability company	January 7, 2002
HCRI Laurel, LLC	Maryland limited liability company	January 17, 2002
HCRI Mississippi Properties, Inc.	Mississippi corporation	March 28, 2002
HCRI Illinois Properties, LLC	Delaware limited liability company	August 21, 2002
HCRI Missouri Properties, LLC	Delaware limited liability company	August 21, 2002
HCRI Surgical Properties, LLC	Ohio limited liability company	September 30, 2002
HCRI Tucson Properties, Inc.	Delaware corporation	November 14, 2002

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## ITEM 2. PROPERTIES

Our headquarters are currently located at One SeaGate, Suite 1500, Toledo, Ohio 43604. The following table sets forth certain information regarding the facilities that comprise our investments as of December 31, 2002:

Facility Location	Number of Facilities	Number of Beds/Units	(In thousands)	
			Total Investment (1)	Annualized Income (2)
ASSISTED LIVING FACILITIES:				
Alabama	2	149	\$ 10,498	\$ 997
Arizona	4	464	34,276	2,408
California	8	593	61,249	6,993
Colorado	2	96	8,472	908
Connecticut	4	396	42,398	5,043
Florida	18	1,271	70,753	9,131
Georgia	5	410	36,846	4,531
Idaho	1	254	15,290	1,517
Illinois	2	250	11,314	972
Indiana	13	764	60,222	6,804
Louisiana	2	209	16,454	2,025
Massachusetts	2	168	27,259	3,307
Maryland	5	429	55,132	5,462
Mississippi	1	82	6,220	778
Montana	2	104	8,916	1,133
North Carolina	12	711	73,892	9,202
New Jersey	4	352	34,603	4,440
New Mexico	1	77	2,448	233
Nevada	3	274	25,781	3,521
New York	4	283	26,677	3,258
Ohio	7	448	32,138	3,880
Oklahoma	16	549	21,970	3,041
Oregon	3	145	15,396	1,829
Pennsylvania	4	235	19,603	2,470
South Carolina	5	230	19,443	2,366
Tennessee	5	255	16,458	2,064
Texas	21	1,219	72,516	8,927
Utah	1	57	8,009	1,004
Virginia	1	62	13,261	1,064
Washington	1	46	27,288	2,932
Wisconsin	1	28	4,322	511

Total Assisted Living Facilities	160	10,610	879,104	102,751
SKILLED NURSING FACILITIES:				
Arizona	1	163	3,559	413
California	1	122	4,599	621
Colorado	1	180	5,517	719
Florida	11	1,240	73,902	8,755
Idaho	3	393	19,814	2,244
Illinois	4	372	23,922	2,824
Kentucky	3	422	16,160	2,020
Massachusetts	15	2,097	139,945	16,813
Missouri	3	407	24,214	2,642
Ohio	5	911	63,661	6,815
Oklahoma	2	575	17,557	1,795
Oregon	1	111	4,849	558
Pennsylvania	4	464	22,001	3,231
Tennessee	10	1,273	70,534	8,558
Texas	11	1,632	44,602	5,745
Virginia	1	120	5,068	660
Total Skilled Nursing Facilities	76	10,482	539,904	64,413
SPECIALTY CARE FACILITIES:				
California	1	242	18,797	2,412
Florida	1	200	5,153	438
Illinois	1	72	16,155	2,028
Massachusetts	4	735	68,139	6,588
Ohio	1	55	10,005	901
Total Specialty Care Facilities	8	1,304	118,249	12,367
TOTAL ALL FACILITIES:	244	22,396	\$ 1,537,257	\$ 179,531

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- (1) Investments include real estate investments and credit enhancements which amounted to \$1,529,412,000 and \$7,845,000, respectively.
- (2) Reflects contract rate of annual straight-line rent or interest recognized.

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### ITEM 3. LEGAL PROCEEDINGS

On November 20, 2002, Doctors Community Health Care Corporation and five subsidiaries filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the District of Columbia. Doctors has stated that the bankruptcy filing was due to the bankruptcy of National Century Financial Enterprises and affiliates, who halted payments to health care providers, including Doctors. We have provided mortgage financing to Doctors in the form of a loan secured by Pacifica Hospital of the Valley in Sun Valley, CA, a property that is owned by one of the debtor subsidiaries. The outstanding principal balance of the loan is approximately \$18.8 million at December 31, 2002. Based upon an appraisal and historical performance of Pacifica Hospital, we expect to receive payment in full of the outstanding principal and accrued interest, which we believe we are entitled to as an oversecured creditor. We do not currently intend to recognize any interest on the loan if payment is not received.

Alterra Healthcare Corporation filed for Chapter 11 bankruptcy protection on January 23, 2003, in the United States Bankruptcy Court for the District of Delaware. We have a master lease with Alterra for 45 assisted living facilities with a depreciated book value of \$106 million at December 31, 2002. We expect Alterra to remain current on rent payments and to assume the master lease at current rental levels.

From time to time, there are other various legal proceedings pending to which we are a party or to which some of our properties are subject arising in the normal course of business. We do not believe that the ultimate resolution of these proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth, for the periods indicated, the high and low prices of our common stock on the New York Stock Exchange, as reported on the Composite Tape and dividends paid per share. There were 4,579 stockholders of record as of February 20, 2003.

	SALES PRICE		DIVIDENDS PAID
	HIGH	LOW	
2002			
First Quarter	\$ 28.30	\$ 24.08	\$ 0.585
Second Quarter	31.82	27.41	0.585
Third Quarter	29.94	24.26	0.585
Fourth Quarter	28.65	24.27	0.585
2001			
First Quarter	\$ 21.16	\$ 16.06	\$ 0.585
Second Quarter	24.80	20.87	0.585
Third Quarter	26.25	22.50	0.585
Fourth Quarter	26.40	24.25	0.585

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2002, is derived from our audited consolidated financial statements.

	Year ended December 31				
	2002	2001	2000	1999	1998
(In thousands, except per share data)					
OPERATING DATA					
Revenues (1)	\$ 163,118	\$ 129,369	\$ 129,480	\$ 122,809	\$ 94,896
Expenses:					
Interest expense (1)	41,085	30,359	32,855	25,536	17,122
Provision for depreciation (1)	39,311	28,725	21,183	16,477	9,545
General and administrative and other expenses (2)	13,038	10,853	9,570	8,868	7,399
Impairment of assets	2,298				
Loss on investment			2,000		
Total expenses	95,732	69,937	65,608	50,881	34,066
Income from continuing operations before extraordinary item	67,386	59,432	63,872	71,928	60,830
Income from discontinued operations, net (1)	676	1,330	4,184	3,710	1,479
Income before extraordinary item	68,062	60,762	68,056	75,638	62,309
Extraordinary loss on extinguishment of debt	(403)	(213)			

Net income	67,659	60,549	68,056	75,638	62,309
Preferred stock dividends	12,468	13,505	13,490	12,814	4,160
Net income available to common stockholders	\$ 55,191	\$ 47,044	\$ 54,566	\$ 62,824	\$ 58,149

OTHER DATA

Average number of common shares outstanding:					
Basic	36,702	30,534	28,418	28,128	25,579
Diluted	37,301	31,027	28,643	28,384	25,954

PER SHARE DATA

Basic:					
Income from continuing operations and after preferred stock dividends	\$ 1.49	\$ 1.51	\$ 1.77	\$ 2.10	\$ 2.21
Discontinued operations, net (1)	0.02	0.04	0.15	0.13	0.06
Extraordinary item	(0.01)	(0.01)			
Net income available to common stockholders	1.50	1.54	1.92	2.23	2.27
Diluted:					
Income from continuing operations and after preferred stock dividends	\$ 1.47	\$ 1.49	\$ 1.76	\$ 2.08	\$ 2.18
Discontinued operations, net (1)	0.02	0.04	0.15	0.13	0.06
Extraordinary item	(0.01)	(0.01)			
Net income available to common stockholders	1.48	1.52	1.91	2.21	2.24
Cash distributions per common share	\$ 2.34	\$ 2.34	\$ 2.335	\$ 2.27	\$ 2.19

	December 31				
	(In thousands)				
	2002	2001	2000	1999	1998
BALANCE SHEET DATA					
Net real estate investments	\$ 1,524,457	\$ 1,213,564	\$ 1,121,419	\$ 1,241,722	\$ 1,047,511
Total assets	1,594,110	1,269,843	1,156,904	1,271,171	1,073,424
Total debt	676,331	491,216	439,752	538,842	418,979
Total liabilities	696,878	511,973	458,297	564,175	439,665
Total stockholders' equity	897,232	757,870	698,607	706,996	633,759

(1) In accordance with FASB Statement No. 144, we have reclassified the income and expenses attributable to the properties sold during 2002 to discontinued operations. See Note 15 to our audited consolidated financial statements.

(2) General and administrative and other expenses include loan expense, provision for loan losses and other operating expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, our net real estate investments totaled approximately \$1,524,457,000 and included 160 assisted living facilities, 76 skilled nursing facilities and eight specialty care facilities. Depending upon the availability and cost of external capital, we anticipate making additional investments in health care related facilities. New investments are funded from temporary borrowings under our line of credit arrangements, internally generated cash and the proceeds derived from asset sales. Permanent financing for future investments, which replaces funds drawn under the line of credit arrangements, is expected to be provided through a combination of public and private offerings of debt and equity securities and the incurrence of secured debt. We believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service and dividend requirements and finance future investments.

The following table summarizes our capital activity during the year ended

December 31, 2002 (in thousands):

DATE	TYPE	GROSS PROCEEDS	NET PROCEEDS
-----	-----	-----	-----
February 2002	Common Stock	\$ 25,000	\$ 23,657
May 2002	Common Stock	91,770	91,578
September 2002	Senior Notes	150,000	147,750
November 2002	Common Stock	25,017	24,952
		-----	-----
Totals		\$ 291,787	\$ 287,937
		=====	=====

During the year ended December 31, 2002, the holder of our Series C Cumulative Convertible Preferred Stock converted 900,000 shares into 878,000 shares of common stock.

During 2002, we invested \$389,873,000 in real property, provided permanent mortgage and loan financings of \$85,006,000, made construction advances of \$19,833,000 and funded \$3,510,000 of subdebt investments. As of December 31, 2002, we had approximately \$42,885,000 in unfunded construction commitments. Also during 2002, we sold real property generating \$52,279,000 of net proceeds and collected \$80,590,000 and \$12,380,000 as repayment of principal on loans receivable and subdebt investments, respectively.

As of December 31, 2002, we had stockholders' equity of \$897,232,000 and a total outstanding debt balance of \$676,331,000, which represents a debt to total capitalization ratio of 0.43 to 1.0.

In August 2002, we announced the amendment and extension of our primary unsecured revolving line of credit. The line of credit was expanded to \$175,000,000, expires in August 2005 (with the ability to extend for one year at our discretion if we are in compliance with all covenants) and currently bears interest at the lender's prime rate or LIBOR plus 1.3% at our option. In addition, at December 31, 2002, we had an unsecured revolving line of credit in the amount of \$25,000,000, bearing interest at the lender's prime rate and which expires in June 2003. Also, at December 31, 2002, we had a secured line of credit in the amount of \$60,000,000 bearing interest at the lender's prime rate or LIBOR plus 2.0%, at our option, with a floor of 7.0% and which expires in April 2004. Additionally, at December 31, 2002, we had a secured note in the amount of \$4,000,000 bearing interest at LIBOR plus 2.0% and which matures in November 2004. At December 31, 2002, we had \$109,500,000 in borrowings outstanding under the unsecured line of credit arrangements and \$4,000,000 outstanding on the secured note.

As of February 20, 2003, we had an effective shelf registration on file with the Securities and Exchange Commission under which we may issue up to \$385,600,000 of securities including debt securities, common and preferred stock and warrants. Depending upon market conditions, we anticipate issuing securities under our shelf registration to invest in additional health care facilities and to repay borrowings under our line of credit arrangements.

The following table summarizes our principal payments under contractual obligations as of December 31, 2002:

Payments Due by Period (\$000s)				
Total	2003	2004-2005	2006-2007	After 2007
-----	-----	-----	-----	-----

Unsecured senior notes payable	\$ 515,000	\$ 0	\$ 40,000	\$ 225,000	\$ 250,000
Unsecured lines of credit (1)	200,000	25,000	175,000		
Secured line of credit (1)	60,000		60,000		
Mortgage notes payable	47,831	400	1,335	828	45,268
Secured note payable	4,000		4,000		
Operating lease obligations	720	216	432	72	
Total contractual obligations	\$ 827,551	\$ 25,616	\$ 280,767	\$ 225,900	\$ 295,268

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

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The following table summarizes our commercial commitments as of December 31, 2002:

	Amount of Commitment Expiration per Period (\$000s)				
	Total	2003	2004-2005	2006-2007	After 2007
Unfunded construction commitments	\$ 42,885	\$ 42,885	\$ 0	\$ 0	\$ 0
Credit enhancements	7,845	4,650			3,195
Total commercial commitments	\$ 50,730	\$ 47,535	\$ 0	\$ 0	\$ 3,195

As of December 31, 2002, we had approximately \$42,885,000 of unfunded construction commitments.

We have guaranteed the payment of industrial revenue bonds for one assisted living facility in the event that the present owner defaults upon its obligations. In consideration for this guaranty, we receive and recognize fees annually related to this agreement. This guaranty expires upon the repayment of the industrial revenue bonds which currently mature in 2009. At December 31, 2002, we were contingently liable for \$3,195,000 under this guaranty.

In addition, we have an outstanding letter of credit issued to a bank, which bank provided additional financing for a project on which we have a first mortgage. We have also partially guaranteed the payment of loans made by the bank on this project. The letter of credit currently matures in 2003 and the guaranties expire upon the repayment of the loans which currently mature in 2003. At December 31, 2002, obligations under these agreements for which we were contingently liable aggregated approximately \$4,650,000.

#### RESULTS OF OPERATIONS DECEMBER 31, 2002 VS. DECEMBER 31, 2001

Revenues were comprised of the following:

	Year ended		Change	
	Dec. 31, 2002	Dec. 31, 2001	\$	%
(in thousands)				
Rental income	\$ 133,791	\$ 93,237	\$ 40,554	43%
Interest income	26,525	31,294	(4,769)	-15%
Commitment fees and other income	2,802	3,848	(1,046)	-27%
Prepayment fees		990	(990)	n/a

Totals	\$ 163,118	\$ 129,369	\$ 33,749	26%
	=====	=====	=====	=====

We generated increased rental income as a result of the acquisition of properties for which we receive rent. This was partially offset by a reduction in interest income due to the repayment of mortgage loans. Commitment fees and other income decreased primarily as a result of the completion of construction projects.

During 2001, we received payoffs on mortgages that had significant prepayment fee requirements, generating \$990,000 in that year. During 2002, we did not receive any prepayment fees with respect to mortgage loan payoffs.

Expenses were comprised of the following:

	Year ended		Change	
	Dec. 31, 2002	Dec. 31, 2001	\$	%
(in thousands)				
Interest expense	\$ 41,085	\$ 30,359	\$ 10,726	35%
Provision for depreciation	39,311	28,725	10,586	37%
General and administrative expenses	9,665	8,078	1,587	20%
Loan expense	2,373	1,775	598	34%
Impairment of assets	2,298		2,298	n/a
Provision for losses	1,000	1,000	0	0%
Totals	\$ 95,732	\$ 69,937	\$ 25,795	37%

The increase in interest expense from 2001 to 2002 was primarily due to higher average borrowings during the year and a reduction in the amount of capitalized interest offsetting interest expense.

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

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financing. Our interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 2002, totaled \$170,000, as compared with \$841,000 for the same period in 2001.

The provision for depreciation increased primarily as a result of additional investments in properties owned directly by us.

General and administrative expenses as a percentage of revenues (including revenues from discontinued operations) for the year ended December 31, 2002, were 5.83% as compared with 6.03% for the same period in 2001.

The increase in loan expense was primarily due to the additional amortization of costs related to the unsecured line of credit renewal and the unsecured senior notes issued in 2001 and 2002.

During the year ended December 31, 2002, it was determined that the projected undiscounted cash flows from a parcel of land, one assisted living facility and one specialty care facility did not exceed their related net book values and impairment charges of \$2,298,000 were recorded to reduce the properties to their estimated fair market values. The estimated fair market values of the properties

were determined by offers to purchase received from third parties or estimated net sales proceeds.

Other items:	Year ended		Change	
	Dec. 31, 2002	Dec. 31, 2001	\$	%
(in thousands)				
Gain (loss) on sales of properties	\$ (1,032)	\$ (1,250)	\$ 218	-17%
Discontinued operations, net	1,708	2,580	(872)	-34%
Loss on extinguishment of debt	(403)	(213)	(190)	89%
Preferred dividends	(12,468)	(13,505)	1,037	-8%
Totals	\$ (12,195)	\$ (12,388)	\$ 193	-2%

During the years ended December 31, 2002 and 2001, we sold properties with carrying values of \$53,311,000 and \$23,829,000 for net losses of \$1,032,000 and \$1,250,000, respectively. In August 2001, the Financial Accounting Standards Board issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. We adopted the standard effective January 1, 2002. In accordance with Statement No. 144, we have reclassified the income and expenses attributable to the properties sold during 2002 to discontinued operations. These properties generated \$1,708,000 and \$2,580,000 of income after deducting depreciation and interest expense from rental revenue for the years ended December 31, 2002 and 2001, respectively.

In April 2002, we purchased \$35,000,000 of our outstanding unsecured senior notes that were due in 2003 and recorded a charge of \$403,000 in connection with this early extinguishment. In September 2001, we purchased \$7,750,000 of our outstanding unsecured senior notes that were due in 2002 and recorded a charge of \$213,000 in connection with this early extinguishment.

As a result of the various factors mentioned above, net income available to common stockholders was \$55,191,000, or \$1.48 per diluted share, for 2002 as compared with \$47,044,000, or \$1.52 per diluted share, for 2001.

#### RESULTS OF OPERATIONS DECEMBER 31, 2001 VS. DECEMBER 31, 2000

Revenues were comprised of the following:

	Year ended		Change	
	Dec. 31, 2001	Dec. 31, 2000	\$	%
(in thousands)				
Rental Income	\$ 93,237	\$ 82,522	\$ 10,715	13%
Interest Income	31,294	41,064	(9,770)	-24%
Commitment fees and other income	3,848	5,837	(1,989)	-34%
Prepayment fees	990	57	933	1637%
Totals	\$ 129,369	\$ 129,480	\$ (111)	0%

We generated increased rental income as a result of the completion of real property construction projects for which we began receiving rent and the purchase of properties previously financed by us. This offset a reduction in interest income due to the repayment of mortgage loans and the purchase of properties previously financed by us.

The reduction in commitment fees and other income is due primarily to the significant reduction in construction activity.

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During 2001, we received payoffs on mortgages that had significant prepayment fee requirements, generating the large increase over the prior year.

Expenses were comprised of the following:

	Year ended		Change	
	Dec. 31, 2001	Dec. 31, 2000	\$	%
(in thousands)				
Interest expense	\$ 30,359	\$ 32,855	\$ (2,496)	-8%
Provision for depreciation	28,725	21,183	7,542	36%
Loss on investment		2,000	(2,000)	n/a
General and administrative expenses	8,078	7,405	673	9%
Loan expense	1,775	1,165	610	52%
Provision for losses	1,000	1,000	0	0%
Totals	\$ 69,937	\$ 65,608	\$ 4,329	7%

The decrease in interest expense from 2000 to 2001 was primarily due to lower average borrowings during the year offset by a reduction in the amount of capitalized interest offsetting interest expense.

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 year ended December 31, 2001, totaled \$841,000, as compared with \$3,079,000 for the same period in 2000.

The provision for depreciation increased primarily as a result of additional investments in properties owned directly by us.

In 2000, we restructured our investments with Summerville Health Care. As part of the restructuring agreement, Summerville agreed to permit us to re-lease 10 of its 11 facilities to new operators and repaid substantially all of our subdebt investment. As part of Summerville's recapitalization, our \$2,000,000 non-yielding preferred stock investment was substantially diluted. Accordingly, we wrote off our investment in 2000, resulting in a \$2,000,000 charge.

General and administrative expenses as a percentage of revenues (including revenues from discontinued operations) for the year ended December 31, 2001, were 6.03% as compared with 5.41% for the same period in 2000.

The increase in loan expense was primarily due to the additional amortization of costs related to the unsecured senior notes issued in 2001.

Other items:

	Year ended		Change	
	Dec. 31, 2001	Dec. 31, 2000	\$	%

(in thousands)

Gain (loss) on sales of properties	\$ (1,250)	\$ 1,684	\$ (2,934)	-174%
Discontinued operations, net	2,580	2,500	80	3%
Loss on extinguishment of debt	(213)		(213)	n/a
Preferred dividends	(13,505)	(13,490)	(15)	0%
	-----	-----	-----	-----
Totals	\$ (12,388)	\$ (9,306)	\$ (3,082)	33%
	=====	=====	=====	=====

During the years ended December 31, 2001 and 2000, we sold properties with carrying values of \$23,829,000 and \$107,182,000, respectively, for a net loss of \$1,250,000 in 2001 and a net gain of \$1,684,000 in 2000. In August 2001, the Financial Accounting Standards Board issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. We adopted the standard effective January 1, 2002. In accordance with Statement No. 144, we have reclassified the income and expenses attributable to the properties sold during 2002 to discontinued operations. These properties generated \$2,580,000 and \$2,500,000 of income after deducting depreciation and interest expense from rental revenue for the years ended December 31, 2001 and 2000, respectively.

In September 2001, we purchased \$7,750,000 of our outstanding unsecured senior notes that were due in 2002 and recorded a charge of \$213,000 in connection with this early extinguishment.

As a result of the various factors mentioned above, net income available to common stockholders was \$47,044,000, or \$1.52 per diluted share, for 2001 as compared with \$54,566,000, or \$1.91 per diluted share, for 2000.

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#### CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions (see Note 1 to our audited consolidated financial statements). We believe that of our significant accounting policies, the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

#### REVENUE RECOGNITION

Revenue is recorded in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"), as amended. SAB 101 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. Operating lease income includes base rent payments plus fixed annual rent increases, which are recognized on a straight-line basis over the minimum lease period. This lease income is greater than the amount of cash received during the first half of the lease term.

#### IMPAIRMENT OF LONG-LIVED ASSETS

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. If the undiscounted cash flows are less than the net book value, an impairment loss would be recognized to the extent that the net book value exceeds the current fair market 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. If the projections or assumptions change in the future, we may be required to record an impairment charge and reduce the net book value of the property owned.

#### ALLOWANCE FOR LOAN LOSSES

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 these loans, including general economic conditions and estimated collectibility of loan payments. We regularly evaluate the collectibility of our loans receivable based on a combination of factors. These factors include delinquency status (as determined by frequency of payments), historical loan charge-offs, financial strength of the borrower and guarantors and value of the underlying property. If these factors indicate that there is greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required.

#### DEPRECIATION AND USEFUL LIVES

We compute depreciation on our properties using the straight-line method based on their estimated useful lives which range from fifteen to forty years for buildings and five to twelve years for improvements. A significant portion of the acquisition cost of each property is allocated to the building (usually approximately 90%). The allocation of the acquisition cost to building and the determination of the useful life of a property are based on appraisals commissioned from independent real estate appraisal firms. If we do not allocate appropriately to the building or if we incorrectly estimate the useful life of our properties, the computation of depreciation will not appropriately reflect the allocation of our capital expenditures over future periods.

#### IMPACT OF INFLATION

During the past three years, inflation has not significantly affected our earnings because of the moderate inflation rate. Additionally, our earnings are primarily long-term investments with fixed interest rates. These investments are mainly financed with a combination of equity, senior notes and borrowings under our revolving lines of credit. During inflationary periods that generally are accompanied by rising interest rates, our ability to grow may be adversely affected because the yield on new investments may increase at a slower rate than new borrowing costs. Presuming the current inflation rate remains moderate and long-term interest rates do not increase significantly, we believe that inflation will not impact the availability of equity and debt financing.

#### FORWARD-LOOKING STATEMENTS AND RISK FACTORS

We have made and incorporated by reference statements in this Form 10-K that constitute "forward-looking statements" as that term is defined in the federal securities laws. These forward-looking statements concern:

- o The possible expansion of our portfolio;
- o The performance of our operators and properties;
- o Our ability to obtain new viable tenants for properties which we take back from financially troubled tenants, if any;
- o Our ability to make distributions;
- o Our policies and plans regarding investments, financings and other matters;
- o Our tax status as a real estate investment trust;

- o Our ability to appropriately balance the use of debt and equity; and
- o Our ability to access capital markets or other sources of funds.

When we use words such as "believe," "expect," "anticipate," "estimate" or similar expressions, we are making forward-looking statements. Forward-looking statements are not guaranties of future performance and involve risks and uncertainties. Our expected results may not be achieved and actual results may differ materially from our expectations. This may be a result of various factors, including, but not limited to:

- o The status of the economy;
- o The status of capital markets, including prevailing interest rates;
- o Changes in financing terms; and
- o The risks described below:

#### RISK FACTORS RELATED TO OUR OPERATORS' REVENUES AND EXPENSES

Our skilled nursing and specialty care facility operators' revenues are primarily driven by occupancy and Medicaid, Medicare and private pay rates. Our assisted living facility operators' revenues are primarily driven by occupancy and private pay rates. Expenses for these three types of facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and are likely to continue, to come under pressure due to Medicare cuts and state budget shortfalls. Liability insurance and staffing costs continue to increase for our operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a facility not generating enough cash to make payments to us, the credit of our operator and the value of other collateral would have to be relied upon.

#### RISK FACTORS RELATED TO OPERATOR BANKRUPTCIES

We are exposed to the risk that our operators may not be able to meet the rent, principal and interest or other payments due us, which may result in an operator bankruptcy or insolvency, or that an operator might become subject to bankruptcy or insolvency proceedings for other reasons. Although our operating lease agreements provide us the right to evict an operator, demand immediate payment of rent and exercise other remedies, and our mortgage loans provide us the right to terminate any funding obligation, demand immediate repayment of principal and unpaid interest, foreclose on the collateral and exercise other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to limit or delay our ability to collect unpaid rent in the case of a lease or to receive unpaid principal and interest in the case of a mortgage loan, and to exercise other rights and remedies.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. In addition, we may be required to fund certain expenses (e.g., real estate taxes and maintenance) to preserve the value of a facility, avoid the imposition of liens on a facility and/or to transition a facility to a new operator. In some instances, we have terminated our lease with an operator and relet the facility to another operator. In some of those situations, we provided working capital loans to and limited indemnification of the new operator. If we cannot transition a leased facility to a new operator, we may take possession of that facility, which may expose us to certain successor liabilities. Should these events occur, our revenue and operating cash flow may be adversely affected.

On November 20, 2002, Doctors Community Health Care Corporation and five subsidiaries filed for Chapter 11 bankruptcy protection. Doctors has stated that the bankruptcy filing was due to the bankruptcy of National Century Financial Enterprises and affiliates, who halted payments to health care providers, including Doctors. We have provided mortgage financing to Doctors in the form of a loan secured by Pacifica Hospital of the Valley in Sun Valley, CA, a property that is owned by one of the debtor subsidiaries. The outstanding principal balance of the loan is approximately \$18.8 million at December 31, 2002. Based upon an appraisal and historical performance of Pacifica Hospital, we expect to receive payment in full of the outstanding principal and accrued interest, which we believe we are entitled to as an oversecured creditor. We do not currently intend to recognize any interest on the loan if payment is not received.

Alterra Healthcare Corporation filed for Chapter 11 bankruptcy protection on January 23, 2003. We have a master lease with Alterra for 45 assisted living facilities with a depreciated book value of \$106 million at December 31, 2002. We expect Alterra to remain current on rent payments and to assume the master lease at current rental levels.

#### RISK FACTORS RELATED TO GOVERNMENT REGULATIONS

Our operators' businesses are affected by government and private payor reimbursement rates. To the extent that any skilled nursing or specialty care facility receives a significant portion of its revenues from governmental payors, primarily Medicaid and Medicare, these revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at the facility. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. This trend in health care reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of the skilled nursing industry, the specialty care industry or on the health care industry in general. There can be no

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assurance that adequate reimbursement levels will continue to be available for services provided by any facility operator, whether the facility receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an operator's liquidity, financial condition and results of operations, which could adversely affect the ability of an operator to meet its obligations to us. See "Item 1 - Business - Certain Government Regulations - Reimbursement" above.

#### RISK FACTORS RELATED TO LIABILITY CLAIMS AND INSURANCE COSTS

Long-term care facility operators (assisted living and skilled nursing facilities) have experienced substantial increases in both the number and size of patient care liability claims in recent years, particularly in the states of Texas and Florida. As a result, general and professional liability costs have increased and may continue to increase. Nationwide, long-term care liability insurance rates are increasing because of large jury awards in states like Texas and Florida. Over the past two years, both Texas and Florida have adopted skilled nursing facility liability laws that modify or limit statutes in the nature of tort reform. Despite some of these reforms, the long-term care industry overall continues to experience very high general and professional liability costs. Insurance markets have responded to this claim crisis by severely restricting their capacity to write long-term care general and professional liability policies. No assurances can be given that the climate for

long-term care general and professional liability insurance will improve in Texas, Florida or any other states where our facility operators conduct business. Insurance companies may continue to reduce or stop writing general and professional liability policies for skilled nursing and assisted living facilities. Thus, general and professional liability insurance coverage may be restricted or very costly, which may adversely affect the facility operators' future operations, cash flows and financial condition, and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

#### RISK FACTORS RELATED TO OUR STRUCTURE

We are also subject to a number of risks on the corporate level. First, we might fail to qualify or remain qualified as a real estate investment trust ("REIT"). We intend to operate as a REIT under the Internal Revenue Code and believe we have and will continue to operate as a REIT. Since REIT qualification requires us to meet a number of complex requirements, it is possible that we may fail to fulfill them, and if we do, our earnings will be reduced by the amount of federal taxes owed. A reduction in our earnings would affect the amount we could distribute to our stockholders. Also, if we were not a REIT, we would not be required to make distributions to stockholders since a non-REIT is not required to pay dividends to stockholders amounting to at least 90% of its annual taxable income. See "Item 1 - Business - Taxation" for a discussion of the provisions of the Internal Revenue Code that apply to us and the effects of non-qualification.

Second, the anti-takeover provisions in our Second Restated Certificate of Incorporation and Amended and Restated By-laws contain provisions that could make it more difficult for or even prevent a third party from acquiring us without the approval of our incumbent Board of Directors. We have adopted a "poison pill" rights plan that has anti-takeover effects. The rights plan, if triggered, will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by the Board of Directors. Provisions and agreements that inhibit or discourage takeover attempts could reduce the market value of our common stock.

Third, we are dependent on key personnel. Although we have entered into employment agreements with our executive officers, losing any one of them could, at least temporarily, have an adverse impact on our operations. We believe that losing more than one of our executive officers would have a material adverse impact on our business.

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#### ITEM 7A. 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. The following section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates.

We historically borrow on our revolving lines of credit to make acquisitions of, loans to or to construct health care facilities. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under the revolving lines of credit.

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. A 1% increase in interest rates would result in a decrease in fair value of our senior unsecured notes by approximately \$15 million at December 31, 2002 (\$16 million at December 31, 2001). 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, with variable rate debt, with equity or by

the sale of assets.

Our variable rate debt, including our unsecured and secured revolving credit arrangements, is reflected at fair value. At December 31, 2002, a 1% increase in interest rates related to this variable rate debt (assuming no changes in outstanding balances) would result in increased annual interest expense of \$1,135,000 (\$500,000 at December 31, 2001).

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.

We may or may not elect to use financial derivative instruments to hedge variable 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.

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#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

##### REPORT OF INDEPENDENT AUDITORS

Stockholders and Directors  
Health Care REIT, Inc.

We have audited the accompanying consolidated balance sheets of Health Care REIT, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the Index at Item 15 (a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Care REIT, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 15 to the consolidated financial statements, in 2002 the Company adopted the provisions of Financial Accounting Standards Board Statement

/s/ ERNST &amp; YOUNG LLP

Toledo, Ohio  
January 17, 2003

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HEALTH CARE REIT, INC.  
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	2002	2001
	(IN THOUSANDS)	
ASSETS		
Real estate investments:		
Real property owned		
Land	\$ 112,044	\$ 89,601
Buildings & improvements	1,288,520	947,794
Construction in progress	19,833	
	1,420,397	1,037,395
Less accumulated depreciation	(113,579)	(80,544)
Total real property owned	1,306,818	956,851
Loans receivable		
Real property loans	208,016	240,126
Subdebt investments	14,578	23,448
	222,594	263,574
Less allowance for losses on loans receivable	(4,955)	(6,861)
	217,639	256,713
Net real estate investments	1,524,457	1,213,564
Other assets:		
Equity investments	7,494	6,498
Deferred loan expenses	9,291	7,190
Cash and cash equivalents	9,550	9,826
Receivables and other assets	43,318	32,765
	69,653	56,279
Total assets	\$ 1,594,110	\$ 1,269,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Borrowings under line of credit obligations	\$ 109,500	\$ 0
Senior unsecured notes	515,000	412,250
Secured debt	51,831	78,966
Accrued expenses and other liabilities	20,547	20,757
Total liabilities	696,878	511,973
Stockholders' equity:		
Preferred stock, \$1.00 par value:	127,500	150,000
Authorized - 10,000,000 shares		
Issued and outstanding - 5,100,000 shares in 2002 and 6,000,000 shares in 2001 at liquidation preference		
Common stock, \$1.00 par value:	40,086	32,740
Authorized - 75,000,000 shares		
Issued and outstanding - 40,085,827 shares		

in 2002 and 32,739,826 shares in 2001		
Capital in excess of par value	790,838	608,942
Cumulative net income	580,496	512,837
Cumulative dividends	(638,085)	(540,946)
Accumulated other comprehensive income	(170)	(923)
Unamortized restricted stock	(3,433)	(4,780)
Total stockholders' equity	897,232	757,870
Total liabilities and stockholders' equity	\$ 1,594,110	\$ 1,269,843

See accompanying notes

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HEALTH CARE REIT, INC.  
CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Revenues:			
Rental income	\$ 133,791	\$ 93,237	\$ 82,522
Interest income	26,525	31,294	41,064
Commitment fees and other income	2,802	3,848	5,837
Prepayment fees		990	57
	163,118	129,369	129,480
Expenses:			
Interest expense	41,085	30,359	32,855
Provision for depreciation	39,311	28,725	21,183
Loss on investment			2,000
General and administrative	9,665	8,078	7,405
Loan expense	2,373	1,775	1,165
Impairment of assets	2,298		
Provision for loan losses	1,000	1,000	1,000
	95,732	69,937	65,608
Income from continuing operations before extraordinary item	67,386	59,432	63,872
Discontinued operations:			
Net gain (loss) on sales of properties	(1,032)	(1,250)	1,684
Income from discontinued operations, net	1,708	2,580	2,500
	676	1,330	4,184
Income before extraordinary item	68,062	60,762	68,056
Extraordinary loss on extinguishment of debt	(403)	(213)	
Net income	67,659	60,549	68,056
Preferred stock dividends	12,468	13,505	13,490
Net income available to common stockholders	\$ 55,191	\$ 47,044	\$ 54,566
Average number of common shares outstanding:			
Basic	36,702	30,534	28,418
Diluted	37,301	31,027	28,643
Earnings per share:			

Basic:			
Income from continuing operations and after preferred stock dividends	\$ 1.49	\$ 1.51	\$ 1.77
Discontinued operations, net	0.02	0.04	0.15
Extraordinary item	(0.01)	(0.01)	
	-----	-----	-----
Net income available to common stockholders	\$ 1.50	\$ 1.54	\$ 1.92
Diluted:			
Income from continuing operations and after preferred stock dividends	\$ 1.47	\$ 1.49	\$ 1.76
Discontinued operations, net	0.02	0.04	0.15
Extraordinary item	(0.01)	(0.01)	
	-----	-----	-----
Net income available to common stockholders	\$ 1.48	\$ 1.52	\$ 1.91

See accompanying notes

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HEALTH CARE REIT, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	CUMULATIVE NET INCOME	CUMULATIVE DIVIDENDS
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Balances at January 1, 2000	\$ 150,000	\$ 28,532	\$ 524,204	\$ 384,232	\$ (375,349)
Comprehensive income:					
Net income				68,056	
Other comprehensive income:					
Unrealized loss on equity investments					
Foreign currency translation adjustment					
Total comprehensive income					
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		274	3,934		
Restricted stock amortization					
Cash dividends:					
Common stock-\$2.335 per share					(66,837)
Preferred stock, Series B-\$2.22 per share					(6,656)
Preferred stock, Series C-\$2.27 per share					(6,834)
	-----	-----	-----	-----	-----
Balances at December 31, 2000	150,000	28,806	528,138	452,288	(455,676)
Comprehensive income:					
Net income				60,549	
Other comprehensive income:					
Unrealized loss on equity investments					
Foreign currency translation adjustment					
Total comprehensive income					
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		484	10,070		
Restricted stock amortization					
Net proceeds from sale of common stock		3,450	70,734		
Cash dividends:					
Common stock-\$2.34 per share					(71,765)
Preferred stock, Series B-\$2.22 per share					(6,656)
Preferred stock, Series C-\$2.28 per share					(6,849)
	-----	-----	-----	-----	-----
Balances at December 31, 2001	150,000	32,740	608,942	512,837	(540,946)
Comprehensive income:					
Net income				67,659	
Other comprehensive income:					
Unrealized loss on equity investments					
Foreign currency translation adjustment					
Total comprehensive income					
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		1,182	25,373		
Restricted stock amortization					
Net proceeds from sale of common stock		5,286	134,901		
Conversion of preferred stock	(22,500)	878	21,622		
Cash dividends:					
Common stock-\$2.34 per share					(84,671)
Preferred stock, Series B-\$2.22 per share					(6,656)
Preferred stock, Series C-\$2.28 per share					(5,812)
	-----	-----	-----	-----	-----
Balances at December 31, 2002	\$ 127,500	\$ 40,086	\$ 790,838	\$ 580,496	\$ (638,085)
	=====	=====	=====	=====	=====
	ACCUMULATED OTHER COMPREHENSIVE	UNAMORTIZED RESTRICTED			

	INCOME	STOCK	TOTAL
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Balances at January 1, 2000	\$ 593	\$ (5,216)	\$ 706,996
Comprehensive income:			
Net income			68,056
Other comprehensive income:			
Unrealized loss on equity investments	(733)		(733)
Foreign currency translation adjustment	(604)		(604)
Total comprehensive income			66,719
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		(79)	4,129
Restricted stock amortization		1,090	1,090
Cash dividends:			
Common stock-\$2.335 per share			(66,837)
Preferred stock, Series B-\$2.22 per share			(6,656)
Preferred stock, Series C-\$2.27 per share			(6,834)
Balances at December 31, 2000	(744)	(4,205)	698,607
Comprehensive income:			
Net income			60,549
Other comprehensive income:			
Unrealized loss on equity investments	(52)		(52)
Foreign currency translation adjustment	(127)		(127)
Total comprehensive income			60,370
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		(1,739)	8,815
Restricted stock amortization		1,164	1,164
Net proceeds from sale of common stock			74,184
Cash dividends:			
Common stock-\$2.34 per share			(71,765)
Preferred stock, Series B-\$2.22 per share			(6,656)
Preferred stock, Series C-\$2.28 per share			(6,849)
Balances at December 31, 2001	(923)	(4,780)	757,870
Comprehensive income:			
Net income			67,659
Other comprehensive income:			
Unrealized loss on equity investments	(66)		(66)
Foreign currency translation adjustment	819		819
Total comprehensive income			68,412
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		(208)	26,347
Restricted stock amortization		1,555	1,555
Net proceeds from sale of common stock			140,187
Conversion of preferred stock			0
Cash dividends:			
Common stock-\$2.34 per share			(84,671)
Preferred stock, Series B-\$2.22 per share			(6,656)
Preferred stock, Series C-\$2.28 per share			(5,812)
Balances at December 31, 2002	\$ (170)	\$ (3,433)	\$ 897,232

See accompanying notes

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HEALTH CARE REIT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 67,659	\$ 60,549	\$ 68,056
Adjustments to reconcile net income to net cash provided from operating activities:			
Provision for depreciation	40,350	30,464	22,961
Amortization	3,928	2,977	2,255
Provision for loan losses	1,000	1,000	1,000
Loss on investment			2,000
Impairment of assets	2,298		
Commitment fees earned greater than cash received	(1,530)	(1,039)	(1,960)
Rental income in excess of cash received	(9,256)	(6,614)	(6,732)
Equity in earnings of affiliated companies	(15)	(332)	(318)

(Gain) loss on sales of properties	1,032	1,250	(1,684)
Increase (decrease) in accrued expenses and other liabilities	1,320	3,249	(4,827)
Decrease (increase) in receivables and other assets	(1,419)	(2,822)	264
Net cash provided from operating activities	105,367	88,682	81,015
INVESTING ACTIVITIES			
Investment in real property	(409,706)	(147,081)	(46,449)
Investment in loans receivable	(88,516)	(48,284)	(34,631)
Other investments, net of payments	(228)	(913)	(1,828)
Principal collected on loans	92,970	94,337	70,567
Proceeds from sale of properties	52,279	22,579	108,866
Other	(229)	(262)	(742)
Net cash provided from (used in) investing activities	(353,430)	(79,624)	95,783
FINANCING ACTIVITIES			
Net increase (decrease) under line of credit arrangements	109,500	(119,900)	(57,600)
Proceeds from issuance of senior notes and secured debt	150,000	175,000	
Principal payments on senior notes and secured debt	(76,633)	(48,840)	(41,491)
Net proceeds from the issuance of common stock	166,534	82,999	4,129
Increase in deferred loan expense	(4,475)	(6,065)	(794)
Cash distributions to stockholders	(97,139)	(85,270)	(80,327)
Net cash provided from (used in) financing activities	247,787	(2,076)	(176,083)
Increase (decrease) in cash and cash equivalents	(276)	6,982	715
Cash and cash equivalents at beginning of year	9,826	2,844	2,129
Cash and cash equivalents at end of year	\$ 9,550	\$ 9,826	\$ 2,844
Supplemental cash flow information-interest paid	\$ 39,466	\$ 29,014	\$ 39,638

See accompanying notes

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Health Care REIT, Inc.  
Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES AND RELATED MATTERS

INDUSTRY

We are a self-administered, equity real estate investment trust that invests primarily in long-term care facilities, which include skilled nursing and assisted living facilities. We also invest in specialty care facilities.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries after the elimination of all significant intercompany accounts and transactions.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

LOANS RECEIVABLE

Loans receivable consist of long-term mortgage loans, working capital loans and subdebt investments. Interest income on loans is recognized as earned based upon

the principal amount outstanding. The mortgage loans are primarily collateralized by a first mortgage on or an assignment of a partnership interest in the related facilities, which consist of skilled nursing, assisted living and specialty care facilities. The working capital loans are generally secured by second mortgages or interests in receivables. Subdebt investments represent debt instruments to operators of facilities that have been financed by us. These obligations are generally secured by the operator's leasehold rights and corporate guaranties.

#### REAL PROPERTY OWNED

Substantially all of the properties owned by us are leased under operating leases and are recorded at cost. These properties are depreciated on a straight-line basis over their estimated useful lives which range from fifteen to forty years for buildings and five to twelve years for improvements. The net book value of long-lived assets is reviewed quarterly on a property by property basis to determine if facts and circumstances suggest that the assets may be impaired or that the depreciable life may need to be changed. We consider external factors relating to each asset. If these external factors and the projected undiscounted cash flows of the asset over the remaining depreciation period indicate that the asset will not be recoverable, the carrying value will be adjusted to the estimated fair market value. The leases generally extend for a minimum 10-year period and provide for payment of all taxes, insurance and maintenance by the tenants. In general, operating lease income includes base rent payments plus fixed annual rent increases, which are recognized on a straight-line basis over the minimum lease period. This income is greater than the amount of cash received during the first half of the lease term.

#### CAPITALIZATION OF CONSTRUCTION PERIOD INTEREST

We capitalize 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 which approximates our cost of financing.

We capitalized interest costs of \$170,000, \$841,000 and \$3,079,000 during 2002, 2001 and 2000, respectively, related to construction of real property owned by us. Our interest expense reflected in the consolidated statements of income has been reduced by the amounts capitalized.

#### ALLOWANCE FOR LOAN LOSSES

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 these loans, including general economic conditions and estimated collectibility of loan payments. We regularly evaluate the collectibility of our loans receivable based on a combination of factors. These factors include delinquency status (as determined by frequency of payments), historical loan charge-offs, financial strength of the borrower and guarantors and value of the underlying property. If these factors indicate that there is greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required. At December 31, 2002, we had loans with outstanding balances of \$15,311,000 on non-accrual status.

### 1. ACCOUNTING POLICIES AND RELATED MATTERS (CONTINUED)

#### DEFERRED LOAN EXPENSES

Deferred loan expenses are costs incurred by us in connection with the issuance of short-term and long-term debt. We amortize these costs over the term of the debt using the straight-line method, which approximates the interest yield method.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

## EQUITY INVESTMENTS

We have an investment in Atlantic Healthcare Finance L.P., a property group that specializes in the financing, through sale and leaseback transactions, of nursing and care homes located in the United Kingdom. This investment is accounted for under the equity method of accounting because we have the ability to exercise significant influence, but not control, over the investee due to our 31% ownership interest.

Other equity investments, which consist of investments in private and public companies for which we do not have the ability to exercise influence, 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 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.

## FOREIGN CURRENCY TRANSLATION

For our investment in Atlantic Healthcare Finance L.P., the functional currency is the local currency. The income and expenses of the entity are translated into U.S. dollars using the average exchange rates for the reporting period to derive our equity earnings. Translation adjustments are recorded in accumulated other comprehensive income, a separate component of stockholders' equity.

## COMMITMENT FEES

Commitment fees are earned by us for our agreement to provide direct and standby financing to, and credit enhancement for, owners and operators of health care facilities. We amortize commitment fees over the initial fixed term of the lease, the mortgage or the construction period related to these investments.

## FEDERAL INCOME TAX

No provision has been made for federal income taxes since we have elected to be treated as a real estate investment trust under the applicable provisions of the Internal Revenue Code, and we believe that we have met the requirements for qualification as a real estate investment trust for each taxable year. See Note 10.

## STOCK-BASED COMPENSATION

We have elected to follow APB Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for our stock options as permitted under FASB Statement No. 123 ("FASB 123"), Accounting for Stock-Based Compensation, and, accordingly, recognize no compensation expense for the stock option grants when the market price on the underlying stock on the date of the grant equals the exercise price of the stock option. See Note 8 for more information about our stock-based compensation plans.

The following table illustrates the effect on net income available to common stockholders if we had applied the fair value recognition provisions of FASB 123 to stock-based compensation for options granted since 1995 (in thousands, except per share data):

1. ACCOUNTING POLICIES AND RELATED MATTERS (CONTINUED)

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Numerator:			
Net income available to common stockholders - as reported	\$ 55,191	\$ 47,044	\$ 54,566
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	539	465	267
Net income available to common stockholders - pro forma	\$ 54,652	\$ 46,579	\$ 54,299
Denominator:			
Basic weighted average shares - as reported and pro forma	36,702	30,534	28,418
Effect of dilutive securities:			
Employee stock options - pro forma	394	178	
Non-vested restricted shares	162	255	225
Dilutive potential common shares	556	433	225
Diluted weighted average shares - pro forma	37,258	30,967	28,643
Net income available to common stockholders per share - as reported			
Basic	\$ 1.50	\$ 1.54	\$ 1.92
Diluted	1.48	1.52	1.91
Net income available to common stockholders per share - pro forma			
Basic	1.49	1.53	1.91
Diluted	1.47	1.50	1.90

The pro forma effect on net income available to common stockholders for 2002 is not representative of the pro forma effect on net income available to common stockholders in future years because of the number of options awarded.

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

	2002	2001	2000
Dividend yield	8.0%	9.3%	12.0%
Expected volatility	24.3%	24.3%	24.4%
Risk-free interest rate	3.44%	3.44%	5.14%
Expected life (in years)	7	7	7

Weighted-average fair value	\$	2.10	\$	1.43	\$	0.63
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#### NET INCOME PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares for the period adjusted for non-vested shares of restricted stock. The computation of diluted earnings per share is similar to basic earnings per share, except that the number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

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#### 1. ACCOUNTING POLICIES AND RELATED MATTERS (CONTINUED)

##### ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income includes unrealized gains or losses on our equity investments (\$12,000 and \$78,000 at December 31, 2002 and 2001, respectively) and foreign currency translation adjustments ((\$182,000) and (\$1,001,000) at December 31, 2002 and 2001, respectively). These items are included as components of stockholders' equity.

##### NEW ACCOUNTING STANDARDS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, that we are required to adopt for fiscal years beginning after May 15, 2002, with transition provisions for certain matters. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. We do not expect the adoption of this Statement to have a material impact on the consolidated financial statements, except that the extraordinary losses on extinguishments of debt recorded in 2001 and 2002 will be reclassified to income from continuing operations in the consolidated statements of income and any future gains or losses on debt extinguishments will be similarly treated.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This Interpretation will significantly change current practice in the accounting for and disclosure of guarantees. Guarantees meeting the characteristics described in the Interpretation are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable. The Interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Interpretation also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor having to make payments under the guaranty is remote. The Interpretation's disclosure requirements are effective for the current year's financial statements. We have included appropriate disclosures of guarantees of debt in Note 11.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, that we are required to adopt for

fiscal years beginning after December 15, 2002, with transition provisions for certain matters. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have revised our disclosures in accordance with these rules and intend to record the expense related to stock-based compensation under the fair value based method of accounting on a prospective basis effective January 1, 2003. The projected impact on 2003 diluted earnings per share is not expected to have a material effect.

## 2. LOANS RECEIVABLE

The following is a summary of loans receivable (in thousands):

	DECEMBER 31	
	2002	2001
Mortgage loans	\$ 178,942	\$ 211,722
Working capital loans	28,255	27,583
Mortgage loans to related parties	819	821
Subdebt investments	14,578	23,448
	-----	-----
TOTALS	\$ 222,594	\$ 263,574
	=====	=====

Loans to related parties (an entity whose ownership includes one Company director) included above are at rates comparable to other third-party borrowers equal to or greater than our net interest cost on borrowings to support such loans. The amount of interest income and commitment fees from related parties amounted to \$59,000, \$108,000 and \$152,000 for 2002, 2001 and 2000, respectively.

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## 2. LOANS RECEIVABLE (CONTINUED)

The following is a summary of mortgage loans at December 31, 2002:

Final Payment Due	Number of Loans	Payment Terms	Principal Amount at Inception	Carrying Amount
-----				
(In thousands)				
2003	4	Monthly payments from \$36,520 to \$200,971, including interest from 10.50% to 18.00%	\$ 38,230	\$ 35,527
2005	8	Monthly payments from \$8,082 to \$84,491, including interest from 11.00% to 12.67%	28,227	28,227
2006	6	Monthly payments from \$3,958 to \$250,000, including interest from 8.11% to 12.93%	30,125	27,159

2007	2	Monthly payments from \$45,421 to \$78,829, including interest from 10.78% to 11.00%	17,198	12,540
2008	1	Monthly payments of \$89,963, including interest of 15.11%	7,400	7,145
2009	2	Monthly payments from \$4,605 to \$78,234, including interest from 6.75% to 12.17%	3,130	2,385
2012	1	Monthly payments of \$112,183, including interest of 10.60%	12,700	12,700
2014	1	Monthly payments of \$2,750, including interest of 12.00%	280	280
2015	2	Monthly payments from \$20,399 to \$56,133, including interest from 10.00% to 11.85%	7,618	7,566
2017	1	Monthly payments of \$6,464, including interest of 8.11%	7,600	1,321
2019	10	Monthly payments from \$23,563 to \$52,603, including interest of 10.00%	44,911	44,911
TOTALS			\$ 197,419	\$ 179,761

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### 3. REAL PROPERTY OWNED

The following table summarizes certain information about our real property owned as of December 31, 2002 (dollars in thousands):

	NUMBER OF FACILITIES	LAND	BUILDING & IMPROVEMENTS	TOTAL INVESTMENT	ACCUMULATED DEPRECIATION
ASSISTED LIVING FACILITIES:					
Arizona	4	\$ 1,510	\$ 17,063	\$ 18,573	\$ 1,211
California	7	8,420	47,224	55,644	1,705
Colorado	1	940	3,721	4,661	79
Connecticut	4	4,950	33,762	38,712	2,149
Florida	16	5,142	66,663	71,805	9,764
Georgia	3	3,786	26,741	30,527	3,594
Idaho	1	550	14,740	15,290	
Illinois	1	670	6,780	7,450	150
Indiana	13	2,891	60,549	63,440	6,376
Louisiana	1	1,100	10,161	11,261	1,400
Maryland	5	3,730	53,560	57,290	4,457
Massachusetts	2	960	26,715	27,675	416
Mississippi	1	560	5,790	6,350	130
Montana	2	910	7,282	8,192	601
Nevada	3	2,086	26,235	28,321	3,324
New Jersey	4	5,337	31,074	36,411	3,690
New York	3	2,320	23,980	26,300	1,770
North Carolina	12	7,993	63,795	71,788	7,354
Ohio	7	2,525	31,898	34,423	3,153
Oklahoma	16	1,928	24,346	26,274	4,334
Oregon	3	1,677	14,139	15,816	1,006
Pennsylvania	4	1,951	17,259	19,210	1,755
South Carolina	5	2,072	19,087	21,159	1,716
Tennessee	5	1,835	15,527	17,362	1,264
Texas	17	5,013	60,147	65,160	8,380
Utah	1	1,059	6,141	7,200	310
Virginia	1	950	7,553	8,503	197
Washington	1	1,400	5,476	6,876	551
Wisconsin	1	420	4,007	4,427	105
Construction in progress	3			9,828	
	147	74,685	731,415	815,928	70,941
Skilled Nursing Facilities:					
Arizona	1	180	3,988	4,168	609
California	1	1,460	3,942	5,402	803
Colorado	1	370	6,051	6,421	904
Florida	9	4,382	59,036	63,418	7,334
Idaho	3	2,010	20,662	22,672	2,858
Illinois	4	1,110	22,346	23,456	1,332
Kentucky	3	910	16,680	17,590	1,430
Massachusetts	15	4,788	128,616	133,404	8,188
Missouri	3	1,247	23,133	24,380	166
Ohio	5	4,286	62,592	66,878	3,217
Oklahoma	1	470	5,673	6,143	790
Oregon	1	300	5,316	5,616	767

Pennsylvania	3	669	17,584	18,253	3,397
Tennessee	10	3,780	61,963	65,743	2,281
Texas	5	2,663	37,963	40,626	3,609
Virginia	1	680	4,423	5,103	35
	-----	-----	-----	-----	-----
	66	29,305	479,968	509,273	37,720
Specialty Care Facilities:					
Florida	1	979		979	
Illinois	1	3,650	7,505	11,155	
Massachusetts	4	3,425	69,632	73,057	4,918
Construction in progress	1			10,005	
	-----	-----	-----	-----	-----
	7	8,054	77,137	95,196	4,918
	-----	-----	-----	-----	-----
Total Real Property Owned	220	\$ 112,044	\$ 1,288,520	\$ 1,420,397	\$ 113,579
	=====	=====	=====	=====	=====

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### 3. REAL PROPERTY OWNED (CONTINUED)

At December 31, 2002, future minimum lease payments receivable under operating leases are as follows (in thousands):

2003	\$ 141,252
2004	143,301
2005	146,762
2006	150,501
2007	154,132
Thereafter	1,299,821
	-----
TOTAL	\$ 2,035,769
	=====

We converted \$33,972,000, \$13,683,000 and \$60,648,000 of mortgage loans into operating lease properties in 2002, 2001 and 2000, respectively. In 2002, we acquired properties which included the assumption of mortgages totaling \$2,248,000. These noncash activities are appropriately not reflected in the accompanying statements of cash flows.

During the year ended December 31, 2002, it was determined that the projected undiscounted cash flows from one assisted living facility, one specialty care facility and one parcel of land did not exceed their respective net book values and impairment charges of \$2,298,000 were recorded to reduce the properties to their estimated fair market values. The estimated fair market values of the properties were determined by offers to purchase received from third parties or estimated net sales proceeds.

### 4. CONCENTRATION OF RISK

As of December 31, 2002, long-term care facilities, which include skilled nursing and assisted living facilities, comprised 92% (93% at December 31, 2001) of our real estate investments and were located in 33 states. Investments in assisted living facilities comprised 57% (63% at December 31, 2001) of our real estate investments. The following table summarizes certain information about our operator concentration as of December 31, 2002 (dollars in thousands):

Concentration by investment:	Number of Facilities -----	Total Investment (1) -----	Percent of Investment (2) -----
Commonwealth Communities L.L.C.	14	\$ 195,552	13%

Merrill Gardens L.L.C.	18	137,094	9%
Life Care Centers of America, Inc.	17	119,054	8%
Home Quality Management, Inc.	19	116,664	8%
Alterra Healthcare Corp.	45	106,319	7%
Remaining Operators	131	862,574	55%
	---	-----	---
Total	244	\$ 1,537,257	100%
	===	=====	===

Concentration by revenue:	Number of Facilities	Total Revenues (3)	Percent of Revenue (4)
	-----	-----	-----
Merrill Gardens L.L.C.	18	\$ 16,271	10%
Commonwealth Communities L.L.C.	14	15,987	10%
Alterra Healthcare Corp.	45	14,207	9%
Home Quality Management, Inc.	19	13,948	8%
Life Care Centers of America, Inc.	17	10,548	6%
Remaining Operators	131	95,920	57%
	---	-----	---
Total	244	\$ 166,881	100%
	===	=====	===

- 
- (1) Investments include real estate investments and credit enhancements which amounted to \$1,529,412,000 and \$7,845,000, respectively.
  - (2) Investments with top five operators comprised 42% of total investments at December 31, 2001.
  - (3) Revenues include gross revenues and revenues from discontinued operations for the year ended December 31, 2002.
  - (4) Revenues from top five operators were 40% and 38% for the years ended December 31, 2001 and 2000, respectively.

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#### 5. ALLOWANCE FOR LOAN LOSSES

The following is a summary of the allowance for loan losses (in thousands):

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
	-----	-----	-----
Balance at beginning of year	\$ 6,861	\$ 5,861	\$ 5,587
Provision for loan losses	1,000	1,000	1,000
Charge-offs	(2,906)		(726)
	-----	-----	-----
Balance at end of year	\$ 4,955	\$ 6,861	\$ 5,861
	=====	=====	=====

In addition, we recorded a \$2,000,000 loss during 2000 related to an investment in the preferred stock of a private corporation that became substantially

diluted as a result of a recapitalization of that corporation.

#### 6. BORROWINGS UNDER LINE OF CREDIT ARRANGEMENTS AND RELATED ITEMS

We have an unsecured credit arrangement with a consortium of nine banks providing for a revolving line of credit in the amount of \$175,000,000, which expires on August 31, 2005. The agreement specifies that borrowings under the revolving line of credit are subject to interest payable in periods no longer than three months on either the agent bank's prime rate of interest or 1.3% over LIBOR interest rate (at our option). In addition, we pay a commitment fee ranging from an annual rate of 0.20% to 0.375% and an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. We have another unsecured line of credit with a bank for a total of \$25,000,000, which expires on June 30, 2003. Borrowings under this line of credit are subject to interest at the bank's prime rate of interest (4.25% at December 31, 2002) and are due on demand.

The following information relates to aggregate borrowings under the unsecured line of credit arrangements (in thousands, except percentages):

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Balance outstanding at December 31	\$ 109,500	\$ 0	\$ 119,900
Maximum amount outstanding at any month end	130,000	140,800	185,000
Average amount outstanding (total of daily principal balances divided by days in year)	69,180	66,217	140,981
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	4.58%	7.67%	7.77%

#### 7. SENIOR NOTES AND OTHER LONG-TERM OBLIGATIONS

We have \$515,000,000 of unsecured senior notes with annual interest rates ranging from 7.50% to 8.17%.

During the year ended December 31, 2002, we repurchased \$35,000,000 of unsecured senior notes that were due in 2003. We incurred expenses of \$403,000 related to this repurchase, which was recorded as an extraordinary item. During the year ended December 31, 2001, we repurchased \$7,750,000 of our outstanding unsecured senior notes that were due in 2002. We incurred expenses of \$213,000 related to this repurchase, which was recorded as an extraordinary item.

We have five mortgage notes payable, collateralized by health care facilities, with annual interest rates ranging from 7.69% to 12.00%.

We have one secured note collateralized by one health care facility with an annual interest rate of 2% over LIBOR (3.38% at December 31, 2002).

#### 7. SENIOR NOTES AND OTHER LONG-TERM OBLIGATIONS (CONTINUED)

We have a \$60,000,000 secured line of credit, collateralized by 16 health care facilities, with interest at the prime rate of interest or 2% over LIBOR (at our option), with a floor of 7% (7% at December 31, 2002).

The carrying values of the health care properties securing the mortgages and secured debt totaled \$136,023,000 at December 31, 2002.

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.

At December 31, 2002, the annual principal payments on these long-term obligations are as follows (in thousands):

	SENIOR NOTES	SECURED LINE OF CREDIT	SECURED NOTE	MORTGAGES	TOTALS
	-----	-----	-----	-----	-----
2003	\$ 0	\$ 0	\$ 0	\$ 400	\$ 400
2004	40,000		4,000	475	44,475
2005				860	860
2006	50,000			398	50,398
2007	175,000			430	175,430
2008	100,000			464	100,464
2009				501	501
Thereafter	150,000			44,303	194,303
	-----	-----	-----	-----	-----
TOTALS	\$ 515,000	\$ 0	\$ 4,000	\$ 47,831	\$ 566,831
	=====	=====	=====	=====	=====

#### 8. STOCK INCENTIVE PLANS AND RETIREMENT ARRANGEMENTS

Our 1995 Stock Incentive Plan authorizes up to 3,768,000 shares of common stock to be issued at the discretion of the Board of Directors. The 1995 Plan replaced the 1985 Incentive Stock Option Plan. The options granted under the 1985 Plan continue to vest through 2005 and expire ten years from the date of the grant. Our officers and key salaried employees are eligible to participate in the 1995 Plan. The 1995 Plan allows for the issuance of stock options, restricted stock grants and Dividend Equivalency Rights. There were no Dividend Equivalency Rights outstanding under the 1995 Plan for any of the years presented. In addition, we have a Stock Plan for Non-Employee Directors, which authorizes up to 384,000 shares to be issued.

The following summarizes the stock option activity in these three plans (shares in thousands):

	Year ended December 31					
	2002		2001		2000	
	NUMBER OF SHARES	AVERAGE EXERCISE PRICE	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
-----	-----	-----	-----	-----	-----	
Stock Options						
Options at beginning of year	2,337	\$ 21.23	1,953	\$ 20.34	1,813	\$ 21.62
Options granted	40	27.17	515	23.89	507	16.79
Options exercised	(821)	20.54	(111)	18.63		
Options terminated			(20)	17.73	(367)	21.76
Options at end of year	1,556	\$ 21.74	2,337	\$ 21.23	1,953	\$ 20.34
	=====	=====	=====	=====	=====	=====
Options exercisable at end of year	838	\$ 21.98	1,161	\$ 21.27	949	\$ 21.32
Weighted average fair value of options granted during the year		\$ 2.10		\$ 1.43		\$ 0.63

Vesting periods for options and restricted shares range from six months to ten years. Options expire ten years from the date of grant. We issued 8,000, 75,750 and 77,250 restricted shares during 2002, 2001 and 2000, respectively, including 8,000, 8,000 and 8,000 shares for directors in 2002, 2001 and 2000, respectively. Expense, which is recognized as the restricted shares vest based

on the market value at the date of the award, totaled \$1,555,000, \$1,164,000 and \$1,090,000 in 2002, 2001 and 2000, respectively.

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#### 8. STOCK INCENTIVE PLANS AND RETIREMENT ARRANGEMENTS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2002 (shares in thousands):

Range of Per Share Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Number Exercisable	Weighted Average Exercise Price
\$16-\$20	624	\$17.75	6.8	322	\$17.93
\$20-\$25	743	23.46	7.1	327	23.46
\$25-\$30	189	26.31	6.0	189	26.31
	1,556	\$21.74	6.8	838	\$21.98

We have a 401(k) Profit Sharing Plan and a Money Purchase Pension Plan (which has been merged into the 401(k) Profit Sharing Plan effective September 30, 2002) covering all eligible employees. Under these plans, eligible employees may make contributions, and we may make matching contributions and a profit sharing contribution. Our contributions to these plans totaled \$184,000, \$175,000 and \$171,000 in 2002, 2001 and 2000, respectively.

We have a non-qualified senior executive retirement plan designed to provide pension benefits for certain officers. Pension benefits are based on compensation and length of service and the plan is unfunded. The accrued liability for the plan was \$206,000 at December 31, 2002 (\$41,000 at December 31, 2001).

#### 9. PREFERRED STOCK

In January 1999, we sold 3,000,000 shares of Series C Cumulative Convertible Preferred Stock. These shares have a liquidation value of \$25.00 per share and will pay dividends equivalent to the greater of (i) the annual dividend rate of \$2.25 per share (a quarterly dividend rate of \$0.5625 per share); or (ii) the quarterly dividend then payable per common share on an as converted basis. The preferred shares are convertible into common stock at a conversion price of \$25.625 per share. We have the right to redeem the preferred shares after five years.

During the year ended December 31, 2002, the holder of our Series C Cumulative Convertible Preferred Stock converted 900,000 shares into 878,000 shares of common stock, leaving 2,100,000 shares outstanding at December 31, 2002.

We have 3,000,000 shares of 8.875% Series B Cumulative Redeemable Preferred Stock outstanding with a liquidation preference of \$25.00 per share. Dividends are payable quarterly in arrears. On and after May 1, 2003, these preferred shares may be redeemed for cash at our option, in whole or in part, at \$25.00 per share, plus accrued and unpaid dividends on these shares to the redemption date.

#### 10. INCOME TAXES AND DISTRIBUTIONS

To qualify as a real estate investment trust for federal income tax purposes, 90% of taxable income must be distributed to stockholders. Real estate

investment trusts that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The principal reasons for the difference between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes, different useful lives and depreciation methods for real property and the provision for losses for reporting purposes versus bad debt expense for tax purposes. Cash distributions paid to common stockholders, for federal income tax purposes, are as follows:

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Per Share:			
Ordinary income	\$ 1.655	\$ 1.673	\$ 2.330
Return of capital	0.671	0.648	0.000
Capital gains	0.014	0.019	0.005
TOTALS	\$ 2.340	\$ 2.340	\$ 2.335

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#### 11. COMMITMENTS AND CONTINGENCIES

We have guaranteed the payment of industrial revenue bonds for one assisted living facility, in the event that the present owner defaults upon its obligations. In consideration for this guaranty, we receive and recognize fees annually related to this agreement. This guaranty expires upon the repayment of the industrial revenue bonds which currently mature in 2009. At December 31, 2002, we were contingently liable for \$3,195,000 under this guaranty.

In addition, we have an outstanding letter of credit issued to a bank, which bank provided additional financing for a project on which we have a first mortgage. We have also partially guaranteed the payment of loans made by the bank on this project. The letter of credit currently matures in 2003 and the guaranties expire upon the repayment of the loans, which currently mature in 2003. At December 31, 2002, obligations under these agreements for which we were contingently liable aggregated approximately \$4,650,000.

As of December 31, 2002, we had approximately \$42,885,000 of unfunded construction commitments.

On November 20, 2002, Doctors Community Health Care Corporation and five subsidiaries filed for Chapter 11 bankruptcy protection. Doctors has stated that the bankruptcy filing was due to the bankruptcy of National Century Financial Enterprises and affiliates, who halted payments to health care providers, including Doctors. We have provided mortgage financing to Doctors in the form of a loan secured by Pacifica Hospital of the Valley in Sun Valley, CA, a property that is owned by one of the debtor subsidiaries. The outstanding principal balance of the loan is approximately \$18.8 million at December 31, 2002. Based upon an appraisal and historical performance of Pacifica Hospital, we expect to receive payment in full of the outstanding principal and accrued interest, which we believe we are entitled to as an oversecured creditor. We do not currently intend to recognize any interest on the loan if payment is not received.

Alterra Healthcare Corporation filed for Chapter 11 bankruptcy protection on January 23, 2003. We have a master lease with Alterra for 45 assisted living facilities with a depreciated book value of \$106 million at December 31, 2002. We expect Alterra to remain current on rent payments and to assume the master

lease at current rental levels.

## 12. STOCKHOLDER RIGHTS PLAN

Under the terms of a Stockholder Rights Plan approved by our Board of Directors in July 1994, a preferred share right is attached to and automatically trades with each outstanding share of common stock.

The rights, which are redeemable, will become exercisable only in the event that any person or group becomes a holder of 15% or more of our common stock, or commences a tender or exchange offer, which, if consummated, would result in that person or group owning at least 15% of our common stock. Once the rights become exercisable, they entitle all other stockholders to purchase one one-thousandth of a share of a new series of junior participating preferred stock for an exercise price of \$48.00. The rights will expire on August 5, 2004, unless exchanged earlier or redeemed earlier by us for \$0.01 per right at any time before public disclosure that a 15% position has been acquired.

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## 13. EARNINGS PER SHARE

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

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Numerator for basic and diluted earnings per share - net income available to common stockholders	\$ 55,191	\$ 47,044	\$ 54,566
Denominator for basic earnings per share - weighted average shares	36,702	30,534	28,418
Effect of dilutive securities:			
Employee stock options	437	238	
Non-vested restricted shares	162	255	225
Dilutive potential common shares	599	493	225
Denominator for diluted earnings per share - adjusted weighted average shares	37,301	31,027	28,643
Basic earnings per share	\$ 1.50	\$ 1.54	\$ 1.92
Diluted earnings per share	\$ 1.48	\$ 1.52	\$ 1.91

The diluted earnings per share calculation excludes the dilutive effect of 10,000, 1,301,000 and 1,954,000 options for 2002, 2001 and 2000, respectively, because the exercise price was greater than the average market price. The Series C Cumulative Convertible Preferred Stock was not included in this calculation as the effect of the conversion was anti-dilutive.

## 14. 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 -- The fair value of all mortgage loans is estimated by discounting the 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.

Working Capital Loans and Subdebt Investments -- The carrying amount is a reasonable estimate of fair value based on the interest rates received, which approximates current market rates.

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

Equity Investments -- Equity investments are recorded at their fair market value.

Borrowings Under Line of Credit Arrangements and Secured Debt -- The carrying amount of the lines of credit and secured debt approximates fair value because the borrowings are interest rate adjustable.

Senior Unsecured Notes -- The fair value of the senior unsecured notes payable was estimated by discounting the future cash flows using the current borrowing rate available to us for similar debt.

Mortgage Notes Payable -- Mortgage notes payable is a reasonable estimate of fair value based on the interest rates paid, which approximates current market rates.

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14. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	DECEMBER 31, 2002		December 31, 2001	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Mortgage loans	\$ 179,761	\$ 192,037	\$ 212,543	\$ 229,422
Working capital loans	28,255	28,255	27,583	27,583
Subdebt investments	14,578	14,578	23,448	23,448
Cash and cash equivalents	9,550	9,550	9,826	9,826
Equity investments	12	12	78	78
<b>Financial Liabilities:</b>				
Borrowings under line of credit arrangements	109,500	109,500		
Senior unsecured notes	515,000	616,478	412,250	418,179
Secured debt	4,000	4,000	33,000	33,000
Mortgage notes payable	47,831	47,831	45,966	45,966

15. DISCONTINUED OPERATIONS

In August 2001, the Financial Accounting Standards Board issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. We adopted the standard effective January 1, 2002.

During the year ended December 31, 2002, we sold eight assisted living facilities, one specialty care facility and one parcel of land with carrying values of \$53,311,000 for a net loss of \$1,032,000. In accordance with Statement No. 144, we have reclassified the income and expenses attributable to these properties 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 the properties as discontinued operations (in thousands):

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Revenues:			
Operating lease rents	\$ 3,763	\$ 5,751	\$ 5,790
Expenses:			
Interest expense	1,016	1,669	1,767
Provision for depreciation	1,039	1,502	1,523
Income from discontinued operation, net	\$ 1,708	\$ 2,580	\$ 2,500

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#### 16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of our unaudited quarterly results of operations for the years ended December 31, 2002 and 2001 (in thousands, except per share data):

	YEAR ENDED DECEMBER 31, 2002			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER (1)
Revenues	\$ 36,074	\$ 39,365	\$ 42,255	\$ 45,424
Income before extraordinary item	15,889	17,235	19,763	15,175
Income before extraordinary item per share:				
Basic	0.48	0.49	0.51	0.39
Diluted	0.47	0.48	0.50	0.38
Net income available to common stockholders	12,511	13,490	16,885	12,303
Net income available to common stockholders per share:				
Basic	0.38	0.38	0.44	0.31
Diluted	0.37	0.37	0.43	0.31

	YEAR ENDED DECEMBER 31, 2001			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER (2)

Revenues	\$	31,140	\$	31,327	\$	33,396	\$	33,506
Income before extraordinary item		15,204		15,124		17,180		13,254
Income before extraordinary item								
per share:								
Basic		0.53		0.52		0.53		0.41
Diluted		0.53		0.51		0.52		0.40
Net income available to								
common stockholders		11,827		11,747		13,591		9,879
Net income available to								
common stockholders								
per share:								
Basic		0.41		0.41		0.42		0.30
Diluted		0.41		0.40		0.41		0.30

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- (1) The decrease in net income and amounts per share is primarily attributable to impairment of assets, losses on sales of properties and a common stock issuance recorded in fourth quarter 2002.
- (2) The decrease in net income and amounts per share is primarily attributable to losses on sales of properties recorded in fourth quarter 2001.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the information under the heading "Election of Three Directors" and "Executive Officers of the Company" in our definitive proxy statement which will be filed with the Securities and Exchange Commission prior to April 11, 2003.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information under the heading "Remuneration" in our definitive proxy statement which will be filed with the Securities and Exchange Commission prior to April 11, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information required by this Item is incorporated herein by reference to the information under the headings "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Equity Compensation Plan Information" in our definitive proxy statement which will be filed with the Securities and Exchange Commission prior to April 11, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the information under the heading "Certain Relationships and Related Transactions" in our definitive proxy statement which will be filed with the Securities and Exchange Commission prior to April 11, 2003.

ITEM 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing this Annual Report on Form 10-K, an

evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2002, and the evaluation date. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Our Consolidated Financial Statements are included in Part II, Item 8:

Report of Independent Auditors.....	30
Consolidated Balance Sheets - December 31, 2002 and 2001.....	31
Consolidated Statements of Income - Years ended December 31, 2002, 2001 and 2000.....	32
Consolidated Statements of Stockholders' Equity - Years ended December 31, 2002, 2001 and 2000.....	33
Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001 and 2000.....	34
Notes to Consolidated Financial Statements .....	35

2. The following Financial Statement Schedules are included in Item 15 (d):

- III - Real Estate and Accumulated Depreciation
- IV - Mortgage Loans on Real Estate

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibit Index:

- 3.1 Second Restated Certificate of Incorporation of the Company (filed with the Commission as Exhibit 3.1 to the Company's Form 10-K filed March 20, 2000, and incorporated herein by reference thereto).
- 3.2 Certificate of Designation, Preferences and Rights of Junior Participating Preferred Stock, Series A, of Health Care REIT, Inc. (filed with the Commission as Exhibit 3.1 to the Company's Form 10-K filed March 20, 2000, and incorporated herein by reference thereto).
- 3.3 Certificate of Designation of 8 7/8% Series B Cumulative Redeemable Preferred Stock of Health Care REIT, Inc. (filed with the Commission as Exhibit 3.1 to the Company's Form 10-K filed March 20, 2000, and incorporated herein by reference thereto).
- 3.4 Certificate of Designations, Preferences and Rights of Series C Cumulative Convertible Preferred Stock of Health Care REIT, Inc. (filed with the Commission as Exhibit 3.1 to the Company's Form 10-K filed March 20, 2000, and incorporated herein by reference thereto).
- 3.5 Certificate of Amendment of Second Restated Certificate of Incorporation of the Company (filed with the Commission as

Exhibit 3.1 to the Company's Form 10-K filed March 20, 2000, and incorporated herein by reference thereto).

- 3.6 Amended and Restated By-Laws of the Registrant (filed with the Commission as Exhibit 3.1 to the Company's Form 8-K filed October 24, 1997, and incorporated herein by reference thereto).
- 4.1 The Company, by signing this Report, agrees to furnish the Securities and Exchange Commission upon its request a copy of any instrument which defines the rights of holders of long-term debt of Company authorizes a total amount of securities not in excess of 10% of the total assets of the Company.
- 4.2 Series A Junior Participating Preferred Share Purchase Rights Agreement, dated as of July 19, 1994 (filed with the Commission as Exhibit 2 to the Company's Form 8-A filed August 3, 1994 (File No. 1-8923)), and incorporated herein by reference thereto).
- 4.3 Indenture dated as of April 17, 1997 by and between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.1 to the Company's Form 8-K filed April 21, 1997, and incorporated herein by reference thereto).

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- 4.4 First Supplemental Indenture dated as of April 17, 1997 by and between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.2 to the Company's Form 8-K filed April 21, 1997, and incorporated herein by reference thereto).
- 4.5 Second Supplemental Indenture dated as of March 13, 1998 between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.2 to the Company's Form 8-K filed March 11, 1998, and incorporated herein by reference thereto).
- 4.6 Third Supplemental Indenture dated as of March 18, 1999 between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.2 to the Company's Form 8-K filed March 17, 1999, and incorporated herein by reference thereto).
- 4.7 Fourth Supplemental Indenture dated as of August 10, 2001 between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.2 of the Company's Form 8-K filed August 9, 2001, and incorporated herein by reference thereto).
- 4.8 Form of Indenture for Senior Debt Securities (filed with the Commission as Exhibit 4.8 to the Company's Form S-3 (File No. 333-73936) filed November 21, 2001, and incorporated herein by reference thereto).
- 4.9 Form of Indenture for Senior Subordinated Debt Securities (filed with the Commission as Exhibit 4.9 of the Company's Form S-3 (File No. 333-73936) filed November 21, 2001, and incorporated herein by reference thereto).
- 4.10 Form of Indenture for Junior Subordinated Debt

Securities (filed with the Commission as Exhibit 4.10 of the Company's Form S-3 (File No. 333-73936) filed November 21, 2001, and incorporated herein by reference thereto).

- 4.11 Indenture for Senior Debt Securities, dated as of September 6, 2002, by and between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.1 of the Company's Form 8-K filed September 9, 2002, and incorporated herein by reference thereto).
- 4.12 Supplemental Indenture No. 1, dated as of September 6, 2002, to Indenture for Senior Debt Securities, dated as of September 6, 2002, by and between Health Care REIT, Inc. and Fifth Third Bank (filed with the Commission as Exhibit 4.2 of the Company's Form 8-K filed September 9, 2002, and incorporated herein by reference thereto).
- 10.1 Amended and Restated Loan Agreement dated the 23rd day of August, 2002, by and among Health Care REIT, Inc. and its subsidiaries, the banks signatory thereto, KeyBank National Association, as administrative agent, Deutsche Bank Securities Inc., as syndication agent, and UBS Warburg LLC, as documentation agent (filed with the Commission as Exhibit 10.1 of the Company's Form 8-K filed August 30, 2002, and incorporated herein by reference thereto).
- 10.2 Credit Agreement by and among Health Care REIT, Inc., and certain subsidiaries, Bank United and other lenders party thereto, dated as of February 24, 1999 (filed with the Commission as Exhibit 10.7 to the Company's Form 10-K filed March 26, 2001, and incorporated herein by reference thereto).
- 10.3 Amendment No. 1 to Credit Agreement by and among Health Care REIT, Inc. and certain subsidiaries, Bank United and other lenders party thereto, dated as of April 5, 1999 (filed with the Commission as Exhibit 10.10 to the Company's Form 10-K filed March 26, 2001, and incorporated herein by reference thereto).
- 10.4 Credit Agreement by and between Health Care REIT, Inc. and Fifth Third Bank, dated as of May 31, 2002 (filed with the Commission as Exhibit 10.1 to the Company's Form 10-Q filed August 14, 2002, and incorporated herein by reference thereto).
- 10.5 Amended and Restated Note Purchase Agreement among Health Care REIT, Inc. and each of the Purchasers a Party Thereto dated as of March 28, 1997 (the \$52,000,000 Note Purchase Agreement) (filed with the Commission as Exhibit 10.2 to Company's Form 8-K filed April 8, 1997, and incorporated herein by reference thereto).
- 10.6 Amended and Restated Note Purchase Agreement among Health Care REIT, Inc. and each of the Purchasers a Party Thereto dated as of March 28, 1997 (the \$30,000,000 Note Purchase Agreement) (filed with the Commission as Exhibit 10.3 to Company's Form 8-K filed April 8, 1997, and incorporated herein by reference thereto).

- 10.7 The 1985 Incentive Stock Option Plan of Health Care REIT, Inc., and the First Amendment to the 1985 Incentive Stock Option Plan (filed with the Commission as Exhibit 4(b) to the Company's Form S-8 (File No. 33-46561) filed March 20, 1992, and incorporated herein by reference thereto).\*
- 10.8 Second Amendment to the 1985 Incentive Stock Option Plan of Health Care REIT, Inc. (filed with the Commission as Exhibit 4.3 to the Company's Form S-8 (File No. 333-01237) filed February 27, 1996, and incorporated herein by reference thereto).\*
- 10.9 Third Amendment to the 1985 Incentive Stock Option Plan of Health Care REIT, Inc. (filed with the Commission as Exhibit 4.4 to the Company's Form S-8 (File No. 333-01237) filed with the Commission February 27, 1996, and incorporated herein by reference thereto).\*
- 10.10 The 1995 Stock Incentive Plan of Health Care REIT, Inc. (filed with the Commission as Appendix II to the Company's Proxy Statement for the 1995 Annual Meeting of Stockholders, filed September 29, 1995, and incorporated herein by reference thereto).\*
- 10.11 First Amendment to the 1995 Stock Incentive Plan of Health Care REIT, Inc. (filed with the Commission as Exhibit 4.2 to the Company's Form S-8 (File No. 333-40771) filed November 21, 1997, and incorporated herein by reference thereto).\*
- 10.12 Second Amendment to the 1995 Stock Incentive Plan of Health Care REIT, Inc. (filed with the Commission as Exhibit 4.3 to the Company's Form S-8 (File No. 333-73916) filed November 21, 2001, and incorporated herein by reference thereto).\*
- 10.13 Stock Plan for Non-Employee Directors of Health Care REIT, Inc. (as filed with the Commission as Exhibit 10.5 to the Company's Form 10-Q filed May 13, 1997, and incorporated herein by reference thereto).\*
- 10.14 Amended and Restated Employment Agreement, effective January 1, 2000, by and between Health Care REIT, Inc. and George L. Chapman (filed with the Commission as Exhibit 10.12 to the Company's Form 10-K filed March 25, 2002, and incorporated herein by reference thereto).\*
- 10.15 Amended and Restated Employment Agreement, effective January 1, 2000, by and between Health Care REIT, Inc. and Raymond W. Braun (filed with the Commission as Exhibit 10.13 to the Company's Form 10-K filed March 25, 2002, and incorporated herein by reference thereto).\*
- 10.16 Amended and Restated Employment Agreement, effective January 1, 2000, by and between Health Care REIT, Inc. and Erin C. Ibele (filed with the Commission as Exhibit 10.14 to the Company's Form 10-K filed March 25, 2002, and incorporated herein by reference thereto).\*

- 10.17 Amended and Restated Employment Agreement, effective January 1, 2000, by and between Health Care REIT, Inc.

and Michael A. Crabtree (filed with the Commission as Exhibit 10.15 to the Company's Form 10-K filed March 25, 2002, and incorporated herein by reference thereto).\*

- 10.18 Amended and Restated Employment Agreement, effective January 1, 2000, by and between Health Care REIT, Inc. and Charles J. Herman, Jr. (filed with the Commission as Exhibit 10.16 to the Company's Form 10-K filed March 25, 2002, and incorporated herein by reference thereto).\*
- 10.19 Health Care REIT, Inc. Supplemental Executive Retirement Plan, effective as of January 1, 2001.\*
- 10.20 Health Care REIT, Inc Executive Loan Program, effective as of August 1999.\*
- 21. Subsidiaries of the Company.
- 23. Consent of Ernst & Young LLP, independent auditors.
- 24. Powers of Attorney.
- 99.1 Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.
- 99.2 Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.

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\* Management Contract or Compensatory Plan or Arrangement.

(b) Reports on Form 8-K filed in the fourth quarter of 2002 and afterwards:

Form 8-K filed on November 13, 2002, to report the sale of 930,000 shares of common stock and to report the registrant's reclassification of its operations for the year ended December 31, 2001, pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Form 8-K filed on February 6, 2003, to announce that three executive officers entered into 10b5-1 trading plans effective February 5, 2003.

(c) Exhibits:

The exhibits listed in Item 15(a)(3) above are either filed with this Form 10-K or incorporated by reference in accordance with Rule 12b-32 of the Exchange Act.

(d) Financial Statement Schedules:

Financial statement schedules are included in pages 57 through 65.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTH CARE REIT, INC.

By: /S/ GEORGE L. CHAPMAN

-----  
Chairman, Chief Executive Officer,  
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 10, 2003, by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/S/ WILLIAM C. BALLARD, JR.\*

-----  
William C. Ballard, Jr., Director

/S/ R. SCOTT TRUMBULL\*

-----  
R. Scott Trumbull, Director

/S/ PIER C. BORRA\*

-----  
Pier C. Borra, Director

/S/ RICHARD A. UNVERFERTH\*

-----  
Richard A. Unverferth, Director

/S/ JEFFREY H. DONAHUE\*

-----  
Jeffrey H. Donahue, Director

/S/ GEORGE L. CHAPMAN

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

/S/ PETER J. GRUA\*

-----  
Peter J. Grua, Director

/S/ RAYMOND W. BRAUN\*

-----  
Raymond W. Braun, President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)

/S/ SHARON M. OSTER\*

-----  
Sharon M. Oster, Director

/S/ MICHAEL A. CRABTREE\*

-----  
Michael A. Crabtree, Treasurer (Principal Accounting Officer)

/S/ BRUCE G. THOMPSON\*

-----  
Bruce G. Thompson, Director

\*By: /S/ GEORGE L. CHAPMAN

-----  
George L. Chapman, Attorney-in-Fact

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CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, GEORGE L. CHAPMAN, certify that:

1. I have reviewed this annual report on Form 10-K of Health Care REIT, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 10, 2003  
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/S/ GEORGE L. CHAPMAN  
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George L. Chapman,  
Chief Executive Officer

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CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, RAYMOND W. BRAUN, certify that:

1. I have reviewed this annual report on Form 10-K of Health Care REIT, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 10, 2003  
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/S/ RAYMOND W. BRAUN  
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Raymond W. Braun,  
Chief Financial Officer

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HEALTH CARE REIT, INC.  
SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION  
DECEMBER 31, 2002

Description	Initial Cost to Company				Gross Amount at Which Carried at Close of Period				Year Acquired	Year Built
	Encumbrances	Land	Buildings & Improvements	Cost Capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Accumulated Depreciation			
ASSISTED LIVING FACILITIES:										
Lake Havasu City, AZ	\$ 0	\$ 110	\$ 2,244	\$ 26	\$ 110	\$ 2,270	\$ 262	1998	1999	
Lake Havasu City, AZ		450	4,223	110	450	4,333	407	1998	1994	
Mesa, AZ		950	9,087		950	9,087	542	1999	2000	
Tucson, AZ			1,373			1,373		2002	2002	
Alhambra, CA		420	2,534		420	2,534	125	1999	1999	
Azusa, CA		570	3,141		570	3,141	162	1998	1988	
Encinitas, CA		1,460	7,721		1,460	7,721	494	2000	2000	
Fairfield, CA		1,460	14,040		1,460	14,040	301	2002	1998	
Marysville, CA		450	4,172	44	450	4,216	235	1998	1999	
Paso Robles, CA		1,770	8,630		1,770	8,630	184	2002	1998	
San Juan Capistrano, CA		1,390	6,942		1,390	6,942	204	2000	2002	
Vacaville, CA		900			900			2002		
Highlands Ranch, CO		940	3,721		940	3,721	79	2002	1999	
Hamden, CT		1,470	4,530		1,470	4,530	78	2002	1998	
Litchfield, CT		660	9,652		660	9,652	1,783	1997	1998	
Rocky Hill, CT		1,460	7,040		1,460	7,040	109	2002	1998	
Waterford, CT		1,360	12,540		1,360	12,540	179	2002	2000	
Bradenton, FL		251	3,298		251	3,298	667	1996	1995	
Bradenton, FL		25	450	54	25	504	65	1999	1968	
Bradenton, FL		25	400	(251)	25	149	58	1999	1960	
Bradenton, FL		100	1,700	135	100	1,835	245	1999	1996	
Cape Coral, FL		530	3,281		530	3,281	69	2002	2000	
Clermont, FL		350	5,232	345	350	5,577	756	1996	1997	
Haines City, FL		80	1,937	90	80	2,027	217	1999	1999	
Lake Wales, FL		80	1,939	93	80	2,032	217	1999	1999	
Leesburg, FL		70	1,170	130	70	1,300	181	1999	1954	
Margate, FL		500	7,303	2,327	500	9,630	1,601	1998	1972	
Naples, FL		1,716	17,306		1,716	17,306	3,316	1997	1999	
North Miami Beach, FL		300	5,708	1,951	300	7,659	1,173	1998	1987	
Orange City, FL		80	2,239	201	80	2,440	305	1999	1998	
Sarasota, FL		475	3,175		475	3,175	642	1996	1995	
Vero Beach, FL		263	3,187		263	3,187	124	2001	1999	
Vero Beach, FL		297	3,263		297	3,263	128	2001	1996	
Atlanta, GA		2,059	14,914		2,059	14,914	1,886	1997	1999	
Roswell, GA		1,107	9,627		1,107	9,627	1,676	1997	1999	
Roswell, GA		620	2,200		620	2,200	32	2002	1997	

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SCHEDULE III - CONTINUED

Description	Initial Cost to Company				Gross Amount at Which Carried at Close of Period				Year Acquired	Year Built
	Encumbrances	Land	Buildings & Improvements	Cost Capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Accumulated Depreciation			
Twin Falls, ID	\$ 0	\$ 550	\$ 14,740	\$ 0	\$ 550	\$ 14,740	\$ 0	2002	1991	
Urbana, IL		670	6,780		670	6,780	150	2002	1998	
Auburn, IN		145	3,511	1,855	145	5,366	567	1998	1999	
Avon, IN		170	3,504	842	170	4,346	645	1998	1999	
Boonville, IN		190	5,510		190	5,510	103	2002	2000	
Columbus, IN		530	5,170		530	5,170	98	2002	2001	
Kokomo, IN		195	3,709	1,251	195	4,960	591	1997	1999	
LaPorte, IN		165	3,674	1,244	165	4,918	586	1998	1999	
Marion, IN		175	3,504	898	175	4,402	607	1999	1999	
Merrillville, IN		643	7,084	476	643	7,560	1,255	1997	1999	
Shelbyville, IN		165	3,497	1,139	165	4,636	702	1998	1999	
Terre Haute, IN		175	3,499	1,096	175	4,595	608	1999	1999	
Valparaiso, IN		112	2,558		112	2,558	101	2001	1998	
Valparaiso, IN		108	2,962		108	2,962	115	2001	1999	
Vincennes, IN		118	2,893	673	118	3,566	398	1998	1985	
Kenner, LA		1,100	10,036	125	1,100	10,161	1,400	1998	1998	
Lee, MA			18,425			18,425	338	2002	1998	
Newburyport, MA		960	8,290		960	8,290	78	2002	1999	
Ellicott City, MD		1,320	13,641	1,497	1,320	15,138	2,318	1997	1999	
Harmans, MD			3,000	4,730		7,730	326	2001	1997	
Laurel, MD		1,060	8,045		1,060	8,045	366	2002	1996	
Satyr Hill, MD		730	8,770	2,773	730	11,543	742	2001	1998	
St. Charles, MD		620	8,380	2,724	620	11,104	705	2001	1998	
Hattiesburg, MS		560	5,790		560	5,790	130	2002	1998	
Butte, MT		550	3,957	43	550	4,000	222	1998	1999	
Kalispell, MT		360	3,282		360	3,282	379	1998	1998	
Asheville, NC		204	3,489		204	3,489	383	1999	1999	
Cary, NC		1,500	4,350		1,500	4,350	544	1998	1996	
Chapel Hill, NC		354	2,646		354	2,646	14	2002	1997	
Durham, NC		1,476	10,659	237	1,476	10,896	1,842	1997	1999	
Elizabeth City, NC		200	2,760		200	2,760	307	1998	1999	
Hendersonville, NC		2,270	11,771	279	2,270	12,050	1,438	1998	1998	
Lexington, NC		200	3,900		200	3,900	19	2002	1997	
Morehead City, NC		200	3,104		200	3,104	286	1999	1999	
Pineville, NC		1,009	10,554	222	1,009	10,776	1,825	1997	1999	
Reidsville, NC		170	3,830		170	3,830	19	2002	1998	
Wake Forest, NC		200	3,003		200	3,003	365	1998	1999	
Wilmington, NC		210	2,991		210	2,991	312	1999	1999	
Brick, NJ		1,300	9,394		1,300	9,394	1,211	1999	1999	
Cranford, NJ		3,297	14,233		3,297	14,233	2,296	1996	1973	
Florence, NJ		300	2,978		300	2,978	62	2002	1999	
Hamilton, NJ		440	4,469		440	4,469	121	2001	1998	

SCHEDULE III - CONTINUED

Description	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Year Acquired	Year Built
	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Accumulated Depreciation		
Gardnerville, NV	\$ 0	\$1,326	\$ 12,549	\$ 0	\$1,326	\$ 12,549	\$ 2,089	1998	1999
Henderson, NV		380	9,220	65	380	9,285	994	1998	1998
Henderson, NV		380	4,360	41	380	4,401	241	1999	2000
Albany, NY		400	10,528		400	10,528	1,522	1996	1997
Manlius, NY		410	3,962		410	3,962	110	2001	1997
Ossining, NY		1,510	9,490		1,510	9,490	138	2002	1967
Canton, OH		300	2,098		300	2,098	245	1998	1998
Findlay, OH		200	1,800		200	1,800	287	1997	1997
Newark, OH		410	5,711		410	5,711	701	1998	1987
Piqua, OH		204	1,885		204	1,885	251	1997	1997
Sagamore Hills, OH		470	7,881	36	470	7,917	517	1998	2000
Troy, OH		200	2,000		200	2,000	311	1997	1997
Westerville, OH		741	8,287	2,200	741	10,487	841	1998	2001
Bartlesville, OK		100	1,380		100	1,380	273	1996	1995
Chickasha, OK		85	1,395		85	1,395	269	1996	1996
Claremore, OK		155	1,428		155	1,428	251	1996	1996
Duncan, OK		103	1,347		103	1,347	252	1995	1996
Edmond, OK		175	1,564		175	1,564	287	1995	1996
Enid, OK		90	1,390		90	1,390	275	1995	1995
Lawton, OK		144	1,456		144	1,456	269	1995	1996
Midwest City, OK		95	1,385		95	1,385	274	1996	1995
Norman, OK		55	1,484		55	1,484	329	1995	1995
North Oklahoma City, OK		87	1,508		87	1,508	260	1996	1996
Oklahoma City, OK		130	1,350		130	1,350	258	1995	1996
Oklahoma City, OK		220	2,943		220	2,943	234	1999	1999
Owasso, OK		215	1,380		215	1,380	241	1996	1996
Ponca City, OK		114	1,536		114	1,536	310	1995	1995
Shawnee, OK		80	1,400		80	1,400	275	1996	1995
Stillwater, OK		80	1,400		80	1,400	277	1995	1995
Eugene, OR		600	5,150		600	5,150	99	2002	2000
Portland, OR		628	3,585	232	628	3,817	360	1998	1999
Salem, OR		449	5,172		449	5,172	547	1999	1998
Lebanon, PA		400	3,799	18	400	3,817	361	1998	1999
Saxonburg, PA		677	4,669	23	677	4,692	524	1999	1994
Seven Fields, PA		484	4,663		484	4,663	500	1999	1999
Williamsport, PA		390	4,068	19	390	4,087	370	1998	1999
Bluffton, SC		700	5,598		700	5,598	343	1999	2000
Florence, SC		380	2,881		380	2,881	306	1998	1999
Hilton Head, SC		510	6,037		510	6,037	562	1998	1999
North Augusta, SC		332	2,558		332	2,558	274	1999	1998
Walterboro, SC		150	1,838	175	150	2,013	231	1999	1992
Clarksville, TN		330	2,292		330	2,292	265	1998	1998

SCHEDULE III - CONTINUED

Description	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Year Acquired	Year Built
	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Accumulated Depreciation		
Columbia, TN	\$ 0	\$ 341	\$ 2,295	\$ 0	\$ 341	\$ 2,295	\$ 250	1999	1999
Knoxville, TN		314	2,756		314	2,756		2002	1998
Morristown, TN		400	3,808	155	400	3,963	364	1998	1999
Oak Ridge, TN		450	4,066	155	450	4,221	385	1998	1999
Austin, TX		880	9,520		880	9,520	1,058	1999	1998
Cedar Hill, TX		171	1,490		171	1,490	258	1997	1996
Corpus Christi, TX		155	2,935		155	2,935	443	1997	1996
Corpus Christi, TX		420	4,796		420	4,796	1,118	1996	1997
Desoto, TX		205	1,383		205	1,383	234	1996	1996
Fort Worth, TX		210	3,790		210	3,790	698	1996	1984
Georgetown, TX		200	2,100		200	2,100	325	1997	1997
Harlingen, TX		92	2,057		92	2,057	308	1997	1989
Houston, TX		550	10,751		550	10,751	1,706	1999	1999
Houston, TX		261	3,139		261	3,139	557	1994	1995
Houston, TX		360	2,640		360	2,640		2002	1999
Houston, TX		360	2,640		360	2,640		2002	1999
Kingwood, TX		300	3,309		300	3,309	344	1996	1999
North Richland Hills, TX		330	5,355		330	5,355	588	1997	1999
Palestine, TX		173	1,410		173	1,410	248	1996	1996
Texarkana, TX		192	1,403		192	1,403	244	1996	1996
Waxahachie, TX		154	1,429		154	1,429	251	1996	1996
Salt Lake City, UT		1,059	6,141		1,059	6,141	310	1999	1986
Leesburg, VA		950	7,553		950	7,553	197	2002	1993

Everett, WA		1,400	5,476		1,400	5,476	551	1999	1999
Middleton, WI		420	4,007		420	4,007	105	2001	1991
Total Assisted Living Facilities:	\$ 0	\$74,685	\$ 700,937	\$ 30,478	\$74,685	\$ 731,415	\$70,941		
SKILLED NURSING FACILITIES:									
Payson, AZ		180	3,988		180	3,988	609	1998	1985
Santa Rosa, CA		1,460	3,880	62	1,460	3,942	803	1998	1968
Pueblo, CO		370	6,051		370	6,051	904	1998	1989
North Fort Myers, FL		636	6,027		636	6,027	945	1998	1984
Hilliard, FL		150	6,990		150	6,990	815	1999	1990
Lakeland, FL		696	4,843		696	4,843	768	1998	1984
New Port Richey, FL		624	7,307		624	7,307	1,136	1998	1984
Ormond Beach, FL			2,740			2,740	93	2002	1983
Brevard, FL		360	4,117		360	4,117	240	2001	1970
Sarasota, FL		560	8,474		560	8,474	668	1999	2000
Vero Beach, FL		660	9,040	1,461	660	10,501	1,424	1998	1984
West Palm Beach, FL		696	8,037		696	8,037	1,245	1998	1984

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SCHEDULE III - CONTINUED

Description	Initial Cost to Company				Gross Amount at Which Carried at Close of Period				
	Encumbrances	Land	Buildings & Improvements	Cost Capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Accumulated Depreciation	Year Acquired	Year Built
Boise, ID	\$ 0	\$ 810	\$ 5,401	\$ 0	\$ 810	\$ 5,401	\$ 820	1998	1966
Boise, ID		600	7,383		600	7,383	991	1998	1997
Coeur d'Alene, ID		600	7,878		600	7,878	1,047	1998	1996
Granite City, IL		610	7,143		610	7,143	815	1998	1973
Granite City, IL		400	4,303		400	4,303	437	1999	1964
Hardin, IL		50	5,350		50	5,350	39	2002	1996
White Hall, IL		50	5,550		50	5,550	41	2002	1971
Louisville, KY		430	7,135		430	7,135	185	2002	1974
Louisville, KY		350	4,675		350	4,675	124	2002	1975
Owensboro, KY		130	4,870		130	4,870	1,121	1993	1966
Agawam, MA			16,993			16,993	60	2002	1993
Braintree, MA		170	7,157	985	170	8,142	1,717	1997	1968
Braintree, MA		80	4,849	669	80	5,518	964	1997	1973
Canton, MA			9,022			9,022	38	2002	1993
Dedham, MA			14,727			14,727	245	2002	1996
Fall River, MA		620	5,829	4,587	620	10,416	1,131	1996	1973
Falmouth, MA		670	3,145	14	670	3,159	620	1999	1966
Littleton, MA		1,240	2,910		1,240	2,910	26	1996	1975
Needham, MA			15,325			15,325	255	2002	1994
Rochdale, MA			12,522			12,522	52	2002	1995
South Boston, MA		385	2,002	4,215	385	6,217	822	1995	1961
Wareham, MA			11,189			11,189	46	2002	1989
Webster, MA		234	3,580	43	234	3,623	706	1995	1986
Webster, MA		336	6,059	261	336	6,320	1,019	1995	1982
Worcester, MA		1,053	2,266	267	1,053	2,533	487	1997	1961
Herculaneum, MO		127	10,373		127	10,373	74	2002	1984
Jefferson City, MO		370	6,730		370	6,730	48	2002	1982
St. Louis, MO		750	6,030		750	6,030	44	1995	1994
Beachwood, OH	19,742	1,260	23,478		1,260	23,478	653	2001	1990
Broadview Heights, OH	9,305	920	12,400		920	12,400	346	2001	1984
Kent, OH		215	3,367		215	3,367	933	1989	1983
Westlake, OH	15,844	1,320	17,936		1,320	17,936	507	2001	1980
Westlake, OH		571	5,411		571	5,411	778	1998	1957
Midwest City, OK		470	5,673		470	5,673	790	1998	1958
Eugene, OR		300	5,316		300	5,316	767	1998	1972
Bloomsburg, PA			3,918	17		3,935	372	1999	1996
Cheswick, PA		384	6,041	1,293	384	7,334	964	1998	1933
Easton, PA		285	6,315		285	6,315	2,061	1993	1959
Cleveland, TN		350	5,000		350	5,000	162	2001	1987
Elizabethton, TN		310	4,604	40	310	4,644	227	2001	1980
Erin, TN		440	8,060		440	8,060	249	2001	1981
Harriman, TN		590	8,060		590	8,060	266	2001	1972

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SCHEDULE III - CONTINUED

Description	Initial Cost to Company				Gross Amount at Which Carried at Close of Period				
	Encumbrances	Land	Buildings & Improvements	Cost Capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Accumulated Depreciation	Year Acquired	Year Built
Mountain City, TN	\$ 0	\$ 220	\$ 5,896	\$ 317	\$ 220	\$ 6,213	\$ 292	2001	1976
Pigeon Forge, TN		320	4,180		320	4,180	145	2001	1986
Ridgely, TN		300	5,700		300	5,700	181	2001	1990
Rockwood, TN		500	7,116	410	500	7,526	337	2001	1979

Spring City, TN	420	6,085	2,169	420	8,254	297	2001	1987
Westmoreland, TN		2,152	2,504	330	4,326	125	2001	1994
Baytown, TX	450	6,150		450	6,150	46	2002	2000
Houston, TX	630	5,970		630	5,970	44	2002	1995
San Antonio, TX	663	12,588		663	12,588	3,419	1993	1979
San Antonio, TX	560	7,315		560	7,315	55	2002	2000
Webster, TX	360	5,940		360	5,940	45	2002	2000
Woodbridge, VA	680	4,423		680	4,423	35	2002	1977
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TOTAL SKILLED NURSING FACILITIES:	\$ 44,891	\$ 28,975	\$ 460,984	\$ 19,314	\$ 29,305	\$ 479,968	\$ 37,720	
SPECIALTY CARE FACILITIES:								
Clearwater, FL		950					2000	
Chicago, IL	3,650	7,505	29	979	7,505		2002	1979
Braintree, MA	350	9,304	2,693	350	11,997	1,155	1998	1918
Springfield, MA	2,100	14,978	7,066	2,100	22,044	1,042	1996	1952
Stoughton, MA	975	20,021	3,024	975	23,045	1,575	1996	1958
Waltham, MA		9,339	3,207		12,546	1,146	1998	1932
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TOTAL SPECIALTY CARE FACILITIES:	\$ 0	\$ 8,025	\$ 61,147	\$ 16,019	\$ 8,054	\$ 77,137	\$ 4,918	
Construction in Progress		\$ 19,833				\$ 19,833		
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TOTAL INVESTMENT IN REAL PROPERTY OWNED	\$ 44,891	\$131,518	\$1,223,068	\$ 65,811	\$112,044	\$1,308,353	\$ 113,579	
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SCHEDULE III - CONTINUED

	(in thousands)		
	YEAR ENDED DECEMBER 31		
	2002	2001	2000
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Investment in real estate:			
Balance at beginning of year	\$ 1,037,395	\$ 856,955	\$ 862,525
Additions:			
Acquisitions	294,627	181,420	0
Improvements	115,079	10,863	46,449
Conversions from mortgage loans	33,972	13,683	60,648
Other(1)	2,248	954	
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Total additions	445,927	206,920	107,097
Deductions:			
Cost of real estate sold	(60,626)	(26,480)	(112,667)
Impairment of assets	(2,298)		
	-----	-----	-----
Total deductions	(62,924)	(26,480)	(112,667)
Balance at end of year(2)	\$ 1,420,397	\$ 1,037,395	\$ 856,955
	=====	=====	=====
Accumulated depreciation:			
Balance at beginning of year	\$ 80,544	\$ 52,968	\$ 35,746
Additions:			
Depreciation expense	40,350	30,227	22,707
Deductions:			
Sale of properties	(7,315)	(2,651)	(5,485)
	-----	-----	-----
Balance at end of year	\$ 113,579	\$ 80,544	\$ 52,968
	=====	=====	=====

- (1) Represents assumed mortgages in 2002 and land reclassified from other assets in 2001.
- (2) The aggregate cost for tax purposes for real property equals \$1,420,603,000 at December 31, 2002.

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SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE  
HEALTH CARE REIT, INC.  
DECEMBER 31, 2002

DESCRIPTION	INTEREST RATE	FINAL MATURITY DATE	PERIODIC PAYMENT TERMS	PRIOR LIENS	(IN THOUSANDS)		PRINCIPAL AMOUNT OF LOANS SUBJECT TO DELINQUENT PRINCIPAL OR INTEREST
					FACE AMOUNT OF MORTGAGES	CARRYING AMOUNT OF MORTGAGES	
Sun Valley, CA (Specialty care facility)	12.83%	01/01/03	Monthly Payments \$200,971		\$ 21,500	\$ 18,797	None
Bossier City, LA (Assisted living facility)	10.00%	08/01/19	Monthly Payments \$52,603		6,312	6,312	None
Emeritus Corporation (4 assisted living facilities)	12.17%	04/01/05	Monthly Payments \$68,963		6,800	6,800	None
Northport, AL (Assisted living facility)	10.00%	12/01/19	Monthly Payments \$46,225		5,547	5,547	None
Oklahoma City, OK (Skilled nursing facility)	9.88%	06/01/06	Monthly Payments \$100,480		12,204	12,204	None
Five skilled nursing facilities in Texas	10.78%	12/01/07	Monthly Payments \$78,829		12,198	7,585	None
Bala, PA (Skilled nursing facility)	15.11%	06/01/08	Monthly Payments \$89,963		7,400	7,145	None
Home Quality Management, Inc. (9 skilled nursing facilities and 3 assisted living facilities)	12.93%	01/01/06	Monthly Payments \$250,000		8,702	7,572	None
Lauderhill, FL (Skilled nursing facility)	10.60%	09/30/12	Monthly Payments \$112,183		12,700	12,700	None
Southern Assisted Living (8 assisted living facilities)	12.67%	12/01/05	Monthly Payments \$84,491		8,000	8,000	None
Tucson, AZ (Assisted living facility)	18.00%	03/01/03	Monthly Payments \$132,570		8,838	8,838	None
31 mortgage loans relating to 1 skilled nursing facility, 28 assisted living facilities and 2 specialty care facilities	From 6.75% to 12.17%	From 04/01/03 to 12/01/19	Monthly Payments from \$2,750 to \$78,234		87,218	78,261	None
TOTALS					\$ 197,419	\$179,761	\$ 0

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SCHEDULE IV - Continued

(in thousands)  
YEAR ENDED DECEMBER 31

	2002	2001	2000
--	------	------	------

Reconciliation of mortgage loans:

Balance at beginning of period	\$ 212,543	\$ 280,601	\$ 384,298
Additions during period:			
New mortgage loans	85,006	17,791	28,244

	297,549	298,392	412,542
Deductions during period:			
Collections of principal (1)	70,104	72,166	70,567
Conversions to real property	33,972	13,683	60,648
Charge-offs	2,554		726
Other (2)	11,158		
	-----	-----	-----
Balance at end of period	\$ 179,761	\$ 212,543	\$ 280,601
	=====	=====	=====

(1) Includes collection of negative principal amortization.

(2) Includes mortgage loans that were reclassified to working capital loans during the periods indicated.

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HEALTH CARE REIT, INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP")  
(EFFECTIVE AS OF JANUARY 1, 2001)

NOVEMBER 2001

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PREAMBLE

WHEREAS, Health Care REIT, Inc. desires to provide an enhanced retirement program for selected executives in order to deliver a specified portion of final pay, ensuring a competitive retirement income; and

WHEREAS, the Employee Retirement Income Security Act of 1974 ("ERISA") requires that limits be set on the maximum contributions and benefits which may be made to or paid from a tax-qualified retirement plan on behalf of or to a Participant in such a plan; and

WHEREAS, the Health Care REIT, Inc. 401(k) Profit Sharing Plan and the Health Care REIT, Inc. Money Purchase Pension Plan includes benefit limitations imposed by Section 415 and Section 401(a)(17) of the Internal Revenue Code; and

WHEREAS, Health Care REIT, Inc. intends to adopt this nonqualified retirement benefit plan effective January 1, 2001, so that a Participant may accrue benefits that cannot be delivered under the qualified plans due to the limits placed on the benefit amounts by Sections 401(a)(17) and 415 and related sections of the Internal Revenue Code of 1986, as may be amended from time to time; and

NOW, THEREFORE, Health Care REIT, Inc. adopts the Health Care REIT, Inc. Supplemental Executive Retirement Plan ("SERP") for selected executives as chosen by the Compensation Committee of the Board of Directors (the "Participants") for the purpose of delivering a retirement benefit. Health Care REIT, Inc. promises to pay the benefits defined herein to each Participant, or on his or her behalf to his or her heirs, personal representatives or beneficiaries, subject to the terms and conditions specified hereinafter.

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ARTICLE I - DEFINITIONS

- 1.1 "ACTUARIAL EQUIVALENT" means the present value of the Normal Retirement Benefit or Early Retirement Benefit calculated using a 7.5% interest rate and the 1983 Group Annuity Mortality Table (GAM) (male), or the present value of the projected value of Employer contributions to the Employee's qualified retirement plan accounts using a 7.5% interest rate and the 1983 GAM table (50/50 Blended) to determine the Offset Amount.
- 1.2 "AVERAGE COMPENSATION" means the average of the three highest Plan Years of salary and bonus compensation considering all Plan Years completed prior to the date of retirement.
- 1.3 "BENEFICIARY" means any person(s) designated in writing by a Participant to receive payment under the SERP in the event of the Participant's death. In the event the Participant is married at the time of death and has designated no other beneficiary (or if the designated beneficiary has predeceased the Participant), Beneficiary shall mean the participant's spouse. In the event the Participant is not married at death and has designated no beneficiary (or if the designated beneficiary has predeceased the Participant), Beneficiary shall mean the Participant's estate.
- 1.4 "BOARD OF DIRECTORS" means the Board of Directors of Health Care REIT, Inc.
- 1.5 "CHANGE IN CONTROL" means
- (a) The acquisition in one or more transactions of more than

twenty percent (20%) of the Corporation's outstanding Common Stock (or the equivalent in voting power of any class or classes of securities of the Corporation entitled to vote in elections of directors) by any corporation, or other person or group (within the meaning of Section 14(d)(3) of the Securities Exchange Act of 1934, as amended); or

- (b) Any transfer or sale of substantially all of the assets of the Corporation, or any merger or consolidation of the Corporation into or with another corporation in which the Corporation is not the surviving entity, or any merger or consolidation of the Corporation into or with another corporation in which the Corporation is the surviving entity and, in connection with such merger or consolidation, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for other stock or securities of the Corporation or any other person, or cash, or any other property; or

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- (c) Any election of persons to the Compensation Committee of the Board of Directors which causes a majority of the Compensation Committee of the Board of Directors to consist of persons other than "Continuing Directors." For this purpose, those persons who were members of the Compensation Committee of the Board of Directors on May 1, 1995, shall be "Continuing Directors." Any person who is nominated for election as a member of the Board after May 1, 1995, shall also be considered a "Continuing Director" for this purpose if, and only if, his or her nomination for election to the Compensation Committee of the Board of Directors is approved or recommended by a majority of the members of the Board (or the relevant Nominating Committee) and at least five (5) members of the Board are themselves Continuing Directors at the time of such nomination; or

- (d) Any person, or group of persons, announces a tender offer for at least twenty percent (20%) of the Corporation's Common Stock.

- 1.6 "CODE" means the Internal Revenue Code of 1986, as amended.
- 1.7 "COMPENSATION" means a Participant's salary and bonus compensation paid during a Plan Year.
- 1.8 "COMPENSATION COMMITTEE" means the Compensation Committee appointed by the Board of Directors to act on behalf of Health Care REIT, Inc.
- 1.9 "EARLY RETIREMENT" means the termination of employment with the Employer or its subsidiaries and affiliates, including voluntary termination, termination by the Employer for any cause, death or disability, prior to Normal Retirement Age.
- 1.10 "EARLY RETIREMENT BENEFIT" means the reduced monthly benefit a Participant is entitled to receive as determined under Section 3.2 payable at Early Retirement.
- 1.11 "ELIGIBLE EMPLOYEE" means any Employee who is (or was) among a select group of management or highly compensated employees of Health Care REIT, Inc. and is approved for participation by the Compensation Committee of the Board of Directors.
- 1.12 "EMPLOYEE" means any individual employed by Health Care REIT, Inc.
- 1.13 "EMPLOYER" means Health Care REIT, Inc. Such term includes all

corporations which comprise a "controlled group of corporations" as defined in Section 414(b) of the Code, of which Health Care REIT, Inc. is a member.

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- 1.14 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- 1.15 "FORMER EMPLOYEE" means any individual formerly employed by Health Care REIT, Inc.
- 1.16 "INSTALLMENT PAYMENTS" means a series of equal monthly payments, paid over a period certain equal to the Actuarial Equivalent of the monthly Normal or Early Retirement Benefit as provided in Section 3.2.
- 1.17 "LUMP SUM" means a single sum payment equal to the Actuarial Equivalent of the monthly Normal or Early Retirement Benefit as provided in Section 3.2.
- 1.18 "NORMAL RETIREMENT AGE" means age 65.
- 1.19 "NORMAL RETIREMENT BENEFIT" means the monthly benefit a Participant is entitled to receive as determined under Section 3.2 payable at Normal Retirement Age.
- 1.20 "OFFSET AMOUNT" means the Actuarial Equivalent of the projected value of Employer contributions delivered through the Profit Sharing and Money Purchase Pension Plans at Normal Retirement Age expressed as a monthly benefit payable for life. The projected value of Employer contributions shall be determined using all contributions made on behalf of the Participant for Plan Years completed prior to the date of Retirement and a 7.5% earnings rate compounded annually.
- 1.21 "PARTICIPANT" means an Eligible Employee who, by reason of his or her responsibilities with Health Care REIT, Inc., is selected by the Compensation Committee to participate in the SERP.
- 1.22 "PLAN YEAR" means the period beginning on the first day of January and ending on the last day in December within the calendar year.
- 1.23 "RABBI TRUST" means an employer grantor trust established to hold contributions to the SERP, pursuant to the Trust Agreement, attached as Exhibit A of the SERP.
- 1.24 "RETIREMENT" means a Participant's termination of employment with Health Care REIT, Inc. on or after his or her Normal Retirement Age.
- 1.25 "TRUSTEE" means the person(s) or organization designated as the Trustee of the Rabbi Trust.
- 1.26 "SERP BENEFIT" means an annual lifetime benefit equal to 35% of the Participant's Average Compensation payable at Normal Retirement Age.

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## ARTICLE II - ELIGIBILITY

### 2.1 ELIGIBILITY

Any Eligible Employee of Health Care REIT, Inc. who is

selected by the Compensation Committee and approved by the Compensation Committee of the Board of Directors shall be eligible to participate in the SERP.

2.2 TIME OF PARTICIPATION

Once selected, the Eligible Employee will become a Participant and begin accruing benefits at the time specified by the Compensation Committee.

ARTICLE III - BENEFITS

3.1 BENEFITS - IN GENERAL

All Participants and Beneficiaries selected by the Compensation Committee pursuant to Article II and whose benefits under the Employer's qualified plans are limited, directly or indirectly, by Sections 401(a)(17) and 415, and related sections of the Code, shall be eligible to receive benefits pursuant to the SERP. In no event shall a Participant or Beneficiary who is not entitled to benefits under the qualified plans be eligible for, or receive, benefits from the SERP.

3.2 SERP BENEFITS

Normal Retirement Benefit

Upon attainment of Normal Retirement Age, a Participant shall be entitled to a monthly benefit equal to his SERP Benefit less the Offset Amount.

Early Retirement Benefit

Upon the Early Retirement of a Participant, such Participant shall be entitled to a monthly benefit equal to his SERP Benefit, reduced by the proration for length of participation, less the Offset Amount, further reduced by an early retirement reduction factor of 1/2 of 1% for each month prior to Normal Retirement Age.

The proration for length of participation is the number of completed years of participation (including fractional years) in the Plan divided by the total number of years (not including fractional years) from the date of participation to Normal Retirement Age, not-to-exceed 15 years.

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ARTICLE IV - VESTING

4.1 VESTING - IN GENERAL

A Participant shall have a nonforfeitable interest in all benefits payable under the SERP.

ARTICLE V - DISTRIBUTION OF BENEFITS

5.1 TIMING AND FORMS OF BENEFIT PAYMENT

The retirement benefit payable under Section 3.2 shall commence on the first day of the month following either Early Retirement or Normal Retirement as elected by the Participant, except as provided in Section 5.4.

The benefit provided under Section 3.2 shall be paid per the following distribution options, except as provided in Sections 5.2, 5.3 and 5.4.

- Installment payments over a period certain not-to-exceed 15 years
- Lump sum

5.2 ELECTIVE BENEFIT OPTIONS

Such election must be made by the Participant at least 120 days prior to the date benefits commence, otherwise such election will not be valid and any earlier timely election will be recognized. If no election is made, the Participant will receive his benefit in installment payments over a 15 year period. The participant may change his election from time to time as long as such election is made at least 120 days prior to the date benefits commence.

5.3 DEATH BENEFITS OPTION

Notwithstanding the above, in the event of the death of the Participant, the following death benefits shall apply:

- A. If the Participant had retired and was receiving SERP benefits in Installment Payments, then the designated Beneficiary will receive the present value of the balance of the annual installments, plus interest, over a period to be determined by the Employer, but which

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shall not exceed three years. An interest rate of 7.5% shall be used to determine these values.

- B. If the Participant was either currently employed or had terminated employment, but his benefit had not commenced, then the designated Beneficiary shall receive the present value of the SERP benefits (assuming the participant had retired on the date of his death), plus interest, over a period to be determined by the Employer, but which shall not exceed three years. An interest rate of 7.5% shall be used to determine these values.
- C. If the Participant had retired and was already paid a SERP benefit in a Lump Sum, then the designated Beneficiary is not entitled to any additional benefit under the SERP.

5.4 Change in Control

Upon a Participant's termination of employment with Health Care REIT, Inc., either voluntarily or involuntarily for any reason, following a Change in Control, the Participant's benefit shall be calculated pursuant to this Section 5.4.

Change in Control Benefit for CEO

The CEO shall be entitled to receive his Normal Retirement Benefit unreduced for length of participation or the early retirement reduction.

#### Change in Control Benefit for Other Participants

The Participant shall be entitled to receive his Early Retirement Benefit as of the date of termination calculated by adding an additional five years of participation (up to but not beyond age 65) to the length of the participation proration with no early retirement reduction.

The benefit shall commence and be paid pursuant to the Participant's election to receive a lump sum or installments as provided under Sections 5.1 and 5.2, except that the Participant shall have the right to change his or her election within one hundred twenty (120) days of the Participant's termination of employment with Health Care REIT, Inc. following the Change in Control. If this special election is made, the benefit will commence on the first business day that is six (6) months after the Participant's termination of employment.

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#### 5.5 TAX WITHHOLDING

With respect to any benefit payments under the SERP, Health Care REIT, Inc. shall deduct all appropriate income tax withholdings; however, the Participant will be solely liable for any and all income taxes applicable on such benefit payments.

The benefits which accrue under the SERP are subject to FICA taxes (which include the Old-Age, Survivors and Disability Insurance tax and/or Medicare tax, as the case may be) which may become due before the benefits are actually paid as provided under Code Section 3121(v)(2) and related IRS regulations.

To ensure proper compliance with these regulations, Health Care REIT, Inc. will calculate the amount of FICA tax when it becomes due and notify the Participant of the amount of his or her share of such tax. Health Care REIT, Inc. will remit the entire tax to the IRS and arrange for the collection of the Participant's share of the tax from the Participant. The Participant will be solely liable for his or her share of FICA taxes on benefits accrued under the SERP.

With respect to any benefit payments under the SERP resulting from a Change in Control, Health Care REIT, Inc. shall pay without reimbursement from the Employee, all appropriate golden parachute excise tax withholdings and will be solely liable for any and all excise taxes applicable on such benefit payments.

#### 5.6 OTHER

Notwithstanding any other provisions of the SERP, if any amounts held in Trust are found, due to the creation or operation of Trust, in a final decision by a court of competent jurisdiction, or under a "determination" by the Internal Revenue Service in a closing agreement in audit or a final refund disposition (within the meaning of Section 1313(a) of Internal Revenue Code of 1986, as amended), to have been includable in the gross income of a Participant or Beneficiary prior to payment of such amounts from Trust, the trustee for the Trust shall, as soon as practicable, pay to such Participant or Beneficiary an amount equal to the amount determined to have been includable in gross income in such

determination, and shall accordingly reduce the Participant's or Beneficiary's future benefits payable under the SERP by an equal amount. The trustee shall not make any distribution to a Participant or Beneficiary pursuant to this paragraph 5.6 unless it has

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received a copy of the written determination described above together with any legal opinion which it may request as to the applicability thereof.

## ARTICLE VI - FUNDING

### 6.1 UNFUNDED PLAN

Benefits under the SERP shall be paid from Health Care REIT, Inc.'s general assets. The SERP shall be administered as an unfunded plan which is maintained primarily for the purpose of providing deferred compensation "for a select group of management or highly compensated employees" as set forth in Sections 201(2), 301(3), and 401(a)(1) of ERISA, and is not intended to meet the qualification requirements of Section 401 of the Code. Any assets set aside by Health Care REIT, Inc. for the purpose of paying benefits under the SERP shall not be deemed to be the property of the Participant and shall be subject to claims of creditors of Health Care REIT, Inc. No participant or beneficiary shall have any claim against, right to, or security or other interest in, any fund, account or asset of Health Care REIT, Inc. from which any payment under the SERP may be made.

### 6.2 RABBI TRUST

Health Care REIT, Inc. shall establish the Rabbi Trust and make contributions to it for the purpose of providing a source of funds to meet the liabilities of the SERP. Contributions to the Rabbi Trust shall be made by Health Care REIT, Inc. annually in an amount equal to the annual expense related to the SERP for the year required to be reported in Health Care REIT, Inc.'s financial statements under generally accepted accounting principles as determined by Health Care REIT, Inc.'s actuary. However, no contribution shall be required if the fair value of the assets in the Rabbi Trust at the beginning of the SERP's Plan Year exceeds the present value of all future payments under the SERP accrued at the beginning of the SERP Plan Year and calculated pursuant to the assumptions set forth in Section 1.1. Contributions to the Rabbi Trust shall be made no later than the last day of the Plan Year, to which they relate, but any year's contribution may be deferred up to two years in the event Health Care REIT, Inc. experiences extreme financial difficulty as determined by the Compensation Committee of the Board of Directors.

In the event of a Change in Control, Health Care REIT, Inc. shall be required to make additional contributions (if any) to the Rabbi Trust within 30 days of the date of the Change in Control and annually thereafter within 90 days after the end of each Plan Year, such that the fair value of the assets

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in the Rabbi Trust are sufficient to fund the present value of

all future payments under the SERP accrued at the end of the Plan Year and calculated pursuant to the assumptions set forth in Section 1.1. Any assets set aside in the Rabbi Trust shall not be deemed to be the property of the Participant and shall be subject to claims of the creditors of Health Care REIT, Inc. No Participant or Beneficiary shall have any claim against, right to, or security or other interest in, any fund, account or asset of Health Care REIT, Inc. from which any payment under the SERP may be made.

## ARTICLE VII - PLAN ADMINISTRATION

### 7.1 GENERAL DUTY

The SERP shall be administered by the Compensation Committee. Members of the Compensation Committee shall be appointed by the Board of Directors and shall serve in such capacity until resignation or removal by the Board of Directors. It shall be the principal duty of the Compensation Committee to determine that the provisions of the SERP are carried out in accordance with its terms.

### 7.2 COMPENSATION COMMITTEE'S GENERAL POWERS, RIGHTS AND DUTIES

The Compensation Committee shall have full power to administer the SERP in all of its details, subject to the applicable requirements of law. For this purpose, the Compensation Committee has the powers, rights and duties specifically stated in the SERP, including, but not limited to, the following powers, rights and duties:

- (a) to determine all questions arising under the SERP, including the power to determine the rights or eligibility of Employees or Participants and any other persons, and the amounts of their benefits under the SERP, to interpret the SERP, and to remedy ambiguities, inconsistencies or omissions;
- (b) to adopt such rules of procedure and regulations, including the establishment of any claims procedure that may be required by law, or as in its opinion may be necessary for the proper and efficient administration of the SERP and as are consistent with the SERP;
- (c) to direct payments or distributions in accordance with the provisions of the SERP;
- (d) to develop such information as may be required by it for tax or other purposes as respects the SERP; and
- (e) to employ agents, attorneys, accountants or other persons (who also may be employed by Health Care REIT, Inc.), and allocate or delegate to them such powers, rights and duties as the Compensation Committee may consider necessary or advisable to properly carry out the administration of the SERP.

The Compensation Committee's decision in any matter involving the interpretation and application of the SERP shall be final and binding. In the event the Compensation Committee is deciding any issue under the SERP which could affect the form or timing of the payment of deferred compensation under the SERP to a Participant who is a member of the Compensation

Committee, then such member shall not vote or otherwise decide on such issue. All questions or interpretations shall be governed by the local laws of the state of Ohio unless specifically pre-empted by ERISA.

7.3 INDEMNIFICATION OF ADMINISTRATOR

Health Care REIT, Inc. agrees to indemnify and to defend to the fullest extent permitted by law any Employee serving as a delegate or agent of the Compensation Committee (including any Employee or former Employee who is serving or formerly served as a delegate or agent of the Compensation Committee) against all liabilities, damages, costs and expenses (including attorney's fees and amounts paid in settlement of any claims approved by Health Care REIT, Inc.) occasioned by any act or omission to act in connection with the SERP, if such act or omission is or was in good faith.

7.4 CLAIMS AND PROCEDURE

Any person claiming a benefit under the SERP shall present the request to the Compensation Committee in writing, which shall respond in writing as soon as may be feasible. If the claim is denied, the Compensation Committee's written notice of the denial shall state the reasons for the denial, with specific references to the relevant provisions of the SERP, a description of any additional information necessary, and an explanation of the review procedures available. Any person whose claim for benefits is denied may request review by written notice to the Compensation Committee. The Compensation Committee may, but shall not be required to grant the claimant a hearing. The decision on review shall be made by the Compensation Committee within 60 days, and the Compensation

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Committee shall provide a written report on its decision, stating the reasons and the relevant provisions of the SERP. The Compensation Committee's decisions on review shall be final and shall bind all parties concerned.

7.5 NO FIDUCIARY RELATIONSHIP

Nothing in the SERP document and no action taken pursuant to the provisions hereof shall be deemed to create a fiduciary relationship between any Employee, Participant or Beneficiary, any member of the Compensation Committee or any shareholder of Health Care REIT, Inc. Neither the Compensation Committee, its members nor Health Care REIT, Inc. shall have any liability for actions or omissions in the interpretation or administration of the SERP, unless those actions or omissions constitute willful wrongful acts or the absence of good faith.

ARTICLE VIII - AMENDMENT AND DISCONTINUANCE

Health Care REIT, Inc. hereby reserves the right and power, by action of its Compensation Committee of the Board of Directors, to amend, suspend or terminate the SERP in whole or in part, at any time. However, in no event shall Health Care REIT, Inc. have the right to eliminate or reduce any benefit which has been vested or become nonforfeitable under the SERP, subject to Article IV hereof.

In the event the SERP is terminated, the Compensation Committee of the Board of Directors may accelerate the payment of all benefits payable under the SERP without the consent of the affected Participants, their

designated Beneficiaries or any other person claiming through a Participant. In such event, the present value of future payments accrued under Section 3.2 calculated pursuant to the same assumptions used to calculate Lump Sum distributions from the Pension Plan shall be paid to the Participant, or his Beneficiary, if applicable, in lieu of any future benefit payments under the SERP.

#### ARTICLE IX - GENERAL PROVISIONS

##### 9.1 EMPLOYMENT RIGHTS

The SERP does not constitute a contract of employment, and participation in the SERP will not give any Participant the right to be retained in the employ of Health Care REIT, Inc. nor any right or claim to any benefit

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under the SERP, unless such right or claim has specifically accrued under the terms of the SERP.

##### 9.2 INTERESTS NOT TRANSFERABLE

Except as may be required by law, including the income and employment tax withholding provisions of the Code, or of an applicable state's income tax act, the interests of Participants and their Beneficiaries under the SERP are not subject to the claims of their creditors and may not be voluntarily or involuntarily sold, transferred, alienated, assigned or encumbered.

Nothing herein shall be deemed to grant to any Employee, Participant or Beneficiary any ownership or equity interest in Health Care REIT, Inc. or any right or option to acquire any such interest. Any rights created under the SERP shall be unsecured contractual rights of Participants and their Beneficiaries.

##### 9.3 FACILITY OF PAYMENT

When a Participant entitled to benefits under the SERP is under a legal disability, or, in the Compensation Committee's opinion, is in any way incapacitated so as to be unable to manage his financial affairs, the Compensation Committee may direct that the benefits to which such Participant otherwise would be entitled shall be made to such Participant's legal representative, or to such other person or persons as the Compensation Committee may direct the application of such benefits for the benefit of such Participant. Any payment made in accordance with the provisions of this Section shall be a full and complete discharge of any liability for such payment.

##### 9.4 GENDER AND NUMBER

Where the context permits, words denoting the masculine gender shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

##### 9.5 CONTROLLING STATE LAW

To the extent not superseded by the laws of the United States, the laws of the state of Ohio shall be controlling in all matters relating to the SERP.

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9.6 SEVERABILITY

In case any provisions of the SERP shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the SERP, and the SERP shall be construed and enforced as if such illegal and invalid provisions had never been set forth in the SERP.

9.7 STATUTORY REFERENCES

All references to the Code and ERISA include reference to any comparable or succeeding provisions of any legislation which amends, supplements or replaces such section or subsection.

9.8 HEADINGS

Section headings and titles are for reference only. In the event of a conflict between a title and the content of a section, the content of the section shall control.

9.9 ACTION BY HEALTH CARE REIT, INC.

Any action to be performed by Health Care REIT, Inc. under the SERP shall be by resolution of its Compensation Committee, by a duly authorized committee of its Compensation Committee, or by a person or persons authorized by resolution of its Compensation Committee or by resolution of such committee.

Executed this 28th day of November, 2001.

HEALTH CARE REIT, INC.

/S/RITA J. ROGGE

By:/S/ERIN C. IBELE

-----  
Witness

HEALTH CARE REIT, INC.  
EXECUTIVE LOAN PROGRAM

INTRODUCTION

The Compensation Committee (the "Committee") of the Board of Directors of Health Care REIT, Inc. (the "Company") is generally responsible for determining the nature and amount of compensation for the Company's executive officers. In August 1999, the Committee utilized the services of FPL Advisory Group, a nationally recognized executive compensation consulting firm, to assist the Committee in reviewing and developing an executive loan program (the "Program") for the Company's executive officers and certain other officers to assist such officers with paying taxes related to the vesting of restricted stock awards. After reviewing similar programs by the Company's competitors, and discussing the program with Company's management, the Committee adopted the following:

1. OBJECTIVES.

The objectives of the Company's Program are to (a) assist the Company's executive officers and certain other officers of the Company in increasing their stock ownership in the Company in order to further link such officers' economic interests with those of the Company shareholders, and (b) leverage the value of the Company's existing long-term incentive plan by assisting the executive officers and certain other officers of the Company with the income tax impact that results from the vesting of restricted stock.

2. PLAN PURPOSE.

The Program permits the Company to make Company funds available to the executive officers and certain other officers of the Company to pay income taxes that result from the vesting of restricted shares of the Company's shares of Common Stock par value \$1.00 per share (the "Shares").

3. ELIGIBILITY.

The Program is limited to the executive officers of the Company and certain other officers of the Company as specified by the Committee. As of September 10, 1999, the individuals who are eligible for participation are George L. Chapman, Raymond W. Braun, Edward F. Lange, Jr., Erin C. Ibele, Michael A. Crabtree and J. Michael Stephen.

4. TERM.

Any loans made pursuant to the Program will be five (5) year and full recourse loans. Each loan will be evidenced by a promissory note executed by the officer and delivered to the Company.

5. COLLATERAL.

Each loan will be secured by collateral which initial collateral will be all of the vested Shares that relate to the taxes for which the loan is being granted. The officer will deliver certificates for such Shares endorsed in blank to the Company. To the extent any portion of a loan is forgiven, the number of

Shares held as collateral that is equal to the percentage of the loan forgiven will be released by the Company (e.g., if 20% of the loan is forgiven, then 20% of the Shares will be released); provided, however, Shares will not be released if it would cause the Shares that continue to be held as collateral to have a value on the date of the forgiveness that is less than two times the remaining balance of the loan.

6. INTEREST.

Interest will be set at the mid-term applicable federal rate established by the Internal Revenue Service at the time of the loan and such interest will be compounded annually and will be paid to the Company within thirty days after each anniversary date of the loan. The Company will invoice the officer on or about each anniversary date of the loan.

7. MAXIMUM AMOUNT OF LOAN.

The following levels of maximum levels of indebtedness have been established for each of the following positions:

POSITION -----	MAXIMUM INDEBTEDNESS -----
Chairman & CEO	\$ 2,500,000
VP & Chief Operating Officer	\$ 1,000,000
VP & Chief Financial Officer	\$ 1,000,000
VP & Corporate Secretary	\$ 500,000
Controller	\$ 500,000
Vice President, Marketing	\$ 500,000

8. REPAYMENT.

If an officer's employment with the Company is involuntarily terminated for Cause (as defined in the officer's then current employment agreement with the Company, or in the promissory note if there is no agreement), or if the officer voluntarily terminates his

employment with the Company before all amounts due have been paid (other than by reason of death or disability), or as a result of a Change in Control (as defined in the officer's then current employment agreement with the Company, or in the promissory note if there is no employment agreement), all remaining amounts then due under the loan will become due and payable by the officer in ninety (90) days.

9. FORGIVENESS.

(a) Loans will be forgiven over the term of the loan based on the officer's continued employment. On each anniversary date of the loan, if the officer continues to be employed by the Company, one-fifth (1/5) of the principal loan amount will be forgiven.

(b) All amounts are forgiven if the officer's employment with the Company terminates by reason of death, disability, involuntary termination without Cause (as defined in the officer's then current employment agreement with the Company, or in the promissory note if there is no employment agreement), or as a result of a Change of Corporate Control (as defined in the officer's then current employment agreement with the Company, or in the promissory note if there is no employment agreement).

(c) For those officers who have an employment agreement with the

Company, if any amounts forgiven pursuant to this Plan are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, the Company will make a gross-up payment to the officer consistent with the gross-up formula set forth in the officer's then current employment agreement with the Company with respect to excise taxes.

10.           MODIFICATION.

          The terms and conditions of the Program, as well as the terms and conditions of the promissory note, may be modified from time to time by the Committee.

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY -----	STATE OF ORGANIZATION AND TYPE OF ENTITY -----	DATE OF ORGANIZATION -----
HCRI Pennsylvania Properties, Inc.	Pennsylvania corporation	November 1, 1993
HCRI Overlook Green, Inc.	Pennsylvania corporation	July 9, 1996
HCRI Texas Properties, Inc.	Delaware corporation	December 27, 1996
HCRI Texas Properties, Ltd.	Texas limited partnership	December 30, 1996
HCRI Friendship, LLC	Virginia limited liability company	February 21, 1997
HCRI St. Charles, LLC	Virginia limited liability company	February 21, 1997
HCRI Satyr Hill, LLC	Virginia limited liability company	November 24, 1997
Health Care REIT International, Inc.	Delaware corporation	February 11, 1998
HCN Atlantic GP, Inc.	Delaware corporation	February 20, 1998
HCN Atlantic LP, Inc.	Delaware corporation	February 20, 1998
HCRI Nevada Properties, Inc.	Nevada corporation	March 27, 1998
HCRI Southern Investments I, Inc.	Delaware corporation	June 11, 1998
HCRI Louisiana Properties, L.P.	Delaware limited partnership	June 11, 1998
HCN BCC Holdings, Inc.	Delaware corporation	September 25, 1998
HCRI Tennessee Properties, Inc.	Delaware corporation	September 25, 1998
HCRI Limited Holdings, Inc.		
	September 25, 1998	
Delaware corporation		
Pennsylvania BCC Properties, Inc.	Pennsylvania corporation	September 25, 1998
HCRI North Carolina Properties, LLC	Delaware limited liability company	December 10, 1999
HCRI Massachusetts Properties, Inc.	Delaware corporation	March 17, 2000
HCRI Massachusetts Properties Trust	Massachusetts trust	March 30, 2000
HCRI Indiana Properties, Inc.	Delaware corporation	June 15, 2000
HCRI Indiana Properties, LLC	Indiana limited liability company	June 16, 2000
HCRI Holdings Trust	Massachusetts trust	September 9, 2000
HCRI Maryland Properties, LLC	Maryland limited liability company	July 19, 2001
HCRI Massachusetts Properties Trust II	Massachusetts trust	September 26, 2001
HCRI Beachwood, Inc.	Ohio corporation	October 11, 2001
HCRI Broadview, Inc.	Ohio corporation	October 11, 2001
HCRI Westlake, Inc.	Ohio corporation	October 11, 2001
HCRI Westmoreland, Inc.	Delaware corporation	October 16, 2001
HCRI Wisconsin Properties, LLC	Wisconsin limited liability company	December 11, 2001
HCRI North Carolina Properties I, Inc.	North Carolina corporation	January 1, 2002
HCRI North Carolina Properties II, Inc.	North Carolina corporation	January 1, 2002
HCRI North Carolina Properties III, Limited Partnership	North Carolina limited partnership	January 1, 2002
HCRI Kentucky Properties, LLC	Kentucky limited liability company	January 7, 2002
HCRI Laurel, LLC	Maryland limited liability company	January 17, 2002
HCRI Mississippi Properties, Inc.	Mississippi corporation	March 28, 2002
HCRI Illinois Properties, LLC	Delaware limited liability company	August 21, 2002
HCRI Missouri Properties, LLC	Delaware limited liability company	August 21, 2002
HCRI Surgical Properties, LLC	Ohio limited liability company	September 30, 2002
HCRI Tucson Properties, Inc.	Delaware corporation	November 14, 2002

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-46561) dated March 20, 1992 pertaining to The 1985 Incentive Stock Option Plan of Health Care REIT, Inc., the Registration Statement (Form S-8 No. 333-1237) dated February 27, 1996 pertaining to The 1985 Incentive Stock Option Plan of Health Care REIT, Inc., the Registration Statement (Form S-8 No. 333-01239) dated February 27, 1996 pertaining to the Health Care REIT, Inc. 1995 Stock Incentive Plan, the Registration Statement (Form S-8 No. 333-40769) dated November 21, 1997 pertaining to the Health Care REIT, Inc. Stock Plan for Non-Employee Directors of Health Care REIT, Inc., the Registration Statement (Form S-8 No. 333-40771) dated November 21, 1997 pertaining to the Health Care REIT, Inc. 1995 Stock Incentive Plan, the Registration Statement (Form S-3 No. 333-73936) dated November 21, 2001 of Health Care REIT, Inc. and the Registration Statement (Form S-3D No. 333-60058) dated May 2, 2001 of Health Care REIT, Inc. of our report dated January 17, 2003 with respect to the consolidated financial statements and schedules of Health Care REIT, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ ERNST & YOUNG LLP

Toledo, Ohio  
March 7, 2003

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 3rd day of March, 2003.

/S/ WILLIAM C. BALLARD, JR.

-----  
William C. Ballard, Jr., Director

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 25th day of February, 2003.

/S/ PIER C. BORRA  
-----  
Pier C. Borra, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity of director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 25th day of February, 2003.

/S/ JEFFREY H. DONAHUE  
-----  
Jeffrey H. Donahue, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity of director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to

be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 24th day of February, 2003.

/S/ PETER J. GRUA

-----  
Peter J. Grua, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN her true and lawful attorney-in-fact and agent, with full power to act, her true and lawful attorney-in-fact and agent, for her and in her name, place and stead, in the capacity as director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as she might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets her hand this 24th day of February, 2003.

/S/ SHARON M. OSTER

-----  
Sharon M. Oster, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity of director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K,

and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 28th day of February, 2003.

/S/ BRUCE G. THOMPSON  
-----  
Bruce G. Thompson, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity of director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 28th day of February, 2003.

/S/ R. SCOTT TRUMBULL  
-----  
R. Scott Trumbull, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to

file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as director, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 28th day of February, 2003.

/S/ RICHARD A. UNVERFERTH  
-----  
Richard A. Unverferth, Director

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a director and the Chairman of the Board and Principal Executive Officer of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints RAYMOND W. BRAUN, his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacities as director and Chairman of the Board and Principal Executive Officer, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 26th day of February, 2003.

/S/ GEORGE L. CHAPMAN  
-----  
George L. Chapman, Director,  
Chairman of the Board and  
Principal Executive Officer

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## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, the Principal Financial Officer of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacities as the Principal Financial Officer, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 26th day of February, 2003.

/S/ RAYMOND W. BRAUN

-----  
 Raymond W. Braun, President,  
 Chief Operating Officer, and  
 Principal Financial Officer

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## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, the Principal Accounting Officer of Health Care REIT, Inc. (the "Company"), a Delaware corporation that is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, a Form 10-K Annual Report for the year ended December 31, 2002, hereby constitutes and appoints GEORGE L. CHAPMAN his true and lawful attorney-in-fact and agent, with full power to act, his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Principal Accounting Officer, to sign such Form 10-K which is about to be filed, and any and all amendments to such Form 10-K, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this 26th day of February, 2003.

/S/ MICHAEL A. CRABTREE

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Michael A. Crabtree, Treasurer and  
Principal Accounting Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, George L. Chapman, the Chief Executive Officer of Health Care REIT, Inc. (the "Company"), certify that (i) the Annual Report on Form 10-K for the Company for the year ended December 31, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ GEORGE L. CHAPMAN

-----  
George L. Chapman  
Chief Executive Officer  
Dated: March 10, 2003

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Raymond W. Braun, the Chief Financial Officer of Health Care REIT, Inc. (the "Company"), certify that (i) the Annual Report on Form 10-K for the Company for the year ended December 31, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ RAYMOND W. BRAUN

-----  
Raymond W. Braun  
Chief Financial Officer  
Dated: March 10, 2003