Health Care REIT, Inc. 1999 Annual Report

The Good The Bad & The Future

Letter to Shareholders

George L. Chapman
Chairman, Chief Executive Officer & President

uring the past four years our Letters to Shareholders have reported excellent financial results and earnings growth. In addition, we have described management's effort to implement an integrated corporate strategy designed to enhance shareholder value. The key components of this program have included a recapitalization plan that unsecured the Company's balance sheet, produced investment grade ratings, and reduced our cost of debt; the creation of a broad, deep management team; and the development of state-of-the-art, proprietary information systems. This multi-faceted plan was designed to support our investment strategy of providing growth capital to emerging operators of long-term care facilities.

By the end of 1998, it was clear that we had successfully executed these strategic initiatives. However, early in 1999, a number of industry-wide issues created investor concerns. The underperformance of publicly owned nursing home and assisted living operators, combined with the much publicized shift in equity funds from income-oriented investments to high-growth opportunities, significantly impaired the valuations of all health care REITs.

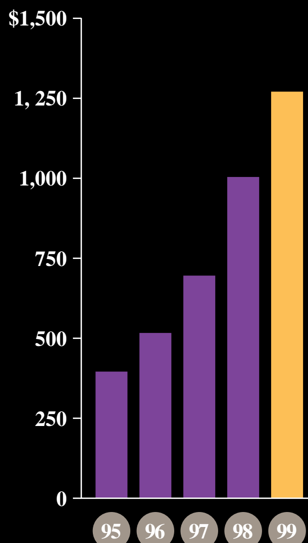
The crisis in the long-term care sector has produced notable failures and dramatic restructurings within the health care REIT industry. The theme of this year's report captures in a simple way the health care REIT environment. It's not intended to be flippant as we've seen a dramatic drop in our stock price and the stock prices of all of the health care REITs with too many peers' and operators' failures during this turbulent period. Yet, a great deal of value has been built at your company with opportunities that management plans to exploit.

The Good

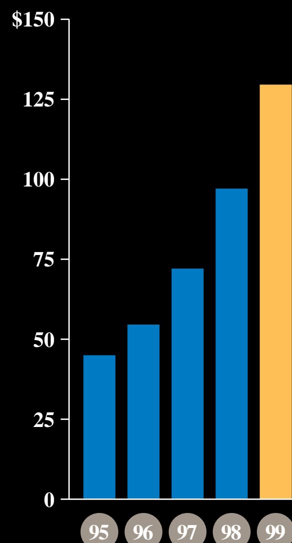
1999

- *Strong financial results: nearly $130 million of revenue, $2.76 FFO per share, 82% payout ratio, and 3.7 to 1 interest coverage*
- *10.7% average FFO growth for 16 consecutive quarters ending December 31, 1999*
- *$275 million of new investments and $56 million of investments were repaid*
- *Stronger portfolio from asset disposition and redeployment program*
- *Modern, state-of-the-art portfolio management systems*

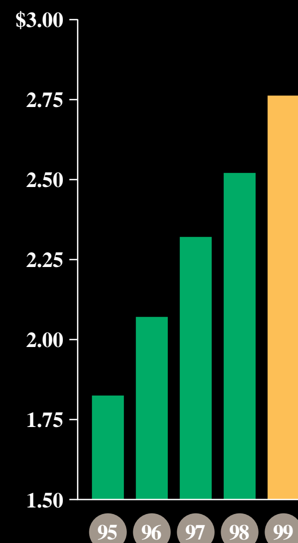
Total Assets
(Dollars in millions)



Revenues
(Dollars in millions)



Funds From Operations
(Per share)



ertainly the financial results for 1999 were strong with revenue of nearly $130 million and FFO per share of $2.76. The strong dividend coverage demonstrated by a FFO payout ratio of 82% was complemented by excellent interest coverage of 3.7 to 1. While the FFO growth was 7%, this reduced growth was clearly a reflection of the constrained capital markets.

During 1999, we continued our efforts to achieve equity REIT status by increasing our level of owned property from 59% to 66% of total investments. In addition, we continued to actively manage our portfolio, holding operators to high performance levels, removing problem operators, and maintaining operator concentrations at reasonable levels.

In many respects, in this type of market environment, 1999 performance must be measured less by positive accomplishments and more by the pitfalls avoided. Health Care REIT did not suffer the portfolio problems that damaged other health care REITs and financiers. Five years ago, we made what turned out to be a prescient decision to minimize nursing home investments in favor of investments in assisted living. By driving our nursing home

portfolio percentage from 60% to 23%, we largely escaped the nursing home debacle created by a combination of the new Medicare reimbursement system and over-leveraged nursing home operators. We also benefited from our systematic monitoring and proactive approach toward underperforming operators. This vigilance is an important factor in maintaining the quality of our portfolio. In most cases, potential problems can be corrected by early, firm dialogue with the operator. If no progress ensues, our relationships with other operators allow us to substitute stronger operators early, before the reputation of the facility is damaged.

In these tumultuous times, we are focusing on repositioning our portfolio, culling out "one-off" and underperforming operators in favor of proven operators who deliver cost-effective, quality care. In 1999, dispositions were increasingly considered as a means to provide liquidity to the Company as the capital markets closed. New investments totaling $275 million were made in 1999 and $56 million of investments were repaid. Of the new investments, $200 million were funded in the first half of 1999. By the second half of 1999 all new investment activity had ceased due to the constrained and expensive capital markets that made accretive investments impossible. The additional investment amounts in the second half of 1999 and early 2000 represent the continued funding of existing development properties.

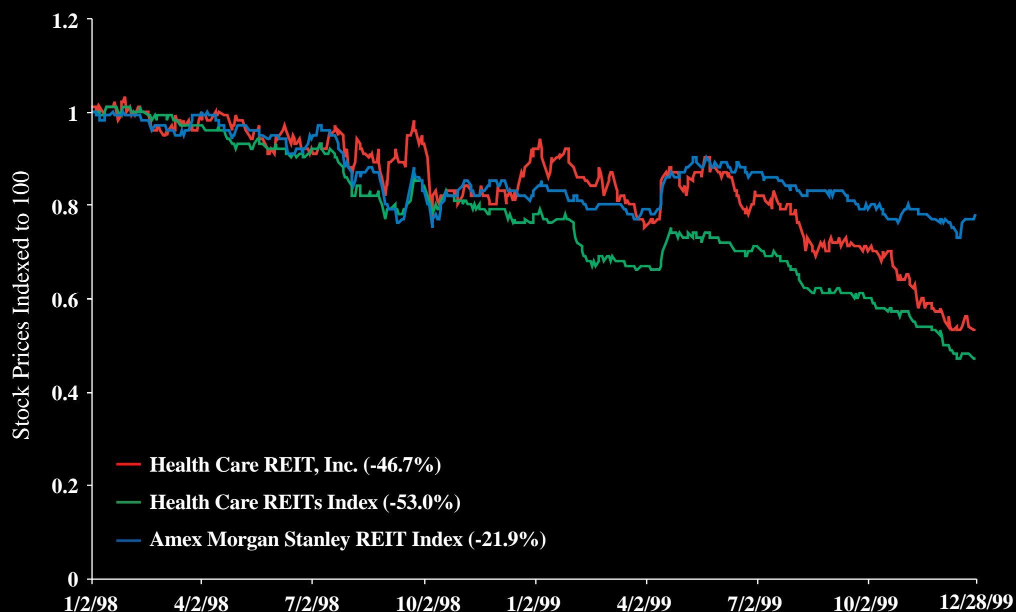
This portfolio disposition and redeployment program will strengthen the portfolio and provide liquidity. It also will position us to fund quality operators and investments in late 2000 or early 2001 when the sector recovers. During this same period, substantially all of the remaining development projects in fill-up should move toward stabilized status. Development projects are an inevitable result of our assisted living focus as this is a new property type with services most efficiently performed in new, purpose-built facilities. The prototypical nature of these facilities substantially eliminates any construction risk. While management has been satisfied by the performance of the facilities in fill-up overall, the rating agencies and the markets generally view development projects as more risky and would prefer a higher percentage of stabilized properties in our portfolio. The fill-up risk will be substantially eliminated by the end of 2000. Then Health Care REIT's modern, state-of-the-art real estate portfolio should be a distinct positive. At December 31, 1999, approximately 70% of the facilities in our portfolio were developed in the last three years resulting in an average facility life of 5.1 years. While a disproportionate share of the recently constructed facilities are assisted living facilities, we also have a number of new nursing homes as well as two state-of-the-art heart hospitals. Please take some time to look at pictures of a number of our portfolio facilities that fill the pages of this report. When investors begin returning to value stocks, this portfolio of modern, purpose-built facilities should be attractive.

The *Bad*

1999

- *Underperformance of publicly owned nursing and assisted living operators*
- *Investor funds flow to high-growth opportunities from income-oriented investments*

Relative Stock Price Performance
January 2, 1998 to December 28, 1999



n 1998, Health Care REIT "led" the sector's performance charts by having a 0% total return. Unfortunately, in 1999, our total return was negative 35%. During that same two-year period, the health care REIT sector had a total return of negative 41%. Most of the stock price decrease was the result of the crisis afflicting long-term care operators. Management believes that the strong performance of our portfolio and the conservatism of our capital structure will help to maintain our status as one of the leading health care REITs based upon FFO multiple and yield. These strengths have allowed us to avoid disasters; however, the return to historic multiples will depend upon stability returning to the long-term care industry.

Medicare's new nursing home reimbursement system, the Prospective Payment System ("PPS"), changed reimbursement from a cost-based system to a prospective pay, acuity-based system. The principal focus of the Medicare changes were services provided to the subacute patient, a higher acuity patient than the traditional skilled nursing home patient. A number of companies built their business plans around the provision of ancillary services such as speech, occupational and physical therapy. Providers began to in-source these and other services such as pharmacy, which were also made available to third-party providers. When PPS was implemented, it was essential that the subacute providers adapt to the new system with rapid reductions of operating expenses. Many could not move quickly enough, nor could they overcome the high leverage in their capital structure. Moreover, few foresaw the dramatic reduction in demand from third-party providers.

Letter to Shareholders

This reimbursement change has been more severe than anticipated even by the federal government and has particularly hurt companies that were viewed as growth companies with the high leverage that accompanied rapid expansion. During 1999 and early 2000, the following nursing home companies were forced to seek the protection of bankruptcy:

Operator	Operator Type	Filing Date	Facilities	Beds
NewCare Health Corporation	Public	6/22/99	27	2,400
The Frontier Group	Private	7/14/99	15	1,600
Texas Health Enterprises, Inc.	Private	8/3/99	93	8,500
Vencor, Inc.	Public	9/13/99	349	43,300
Sun Healthcare Group, Inc.	Public	10/14/99	580	56,800
Lenox Healthcare, Inc.	Private	11/4/99	109	8,000
Mariner Post-Acute Network, Inc.	Public	1/18/00	400	50,500
Integrated Health Services, Inc.	Public	2/2/00	380	44,300

As a result of management's decision five years ago to underweight nursing home investments, our portfolio has only nominal exposure to the subacute nursing home sector.

While changes to the Medicare reimbursement system are wreaking havoc with the nursing home sector, three additional factors are making life more difficult for nursing home operators:

1) *alternative care options, including assisted living, Alzheimer's facilities and home health, are providing services to patients formerly in nursing homes;*

2) *increasingly in the full-employment, U.S. economy, labor shortages are more common and wage rates are increasing. With declining reimbursement, margin pressure is anticipated; and*

3) *the regulatory climate for nursing homes is becoming more rigorous as focus on quality of care issues is driving additional regulation and penalties. In the private sector, litigation in this industry is increasing with some significant, multi-million dollar judgments.*

The performance of many assisted living companies also slipped due to strong competition within the sector. The fear of national overbuilding is misplaced; however, local absorption issues have clearly arisen especially in the high-end markets. Assisted living does not face the strong barriers to entry affecting nursing homes such as certificates of need, licensure and other pervasive regulation. Yet, few real property sectors have the same barriers to entry inherent in the nursing home world. In some ways we believe that the assisted living sector suffers unfairly from this "barriers to entry" argument because of its similarity to the nursing home sector. Yet, as the assisted living sector has rolled out its properties, barriers to entry have evolved in the form of increasing state regulation and the strong service component inherent in assisted living.

On the regulation front, there has been additional state regulation and some initial federal regulation. To date, the proactive approach of the assisted living industry to self-regulation has substantially precluded federal action. However, Washington is watching— the advent of any new regulation will be driven by the seriousness and effectiveness of industry self-regulation. An ironic aspect of this regulatory risk is that any such additional regulation raises the barriers to entry and reduces the misplaced concerns regarding ruinous competition in the sector.

Inevitably, these sector and operator difficulties had a negative effect on health care REITs that invest in long-term care facilities. The graph on page 6 depicts stock price performance for the Company, the health care REIT index and the overall REIT index during the two-year period ended December 31, 1999.

During 1999 and the first part of 2000, there have been numerous downgrades by the rating agencies of the health care REITs with more expected. While Health Care REIT's senior debt ratings have been affirmed, outlooks have been revised downward.

At the same time that the health care sector was experiencing these problems, the capital markets became infatuated with technology and other growth stocks and ignored value stocks such as REITs. It did not help either that REITs had been mischaracterized in 1997 and 1998 by many as growth stocks with the inevitable disappointment that flowed from that misunderstanding. How long it will take to change the investment community's attitudes and perceptions is an open question.

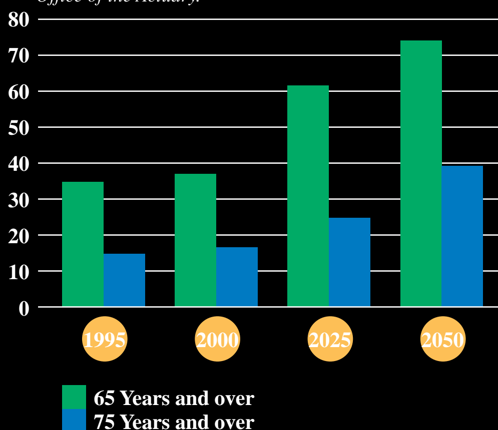
This tough environment reminds us of the REIT sectors' dependency on the capital markets. With a requirement to distribute 95% of taxable income (90% beginning January 1, 2001) in order to preserve REIT status, internally generated funds are necessarily more limited, making access to capital a critical component of REIT management. While we believe that this dependency is a fair trade-off for the tax efficiency of the REIT vehicle, the dramatic effect of closed markets on REITs presents a serious challenge.

We expect to differentiate ourselves and perform among the highest levels of our peers year in and year out. However, if prospects for the long-term care industry do not improve and net new investment dollars do not flow to the REIT sector, market conditions may limit our ability to improve the Company's stock price and FFO multiple even with good financial performance.

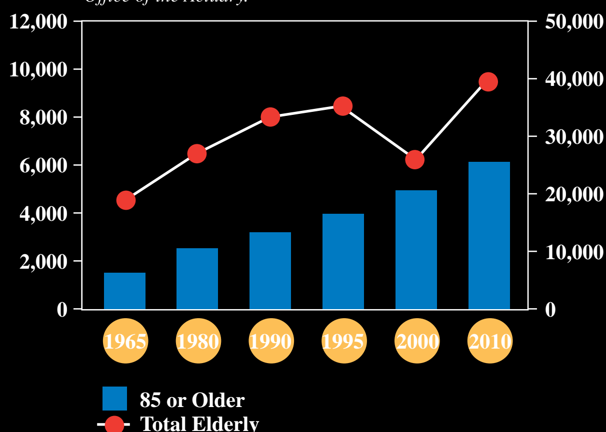
The Future

- *Demographic fundamentals are compelling*
- *Long-term care most cost-effective delivery platform*
- *Well positioned to exploit future opportunities*

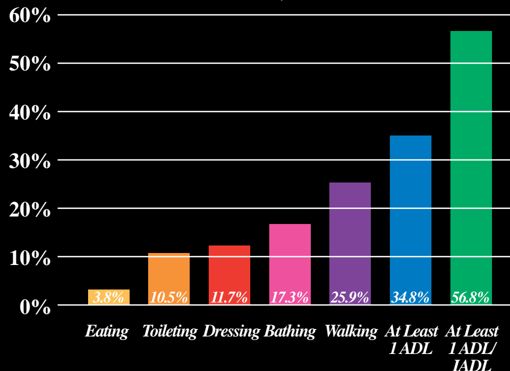
Projected Elderly Population Growth
Elderly Population (in millions)
Source: Health Care Financing Administration, Office of the Actuary.



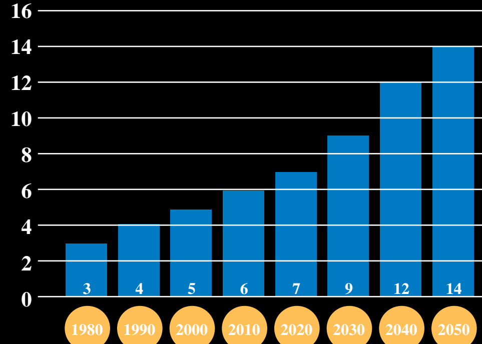
Age 85+ Growth
Lives in thousands, selected years 1965-2010E
Source: Health Care Financing Administration, Office of the Actuary.



Need for Assistance Among the Age 85-Plus Population
Source:U.S. Census Bureau, 1996 data.



Prevalence of Alzheimer's Disease
(in millions of persons)
Source: Alzheimer's Association



Industry and capital markets challenges have raised concerns about long-term care and those who invest in the sector. In light of these concerns, how should Health Care REIT be positioned to take advantage of the opportunities that inevitably flow from periods of disarray?

Let me take some time to explain our continuing focus on long-term care investing and why we believe that long-term care is, over time, the most stable part of the health care delivery system. The demographics are overwhelming with demand for long-term care clearly outstripping supply. In the next three decades the demand will grow dramatically peaking in the early part of the 2030's as the baby boomers age. No other providers or facilities can offer these services to the elderly more cost effectively than nursing homes or assisted living facilities. We believe the most efficient provider of necessary services will carry the day.

Much of the long-term care difficulties relate to the large public companies who have failed and filed for bankruptcy or who have missed their earnings and suffered the loss of Wall Street support. It's important to note that only 23% of the nursing home beds and 10% of the assisted living units are operated by public companies. This industry remains quite fragmented because health care is a local business requiring local market knowledge and relationships. Throughout our 30-year history, our investment thesis has been to invest in properties operated by well-capitalized local and regional operators. Most of our regional and local operators have been able to adapt to change in a constructive manner.

Long-term care companies have also been hurt by earlier mischaracterizations as growth companies. In the nursing home sector, emphasis was placed on the subacute nursing home model. However, most nursing home operators had little dependency on Medicare with the average Medicare revenue percentage between 11%-14% of total revenues. On the assisted living side, growth potential was emphasized along with the compelling demographics and lack

of regulation. Yet, revenue per facility tends to be moderate, but predictable, so that the growth story spun by Wall Street tended to be based upon unrealistic development plans. Even apart from these misunderstandings and distortions, the nursing home industry has been jolted by PPS and the assisted living sector has been challenged by undue development zeal. There needs to be some time to redefine nursing home and assisted living operators as steady performers with moderate, but sustainable, revenues. That process is underway but not completed.

In 1970, Health Care REIT began as an investor at a time when nursing homes were the sole component of long-term care. We witnessed the advent of a strong independent living movement in the 1980's followed by the rise of the assisted living sector beginning in the late 1980's. We believe that nursing homes have a distinctive, critical role in the health care continuum. We have strong relationships with quality nursing home operators who wish to grow their companies. Congress recently implicitly admitted that PPS cut into muscle and bone by passing remedial legislation that, while not going far enough, helps the sector. Even with that legislation, nursing home bed prices have further to fall. Increasing labor costs as well as the costs inherent in additional regulation and litigation will slow the recovery. As 2000 unfolds, nursing home bed prices should align more closely with sustainable revenues with much of the uncertainty being purged from the sector over the next several quarters.

In the assisted living sector, the fear of local overbuilding has been substantially eliminated due to capital constraints. Marginal operators have been forced out of the sector. The absence of development capital has forced operators to focus on operations. All of this is extremely positive. Health Care REIT should be a major beneficiary of the sector's enhanced reputation as its properties continue to fill successfully. As our assisted living operators fill their facilities and increase the percentage of stabilized properties, we will present the strong case to the capital markets of successfully mitigating the nursing home risk and managing the growth of a new, state-of-the-art portfolio of assisted living facilities from the ground up.

As we await the firming up of the long-term care sector, we continue to:

1) *cull through our portfolio, allocating and reallocating to the strongest operators;*

2) *increase the percentage of stabilized properties and improve the facility coverages in the portfolio; and*

3) *move toward equity REIT status, which we should reach by the first half of 2001.*

Through that seasoning process, Health Care REIT will combine a mature, diversified portfolio, a well-regarded portfolio monitoring capability and an appropriately leveraged balance sheet. These factors, together with a low FFO payout ratio and strong interest coverage, should position us to emerge as a leader in a smaller health care REIT universe. The health care operators who emerge from this down cycle also will be fewer in number and will make their acquisition and operational decisions based upon a lower, but sustainable, revenue platform. As the operators and financiers are defined more accurately, stability should return to the sector with the attendant predictable access to capital.

We have explored and will continue to explore alternative strategies to enhance shareholder value. We feel quite capable of executing any alternative strategies. Yet, we tend to believe patience is in order given the long-term viability of assisted living facilities and nursing homes. Speculative periods in the stock market give way to more balanced approaches with ample room for value stocks such as Health Care REIT. If that occurs—once that occurs—your company should be well positioned to maximize investment opportunities in a permanent part of the health care delivery system that has returned to its traditional roots.

George L. Chapman
Chairman, Chief Executive Officer &
President

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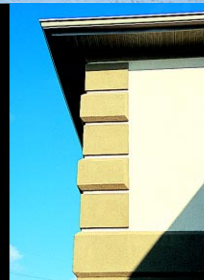
VILLA



11246
Hearthstone
at Cy-Fair

101

101

202
Just Like Home
ORANGE CITY

Health Care REIT, Inc. Corporate Profile

Health Care REIT, Inc. (the "Company") is a self-administered real estate investment trust that invests in health care facilities, primarily nursing homes and assisted living facilities. The Company also invests in specialty care facilities. As of December 31, 1999, nursing homes and assisted living facilities comprised approximately 92% of the investment portfolio. Founded in 1970, the Company was the first real estate investment trust to invest exclusively in health care facilities.

As of December 31, 1999, the Company had $1.3 billion of gross real estate investments in 238 facilities located in 34 states and managed by 38 different operators. The portfolio included 182 assisted living facilities, 48 nursing homes, six specialty care facilities, and two behavioral care facilities. At that date, the Company had approximately $53 million in unfunded commitments.

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FINANCIAL HIGHLIGHTS

The following selected financial data for the five years ended December 31, 1999, are derived from the audited consolidated financial statements of the Company.

	Year Ended December 31, (In thousands, except per share data)				
	1999	1998	1997	1996	1995
Operating Data					
Revenues	$ 129,307	$ 97,992	$ 73,308	$ 54,402	$ 44,596
Expenses:					
Interest expense	26,916	18,030	15,365	14,635	12,752
Provision for depreciation	17,885	10,254	5,287	2,427	1,580
General and administrative and other expenses (1)	8,868	7,399	6,178	6,664	10,835
Settlement of management contract (2)					5,794
Total expenses	53,669	35,683	26,830	23,726	30,961
Net income	75,638	62,309	46,478	30,676	13,635
Preferred stock dividends	12,814	4,160			
Net income available to common shareholders	$ 62,824	$ 58,149	$ 46,478	$ 30,676	$ 13,635
Other Data					
Average number of common shares outstanding (3):					
Basic	28,128	25,579	21,594	14,093	11,710
Diluted	28,384	25,954	21,929	14,150	11,728
Cash available for distribution (4)	$ 76,880	$ 68,490	$ 56,856	$ 36,705	$ 27,938
Per Share					
Net income available to common shareholders:					
Basic	$ 2.23	$ 2.27	$ 2.15	$ 2.18	$ 1.16
Diluted	2.21	2.24	2.12	2.17	1.16
Cash distributions per common share	2.27	2.19	2.11	2.08	2.075

	December 31, (In thousands)				
	1999	1998	1997	1996	1995
Balance Sheet Data					
Real estate investments, net	$ 1,222,211	$ 1,027,706	$ 713,557	$ 512,894	$ 351,924
Total assets	1,271,171	1,073,424	734,327	519,831	358,092
Total debt	538,842	418,979	249,070	184,395	162,760
Total liabilities	564,175	439,665	264,403	194,295	170,494
Total shareholders' equity	706,996	633,759	469,924	325,536	187,598

(1) General and administrative and other expenses include loan expense, management fees through November 30, 1995, provision for losses, expenses related to disposition of investments and other operating expenses.

(2) On November 30, 1995, the Company's advisor merged into the Company. Consideration for this transaction totaled approximately $5,048,000 which was solely comprised of 282,407 Shares. In addition, the Company acquired approximately $46,000 in net assets and incurred approximately $792,000 of related transaction expenses. The consideration, plus related transaction expenses, were accounted for as a settlement of a management contract.

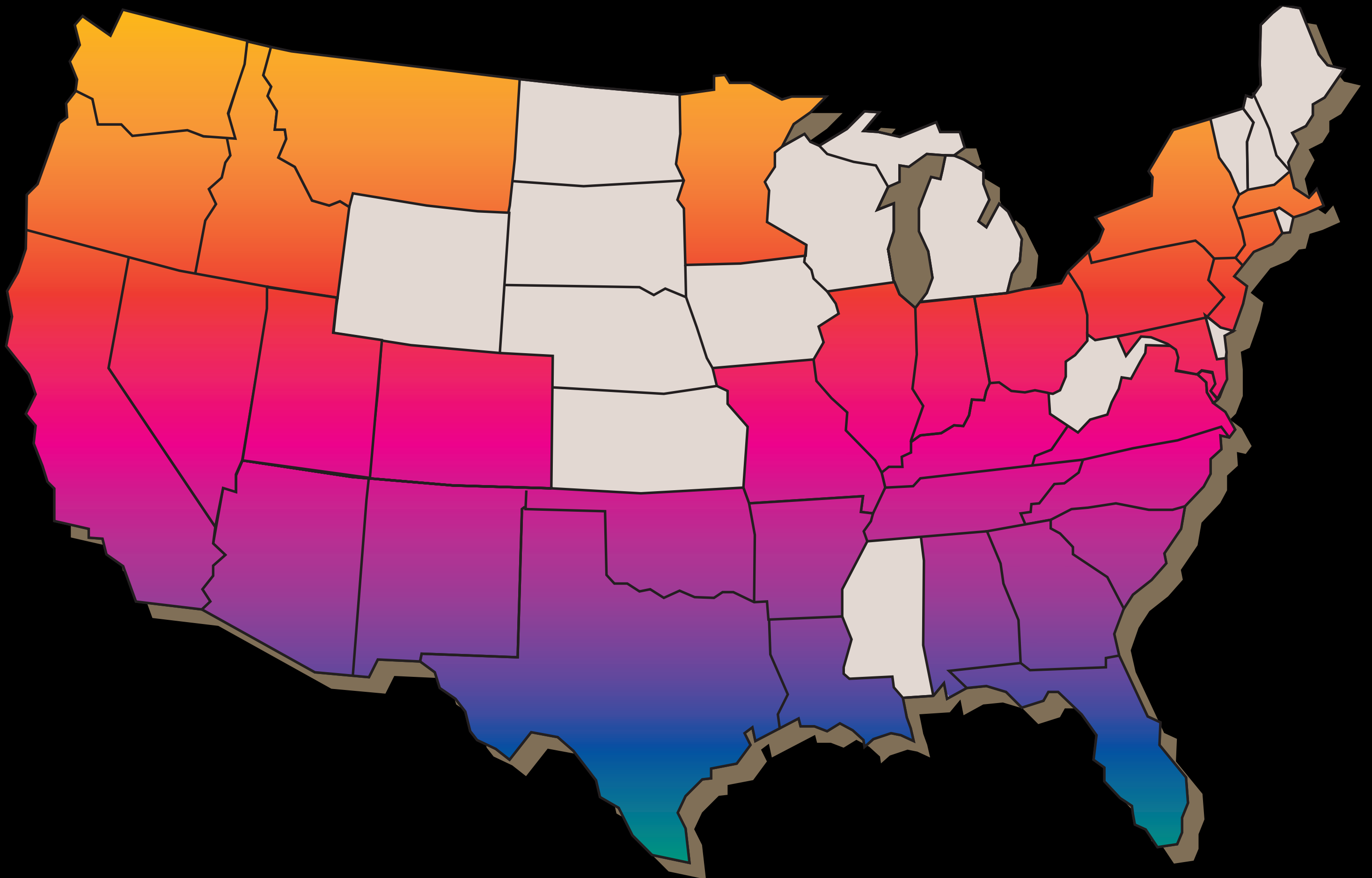
(3) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. For further discussion of earnings per share and the impact of Statement No. 128, see the notes to the consolidated financial statements beginning on page 30.

(4) Cash available for distribution is defined as net cash provided from operating activities less preferred dividends, but does not consider the effects of changes in operating assets and liabilities such as other receivables and accrued expenses. The Company uses cash available for distribution in evaluating investments and the Company's operating performance. Cash available for distribution does not represent cash generated from operating activities in accordance with generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs, and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

Facility Locations

1999

182	Assisted Living Facilities
48	Nursing Homes
6	Specialty Care Facilities
2	Behavioral Care Facilities
238	Total Number of Facilities



Portfolio Review

The following table summarizes certain information about Health Care REIT's portfolio as of December 31, 1999:

Real Estate Owned:

	Number of Facilities	Year(s) Built	Year(s) Acquired	Gross Amount at Which Carried at Close of Period: Land	Building & Improvements	Total	Accumulated Depreciation
Nursing Homes:							
Arizona	1	1995	1998	$ 180	$ 3,988	$ 4,168	$ 207
California	2	1961-1968	1998	2,640	5,212	7,852	274
Colorado	1	1989	1998	370	6,051	6,421	307
Florida	6	1984	1998	3,462	41,258	44,720	1,727
Idaho	3	1985-1996	1998	2,010	20,662	22,672	970
Illinois	2	1964-1973	1998	1,010	11,446	12,456	268
Kentucky	1	1967	1993	130	4,870	5,000	756
Massachusetts	7	1961-1982	1995-1997	3,548	34,051	37,599	3,224
Ohio	2	1972-1983	1989-1998	786	8,778	9,564	876
Oklahoma	1	1958	1998	470	5,673	6,143	215
Oregon	1	1982	1998	300	5,316	5,616	260
Pennsylvania	3	1959-1982	1993	669	17,567	18,236	1,866
Texas	1	1978	1993	663	12,588	13,251	2,359
Construction in Progress	1					7,576	
	32			**16,238**	**177,460**	**201,274**	**13,309**
Assisted Living Facilities:							
Arizona	2	1998	1998	560	6,467	7,027	125
California	1	1999	1999	980	6,195	7,175	159
Connecticut	2	1998-1999	1998-1999	1,230	19,053	20,283	445
Florida	19	1988-1999	1996-1999	8,431	71,847	80,278	3,190
Georgia	2	1999	1999	3,166	24,542	27,708	225
Indiana	9	1999	1999	1,951	34,874	36,825	583
Maryland	1	1999	1999	1,320	13,641	14,961	276
Massachusetts	1	1998	1998	810	10,500	11,310	459
Minnesota	1	1999	1999	322	6,345	6,667	130
Montana	1	1998	1998	360	3,282	3,642	109
Nevada	2	1998	1998	1,706	21,769	23,475	435
New Jersey	1	1993	1996	3,297	14,233	17,530	1,124
New Mexico	1	1996	1997	233	5,355	5,588	323
New York	1	1996	1996	400	10,528	10,928	616
North Carolina	9	1986-1999	1997-1999	7,708	53,667	61,375	1,661
Ohio	8	1985-1999	1997-1999	4,103	40,364	44,467	1,822
Oklahoma	15	1995-1996	1995-1996	1,703	21,408	23,111	2,238
Oregon	2	1999	1999	1,077	8,756	9,833	160
Pennsylvania	10	1989-1998	1996-1998	5,889	55,479	61,368	2,872
South Carolina	4	1992-1999	1999	1,372	13,315	14,687	193
Tennessee	4	1998-1999	1998-1999	1,521	12,461	13,982	168
Texas	25	1984-1998	1992-1998	7,457	93,320	100,777	5,029
Washington	1	1999	1999	1,400	5,476	6,876	95
Construction in Progress	10					51,378	
	132			**56,996**	**552,877**	**661,251**	**22,437**
Total Real Estate	**164**			**$ 73,234**	**$ 730,337**	**$ 862,525**	**$ 35,746**

Mortgage and Construction Loans Receivable:

	Number of Facilities	Interest Rate	Maturity Dates	Periodic Payment Terms	Face Amount	Carrying Value
Nursing Homes:						
Florida	1	11.18%	2015	Monthly Principal & Interest	$ 5,410	$ 5,295
Massachusetts	5	9.48% to 11.19%	2010-2018	Monthly Principal & Interest	51,790	50,987
Missouri	1	11.26%	2009	Monthly Principal & Interest	7,072	6,917
Oklahoma	1	9.48%	2006	Monthly Interest Only	12,204	12,204
Pennsylvania	1	14.04%	2008	Monthly Principal & Interest	7,400	7,228
Texas	6	10.78%	2007	Monthly Principal & Interest	12,198	8,082
	15				**96,074**	**90,713**
Assisted Living Facilities:						
Alabama	2	9.00%	2002	Monthly Interest Only	10,498	10,498
Arizona	1	15.00%	2004	Monthly Interest Only	5,000	1,241
California	5	10.27% to 13.20%	2007-2019	Monthly Principal & Interest	16,769	15,141
Colorado	1	9.00%	2002	Monthly Interest Only	3,890	3,890
Georgia	2	9.00%	2002	Monthly Interest Only	9,913	9,913
Louisiana	1	9.00%	2002	Monthly Interest Only	6,312	6,312
Montana	1	10.39%	2019	Monthly Interest Only	4,522	4,522
Nevada	1	11.00%	2016	Monthly Interest Only	2,016	2,742
New Mexico	1	9.00%	2002	Monthly Interest Only	2,500	2,448
New York	5	9.79% to 11.60%	2016-2018	Monthly Principal & Interest	52,185	51,434
North Carolina	8	9.74% to 10.41%	2017-2019	Monthly Principal & Interest	25,018	24,876
Texas	15	9.00% to 11.90%	2002-2018	Monthly Principal & Interest	62,962	62,346
Utah	1	10.35%	2019	Monthly Interest Only	7,100	5,227
	44				**211,409**	**200,590**
Specialty Care Facilities:						
Arkansas	1	11.98%	2012	Monthly Principal & Interest	29,000	28,855
California	2	12.48% to 12.82%	2015-2017	Monthly Principal & Interest	32,500	31,621
Minnesota	1	12.00%	2001	Monthly Principal & Interest	904	246
Texas	1	10.85%	2010	Monthly Principal & Interest	13,750	13,507
Washington, D.C.	1	12.51%	2015	Monthly Principal & Interest	9,950	9,578
	6				**86,104**	**83,807**
Behavioral Care Facilities:						
Florida	2	10.50%	2001		10,780	9,188
Total Mortgage and Construction Loans	**67**				**$ 404,367**	**$ 384,298**
OTHER REAL ESTATE INVESTMENTS (1)						**$ 29,146**

(1) Includes working capital loans and credit enhancements.

20 Financial Review

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1999, the Company's net real estate investments totaled approximately $1,222,211,000, which included 182 assisted living facilities, 48 nursing facilities, six specialty care facilities and two behavioral care facilities. Depending upon the availability and cost of external capital, the Company anticipates making additional investments in health care related facilities. New investments are funded from temporary borrowings under the Company's 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 private and public offerings of debt and equity securities, and the assumption of secured debt. The Company believes its liquidity and various sources of available capital are sufficient to fund operations, meet debt service and dividend requirements, and finance future investments.

During 1999, the underperformance of publicly owned nursing home and assisted living companies, combined with the much publicized shift in equity funds flow from income-oriented investments to high-growth opportunities, impaired the stock valuations of all health care REITs. The availability of external capital is limited and expensive, constraining new investment activity and earnings growth. The Company believes the restrictive capital environment will continue until the prospects for the long-term care industry improve.

In October 1999, the Company announced a $200 million asset divestiture program, which is proceeding as planned. The Company believes the limited asset sales will strengthen the Company's portfolio and generate liquidity, enhancing the Company's balance sheet. This strategy should position the Company for new investment and growth opportunities in the future.

During 1999, the Company invested $81,008,000 in real property, provided permanent mortgage financings of $17,565,000, made construction advances of $169,085,000, funded $7,462,000 of equity related investments and had net advances on working capital loans of $9,440,000. During 1999, the Company received principal payments on real estate mortgages of $4,515,000, proceeds of $38,216,000 from the prepayment of mortgage loans, and proceeds of $18,112,000 derived from property sales. As of December 31, 1999, the Company had approximately $53,356,000 in unfunded commitments.

During 1999, 43 of the above-mentioned construction projects completed the construction phase of the Company's investment process and were converted to permanent real property investments, with an aggregate investment of $226,695,000, and twelve construction loans converted to permanent mortgage loans with an aggregate investment balance of $67,553,000.

As of December 31, 1999, the Company had shareholders' equity of $706,996,000 and a total outstanding debt balance of $538,842,000, which represents a debt to equity ratio of 0.76 to 1.0.

In January 1999, the Company announced the sale of 3,000,000 shares of cumulative convertible preferred stock. These shares have a liquidation value of $25.00 per share and will pay quarterly dividends equivalent to the greater of $0.5625 or 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. The Company has the right to redeem the preferred shares after five years.

In February 1999, the Company entered into a $75,000,000 Secured Credit Facility. The Credit Facility bears interest at the lender's prime rate or LIBOR plus 2.0%, with a floor of 7.0%. At December 31, 1999, $60,000,000 was advanced under this Credit Agreement.

In March 1999, the Company completed the sale of $50 million of 8.17% Senior Unsecured Notes due March 15, 2006.

As of December 31, 1999, the Company had an unsecured revolving line of credit expiring March 31, 2001 in the amount of $175,000,000 bearing interest at the lender's prime rate or LIBOR plus 1.0%. In addition, the Company had an unsecured revolving line of credit in the amount of $20,000,000 bearing interest at the lender's prime rate expiring April 30, 2000. At December 31, 1999, under the Company's line of credit arrangements, available funding totaled $17,500,000.

As of December 31, 1999, the Company has effective shelf registrations on file with the Securities and Exchange Commission under which the Company may issue up to $380,319,000 of securities including debt, convertible debt, common and preferred stock. Depending upon market conditions, the Company anticipates issuing securities under such shelf registrations to invest in additional health care facilities and to repay borrowings under the Company's line of credit arrangements.

RESULTS OF OPERATIONS DECEMBER 31, 1999 VS. DECEMBER 31, 1998

Revenues for the year ended December 31, 1999, were $129,307,000 compared to $97,992,000 for the year ended December 31, 1998, an increase of $31,315,000 or 32%. Revenue growth resulted primarily from increased operating rent income of $30,747,000, from additional real estate investments made during the past twelve to fifteen months.

Expenses for the year ended December 31, 1999, totaled $53,669,000, an increase of $17,986,000 from expenses of $35,683,000 for the year ended December 31, 1998. The increase in total expenses for the year ended December 31, 1999, was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses.

Interest expense for the year ended December 31, 1999, was $26,916,000 compared with $18,030,000 for the year ended December 31, 1998. The increase in interest expense during 1999 was primarily due to the issuance in March 1999 of the Senior Unsecured Notes due 2006, the addition of $60,000,000 borrowed under the Secured Credit Facility and higher average borrowings under the unsecured lines of credit during 1999, which were offset by the amount of capitalized interest recorded in 1999.

The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 1999, totaled $8,578,000, as compared with $7,740,000 for the same period in 1998.

The provision for depreciation for the year ended December 31, 1999, totaled $17,885,000, an increase of $7,631,000 over the year ended 1998 as a result of additional real property investments.

General and administrative expense for the year ended December 31, 1999, totaled $7,359,000 as compared with $6,114,000 for the year ended December 31, 1998. The expenses for the year ended December 31, 1999, were 5.69% of revenues as compared with 6.24% for the year ended December 31, 1998.

Dividend payments associated with the Company's outstanding preferred stock for the year ended December 31, 1999, totaled $12,814,000 as compared with $4,160,000 for 1998.

As a result of the various factors mentioned above, net income available for common shareholders for the year ended December 31, 1999, was $62,824,000, or $2.21 per share, as compared with $58,149,000, or $2.24 per share for the year ended December 31, 1998.

RESULTS OF OPERATIONS DECEMBER 31, 1998 VS. DECEMBER 31, 1997

Revenues for the year ended December 31, 1998, were $97,992,000 compared to $73,308,000 for the year ended December 31, 1997, an increase of $24,684,000 or 34%. Revenue growth resulted primarily from increased operating

rent income of $19,775,000, interest income of $1,516,000, and loan and commitment fees of $2,245,000 from additional real estate investments made during the past twelve to fifteen months.

Expenses for the year ended December 31, 1998, totaled $35,683,000, an increase of $8,853,000 from expenses of $26,830,000 for the year ended December 31, 1997. The increase in total expenses for the year ended December 31, 1998, was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses.

Interest expense for the year ended December 31, 1998, was $18,030,000 compared with $15,365,000 for the year ended December 31, 1997. The increase in interest expense during 1998 was primarily due to the issuance in March 1998 of the Senior Unsecured Notes due 2008, which was offset by the amount of capitalized interest recorded in 1998.

The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 1998, totaled $7,740,000, as compared with $2,306,000 for the same period in 1997.

The provision for depreciation for the year ended December 31, 1998, totaled $10,254,000, an increase of $4,967,000 over the year ended 1997 as a result of additional operating lease investments.

General and administrative expense for the year ended December 31, 1998, totaled $6,114,000 as compared with $4,858,000 for the year ended December 31, 1997. The expenses for the year ended December 31, 1998, were 6.24% of revenues as compared with 6.63% for the year ended December 31, 1997.

Dividend payments associated with the Company's outstanding preferred stock for the year ended December 31, 1998, totaled $4,160,000. There were no such dividend payments in 1997.

As a result of the various factors mentioned above, net income available for common shareholders for the year ended December 31, 1998, was $58,149,000, or $2.24 per share, as compared with $46,478,000, or $2.12 per share for the year ended December 31, 1997.

IMPACT OF INFLATION

During the past three years, inflation has not significantly affected the earnings of the Company because of the moderate inflation rate. Additionally, earnings of the Company are primarily long-term investments with fixed interest rates. These investments are mainly financed with a combination of equity, senior notes and borrowings under the revolving lines of credit. During inflationary periods, which generally are accompanied by rising interest rates, the Company's 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, the Company believes that inflation will not impact the availability of equity and debt financing.

YEAR 2000 COMPLIANCE

The Year 2000 compliance issue concerns the inability of certain systems and devices to properly use or store dates beyond December 31, 1999. This could have resulted in system failures, malfunctions, or miscalculations that would have disrupted normal operations. The Company did not experience any Year 2000 related problems. In addition, the Company's outside vendors and tenant/borrowers did not encounter any significant problems related to Year 2000 issues.

The Company's expenditures for remedies were not material.

The Company does not anticipate any future risk due to the Year 2000, but will continue to monitor all computer software and hardware throughout the next year.

MARKET RISK

The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates. The Company seeks to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings to the extent possible.

The market value of the Company's long-term fixed rate borrowings is subject to interest rate risk. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of the Company's senior unsecured notes were $258 million and $239 million at December 31, 1999 and 1998, respectively. A 1% increase in interest rates would result in a decrease in fair value of the Company's senior unsecured notes by approximately $11 million at both December 31, 1999 and 1998.

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

At December 31, 1999, the Company's variable interest rate debt exceeded its variable interest rate assets, presenting an exposure to rising interest rates. The Company may or may not elect to use financial derivative instruments to hedge variable interest rate exposure. Such decisions are principally based on the Company's policy to match its variable rate investments with comparable borrowings, but is also based on the general trend in interest rates at the applicable dates and the Company's perception of future volatility of interest rates.

Potential Risks from Bankruptcies

The Company is exposed to the risk that its operators may not be able to meet the rent and interest payments due the Company, which may result in an operator bankruptcy or insolvency. Although the Company's operating lease agreements and loans provide the Company the right to terminate an investment, evict an operator, demand immediate repayment, and 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 restrict the Company's ability to collect unpaid rent or interest, and collect interest during the bankruptcy proceeding.

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 property or the replacement of the operator licensed to manage the facility. In addition, the Company may be required to fund certain expenses (i.e. real estate taxes and maintenance) to retain control of a property. In some instances the Company may take possession of a property, which may expose the Company to successor liabilities. Should such events occur, the Company's revenue and operating cash flow may be adversely affected.

OTHER INFORMATION

This document and supporting schedules may contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Company's actual results in the future to differ materially from expected results. These risks and uncertainties include, among others, competition in the financing of health care facilities, the availability and cost of capital, the ability of the Company's lessees and borrowers to make payments under their leases and loans, and regulatory and other changes in the health care sector, as described in the Company's filings with the Securities and Exchange Commission.

Report of Independent Auditors

Shareholders and Directors
Health Care REIT, Inc.

We have audited the accompanying consolidated balance sheets of Health Care REIT, Inc. as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 21, 2000
Toledo, Ohio

CONSOLIDATED BALANCE SHEETS

(In thousands)	December 31 1999	1998
Assets		
Real estate investments:		
Real property owned		
Land	**$ 73,234**	$ 44,722
Buildings & improvements	**730,337**	443,574
Construction in progress	**58,954**	151,317
	862,525	639,613
Less accumulated depreciation	**(35,746)**	(19,624)
Total real property owned	**826,779**	619,989
Loans receivable	**401,019**	412,704
	1,227,798	1,032,693
Less allowance for loan losses	**(5,587)**	(4,987)
Net real estate investments	**1,222,211**	1,027,706
Other Assets:		
Direct investments	**25,361**	26,180
Marketable securities	**863**	4,106
Deferred loan expenses	**3,311**	2,389
Cash and cash equivalents	**2,129**	1,269
Receivables and other assets	**17,296**	11,774
	48,960	45,718
Total assets	**$ 1,271,171**	$ 1,073,424
Liabilities and shareholders' equity		
Liabilities:		
Borrowings under line of credit arrangements	**$ 177,500**	$ 171,550
Senior unsecured notes	**290,000**	240,000
Secured debt	**71,342**	7,429
Accrued expenses and other liabilities	**25,333**	20,686
Total liabilities	**564,175**	439,665
Shareholders' equity:		
Preferred Stock, $1.00 par value:		
Authorized - 10,000,000 shares		
Issued and outstanding – 6,000,000 in 1999 and 3,000,000 in 1998 at liquidation preference	**150,000**	75,000
Common Stock, $1.00 par value:		
Authorized - 75,000,000 shares		
Issued and outstanding – 28,532,419 shares in 1999 and 28,240,165 shares in 1998	**28,532**	28,240
Capital in excess of par value	**524,204**	520,692
Undistributed net income	**8,883**	10,434
Accumulated other comprehensive income	**593**	3,982
Unamortized restricted stock	**(5,216)**	(4,589)
Total shareholders' equity	**706,996**	633,759
Total liabilities and shareholders' equity	**$ 1,271,171**	$ 1,073,424

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Year ended December 31 1999	1998	1997
Revenues:			
Rental income	**$ 72,700**	$ 41,953	$ 22,178
Interest income	**48,076**	48,488	47,237
Commitment fees and other income	**6,263**	5,914	3,364
Prepayment fees	**1,565**	588	529
	128,604	96,943	73,308
Expenses:			
Interest expense	**26,916**	18,030	15,365
Provision for depreciation	**17,885**	10,254	5,287
General and administrative	**7,359**	6,114	4,858
Loan expense	**909**	685	720
Provision for loan losses	**600**	600	600
	53,669	35,683	26,830
Income before gain on sale of properties	**74,935**	61,260	46,478
Gains on sale of properties	**703**	1,049	
Net Income	**75,638**	62,309	46,478
Preferred stock dividends	**12,814**	4,160	
Net income available to common shareholders	**$ 62,824**	$ 58,149	$ 46,478
Average number of common shares outstanding:			
Basic	**28,128**	25,579	21,594
Diluted	**28,384**	25,954	21,929
Net income available to common shareholders per share:			
Basic	**$ 2.23**	$ 2.27	$ 2.15
Diluted	**$ 2.21**	$ 2.24	$ 2.12

See accompanying notes

Consolidated Statements of Shareholders' Equity

(In thousands, except per share data)	Preferred Stock	Common Stock	Capital in Excess of Par Value	Undistributed Net Income	Accumulated Other Comprehensive Income	Unamortized Restricted Stock	Total
Balances at January 1, 1997	$	$ 18,320	$ 298,281	$ 8,167	$ 768	$	$ 325,536
Comprehensive income:							
Net income				46,478			46,478
Other comprehensive income:							
Unrealized gain on marketable securities					3,903		3,903
Total comprehensive income							50,381
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans		455	10,179			(3,789)	6,845
Amortization of restricted stock grants						257	257
Proceeds from sale of common stock, net of expenses of $7,477		5,566	127,143				132,709
Cash dividends on common stock —$2.11 per share				(45,804)			(45,804)
Balances at December 31, 1997		24,341	435,603	8,841	4,671	(3,532)	469,924
Comprehensive income:							
Net income				62,309			62,309
Other comprehensive income:							
Unrealized loss on marketable securities					(565)		(565)
Foreign currency translation adjustment					(124)		(124)
Total comprehensive income							61,620
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans		440	9,986			(1,658)	8,768
Amortization of restricted stock grants						601	601
Proceeds from sale of common stock, net of expenses of $4,599		3,459	77,893				81,352
Net proceeds from sale of preferred stock	75,000		(2,790)				72,210
Cash dividends:							
Common stock — $2.19 per share				(56,556)			(56,556)
Preferred stock — $1.39 per share				(4,160)			(4,160)
Balances at December 31, 1998	75,000	28,240	520,692	10,434	3,982	(4,589)	633,759
Comprehensive income:							
Net income				**75,638**			**75,638**
Other comprehensive income:							
Unrealized loss on marketable securities					**(3,243)**		**(3,243)**
Foreign currency translation adjustment					**(146)**		**(146)**
Total comprehensive income							**72,249**
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans		**292**	**5,967**			**(1,707)**	**4,552**
Amortization of restricted stock grants						**1,080**	**1,080**
Net proceeds from sale of preferred stock	**75,000**		**(2,455)**				**72,545**
Cash dividends:							
Common stock — $2.27 per share				**(64,375)**			**(64,375)**
Preferred stock, Series B —$2.22 per share				**(6,656)**			**(6,656)**
Preferred stock, Series C —$2.19 per share				**(6,158)**			**(6,158)**
Balances at December 31, 1999	**$150,000**	**$28,532**	**$524,204**	**$ 8,883**	**$ 593**	**$(5,216)**	**$706,996**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year ended December 31 1999	1998	1997
Operating activities			
Net income	**$ 75,638**	$ 62,309	$ 46,478
Adjustments to reconcile net income to net cash provided from operating activities:			
Provision for depreciation	**18,106**	10,348	5,361
Amortization	**1,998**	1,306	980
Provision for losses	**600**	600	600
Loan and commitment fees earned less than (greater than) cash received	**(399)**	1,222	4,642
Direct financing lease income less than cash received	**65**	292	372
Rental income in excess of cash received	**(6,692)**	(3,047)	(1,548)
Interest income less than (greater than) cash received	**378**	(380)	(29)
Increase in accrued expenses and other liabilities	**5,045**	4,133	790
Decrease (increase) in receivables and other assets	**1,394**	(1,037)	(1,638)
Net cash provided from operating activities	**96,133**	75,746	56,008
Investing activities			
Investment in real property	**(215,491)**	(270,015)	(135,835)
Investment in loans receivable	**(56,089)**	(105,282)	(123,376)
Other investments, net of payments	**(2,024)**	(20,965)	(4,964)
Principal collected on loans	**42,731**	38,629	49,750
Proceeds from sale of properties	**18,112**	11,378	2,569
Other	**(444)**	(328)	(213)
Net cash used in investing activities	**(213,205)**	(346,583)	(212,069)
Financing activities			
Net increase (decrease) under line of credit arrangements	**5,950**	93,150	(13,725)
Borrowings under senior notes	**50,000**	100,000	80,000
Proceeds from issuance of Secured Debt	**64,000**		
Principal payments on other long-term obligations	**(87)**	(23,241)	(1,600)
Net proceeds from the issuance of Common Stock	**4,552**	90,120	139,554
Net proceeds from the issuance of Preferred Stock	**72,545**	72,210	
Increase in deferred loan expense	**(1,839)**	(798)	(1,564)
Cash distributions to shareholders	**(77,189)**	(60,716)	(45,804)
Net cash provided from financing activities	**117,932**	270,725	156,861
Increase (decrease) in cash and cash equivalents	**860**	(112)	800
Cash and cash equivalents at beginning of year	**1,269**	1,381	581
Cash and cash equivalents at end of year	**$ 2,129**	$ 1,269	$ 1,381
Supplemental Cash Flow Information-interest paid	**$ 32,826**	$ 23,714	$ 16,444

See accompanying notes

NOTE 1

ACCOUNTING POLICIES AND RELATED MATTERS

Industry The Company is a self-administered real estate investment trust that invests primarily in long-term care facilities, which include nursing homes and assisted living facilities. The Company also invests in specialty care facilities.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its 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 generally accepted accounting principles requires management 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, construction-period loans maturing in two years or less, and working capital loans. Interest income on loans is recognized as earned based upon the principal amount outstanding. The loans are primarily collateralized by a first mortgage on or assignment of partnership interest in the related facilities which consist of nursing homes, assisted living facilities, behavioral care facilities, and specialty care hospitals.

Real Property Investments Certain properties owned by the Company are leased under operating leases and are recorded at cost. These properties are depreciated on a straight-line basis over their estimated useful lives. The carrying 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. The Company considers external factors relating to each asset. If these external factors and the projected undiscounted cash flows of the asset over the remaining amortization period indicate that the asset will not be recoverable, the carrying value will be adjusted to the estimated fair value. As of December 31, 1999, the Company does not believe there is any indication that the carrying value or the amortization period of its assets needs to be adjusted. The leases generally extend for a minimum ten-year period and provide for payment of all taxes, insurance and maintenance by the lessees. 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 The Company capitalizes interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing.

The Company capitalized interest costs of $8,578,000, $7,740,000 and $2,306,000 during 1999, 1998 and 1997, respectively, related to construction of real property owned by the Company. The Company's interest expense reflected in the statement 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 the Company's 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.

Deferred Loan Expenses Deferred loan expenses are costs incurred by the Company in connection with the issuance of short-term and long-term debt. The Company amortizes 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.

Direct Investments Management determines the appropriate classification of a direct investment at the time of acquisition and reevaluates such designation as of each balance sheet date. Debt securities which are classified as held to maturity are stated at historical cost. Equity investments are stated at historical cost. Direct investments included the preferred stock of one private corporation, subordinated debt in six private corporations, and ownership representing a 31% interest in Atlantic Healthcare Finance L.P., a property investment group that specializes in the financing, through sale and leaseback transactions, of nursing homes located in the United Kingdom and continental Europe.

Marketable Securities Marketable securities available for sale are stated at market value with unrealized gains and losses reported in a separate component of shareholders' equity. Marketable securities reflect the market value of the common stock of two publicly owned corporations, which were obtained by the Company at no cost, and the fair value of the common stock related to warrants in one publicly owned corporation in excess of the exercise price.

Loan and Commitment Fees Loan and commitment fees are earned by the Company for its agreement to provide direct and standby financing to, and credit enhancement for, owners of health care facilities. The Company amortizes loan and commitment fees over the initial fixed term of the lease, the mortgage or the construction period related to such investments.

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

Net Income Per Share Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares for the period. 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.

Comprehensive Income As of January 1, 1998, the Company adopted Statement 130, Reporting Comprehensive Income. Statement 130 establishes guidelines for the reporting and display of comprehensive income and its components. Comprehensive income includes unrealized gains or losses on the Company's marketable securities and foreign currency translation adjustments. These items are included as a component of shareholders' equity.

New Accounting Standard In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", which is effective January 1, 2001. Under the Statement, all financial instruments meeting the definition of a derivative will be carried at fair value. The impact that this statement will have on the Company has not been determined. The Company currently has no derivative instruments nor has engaged in any hedging activities.

NOTE 2

LOANS RECEIVABLE

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

	December 31 1999	1998
Mortgage loans	**$ 349,514**	$ 362,715
Mortgage loans to related parties	**24,876**	0
Construction loans	**9,908**	42,708
Working capital	**13,458**	5,532
Working capital loans to related parties	**3,263**	1,749
TOTALS	**$ 401,019**	$ 412,704

Mortgage loans include $6,741,000 of direct financing leases in 1998. Loans to related parties (various entities whose ownership includes two Company directors) included above are at rates comparable to other third party borrowers equal to or greater than the Company's net interest cost on borrowings to support such loans. The amount of interest income and loan and commitment fees from related parties amounted to $3,639,000, $1,236,000 and $980,000 for 1999, 1998 and 1997, respectively.

The following is a summary of mortgage loans at December 31, 1999 (in thousands):

Final Payment Due	Number of Loans	Payment Terms	Principal Amount at Inception	Carrying Amount
2001	3	Monthly payments from $21,460 to $58,932, including interest from 10.50% to 12.00%	$ 11,684	$ 9,434
2002	12	Monthly payments from $18,360 to $47,342, including interest at 9.00%	52,130	51,987
2006	1	Monthly payment at $96,412, including interest at 9.48%	12,204	12,204
2007	2	Monthly payments from $28,403 to $73,860, including interest from 10.70% to 13.20%	14,698	10,421
2008	1	Monthly payment at $88,967, including interest at 14.04%	7,400	7,228
2009	1	Monthly payment at $70,577, including interest at 11.26%	7,072	6,917
2010	2	Monthly payments from $41,253 to $133,235, including interest from 10.85% to 11.19%	18,025	17,695
2011	6	Monthly payments from $18,921 to $38,663, including interest from 9.48% to 11.90%	20,797	20,588
2012	3	Monthly payments from $42,607 to $305,007, including interest from 9.70% to 11.98%	38,668	38,492
2013	1	Monthly payment at $45,173, including interest at 9.79%	5,537	5,537
2015	3	Monthly payments from $53,679 to $122,053, including interest from 11.18% to 12.82%	26,360	25,461
2016	3	Monthly payments from $44,413 to $119,094, including interest from 10.41% to 11.60%	25,346	24,962
2017	9	Monthly payments from $26,649 to $233,818, including interest from 9.74% to 12.48%	75,886	74,733
2018	7	Monthly payments from $24,892 to $187,727, including interest from 9.38% to 10.43%	48,657	48,022
2019	5	Monthly payments from $22,500 to $47,513, including interest from 10.00% to 10.39%	20,735	20,709
TOTALS			$ 385,199	$ 374,390

NOTE 3

REAL ESTATE INVESTMENTS

The following table summarizes certain information about the Company's real estate properties as of December 31, 1999 (in thousands):

	Number of Facilities	Land	Building & Improvements	Total Investment	Accumulated Depreciation
Nursing Homes:					
Arizona	1	$ 180	$ 3,988	$ 4,168	$ 207
California	2	2,640	5,212	7,852	274
Colorado	1	370	6,051	6,421	307
Florida	6	3,462	41,258	44,720	1,727
Idaho	3	2,010	20,662	22,672	970
Illinois	2	1,010	11,446	12,456	268
Kentucky	1	130	4,870	5,000	756
Massachusetts	7	3,548	34,051	37,599	3,224
Ohio	2	786	8,778	9,564	876
Oklahoma	1	470	5,673	6,143	215
Oregon	1	300	5,316	5,616	260
Pennsylvania	3	669	17,567	18,236	1,866
Texas	1	663	12,588	13,251	2,359
Construction in Progress			7,576	7,576	
	31	**16,238**	**185,036**	**201,274**	**13,309**
Assisted Living Facilities:					
Arizona	2	560	6,467	7,027	125
California	1	980	6,195	7,175	159
Connecticut	2	1,230	19,053	20,283	445
Florida	19	8,431	71,847	80,278	3,190
Georgia	2	3,166	24,542	27,708	225
Indiana	9	1,951	34,874	36,825	583
Maryland	1	1,320	13,641	14,961	276
Massachusetts	1	810	10,500	11,310	459
Minnesota	1	322	6,345	6,667	130
Montana	1	360	3,282	3,642	109
Nevada	2	1,706	21,769	23,475	435
New Jersey	1	3,297	14,233	17,530	1,124
New Mexico	1	233	5,355	5,588	323
New York	1	400	10,528	10,928	616
North Carolina	9	7,708	53,667	61,375	1,661
Ohio	8	4,103	40,364	44,467	1,822
Oklahoma	15	1,703	21,408	23,111	2,239
Oregon	2	1,077	8,756	9,833	160
Pennsylvania	10	5,889	55,479	61,368	2,872
South Carolina	4	1,372	13,315	14,687	193
Tennessee	4	1,521	12,461	13,982	168
Texas	25	7,457	93,320	100,777	5,028
Washington	1	1,400	5,476	6,876	95
Construction in Progress			51,378	51,378	
	122	**56,996**	**604,255**	**661,251**	**22,437**
Total Real Estate	**153**	**$73,234**	**$789,291**	**$862,525**	**$ 35,746**

NOTE 3

REAL ESTATE INVESTMENTS (CONTINUED)

At December 31, 1999, future minimum lease payments receivable under operating leases are as follows (in thousands):

2000	$ 76,866
2001	83,167
2002	84,916
2003	85,829
2004	86,714
Thereafter	506,662
TOTAL	$ 924,154

The Company converted $16,309,000, $73,430,000, and $13,103,000, of mortgage loans into operating lease properties in 1999, 1998 and 1997, respectively. This noncash activity is appropriately not reflected in the accompanying statements of cash flows.

The Company has leased one nursing home and five assisted living facilities to an operator that has a director who is also a director of the Company and the Company is constructing two assisted living facilities that will be leased to this operator upon completion. The Company recognized $1,266,000 of rental income from this operator in 1999. The Company did not recognize rental income from this operator in 1998 or 1997. In 1999, a director of the Company was appointed as a director of an operator which leases seven facilities from the Company. The Company recognized $1,546,000 of rental income from this operator in 1999.

NOTE 4

CONCENTRATION OF RISK

As of December 31, 1999, long-term care facilities, which include nursing homes and assisted living facilities, comprised 92% of the Company's real estate investments and were located in 34 states. Investments in assisted living facilities comprised 70% of the Company's real estate investments. The Company's investments with the three largest operators totaled approximately 29%. No single operator has a real estate investment balance which exceeds 14% of total real estate investments, including credit enhancements.

NOTE 5

ALLOWANCE FOR LOAN LOSSES

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

	1999	1998	1997
Balance at beginning of year	**$ 4,987**	$ 4,387	$ 9,787
Provision for loan losses	**600**	600	600
Charge-offs			(6,000)
Balance at end of year	**$ 5,587**	$ 4,987	$ 4,387

During 1997, two loans with an aggregate balance of $12,073,000 and a specifically identified allowance of $6,000,000 were extinguished. The Company recognized payments of $6,073,000 and recorded a charge of $6,000,000 against the allowance for loan losses.

NOTE 6

BORROWINGS UNDER LINE OF CREDIT ARRANGEMENTS AND RELATED ITEMS

The Company has an unsecured credit arrangement with a consortium of ten banks providing for a revolving line of credit (revolving credit) in the amount of $175,000,000 which expires on March 31, 2001. The agreement specifies that borrowings under the revolving credit are subject to interest payable in periods no longer than three months on either the agent bank's base rate of interest or 1.0% over LIBOR interest rate (based at the Company's option). The effective interest rate at December 31, 1999 was 7.05%. In addition, the Company pays 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. The Company has another unsecured line of credit with a bank for a total of $20,000,000 which expires April 30, 2000. Borrowings under this line of credit are subject to interest at the bank's prime rate of interest (8.50% at December 31, 1999) and are due on demand.

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

	Year ended December 31		
	1999	1998	1997
Balance outstanding at December 31	**$ 177,500**	$ 171,550	$ 78,400
Maximum amount outstanding at any month end	**180,950**	171,550	158,950
Average amount outstanding (total of daily principal balances divided by days in year)	**153,318**	103,739	78,826
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	**6.61%**	6.90%	7.63%

NOTE 7

SENIOR NOTES AND OTHER LONG-TERM OBLIGATIONS

The Company has $290,000,000 of unsecured Senior Notes with interest ranging from 7.06% to 8.34% and maturing at various dates to 2008.

The Company has two mortgage notes payable, collateralized by two health care facilities with interest rates from 7.625% to 12% and maturing at various dates to 2034.

The Company has one secured note collateralized by one health care facility with interest at 2% over LIBOR (8.16% at December 31, 1999).

The Company has a $75,000,000 secured line of credit, collateralized by fourteen health care facilities, with interest at 2% over LIBOR (7.69% at December 31, 1999). The outstanding balance at December 31, 1999 was $60,000,000.

The carrying values of the health care properties securing the mortgages and secured debt totaled $154,224,000 at December 31, 1999.

At December 31, 1999, the annual principal payments on these long-term obligations are as follows (in thousands):

	Senior Notes	Secured Line of Credit	Secured Note	Mortgages
2000	$ 35,000	$ 0	$ 0	$ 99
2001	10,000	0	0	109
2002	20,000	0	0	121
2003	35,000	0	0	133
2004	40,000	60,000	4,000	186
2005	0	0	0	549
2006	50,000	0	0	62
2007	0	0	0	67
2008	100,000	0	0	72
Thereafter	0	0	0	5,944
TOTALS	$290,000	$ 60,000	$ 4,000	$ 7,342

NOTE 8

STOCK INCENTIVE PLANS AND RETIREMENT ARRANGEMENTS

The Company's 1995 Stock Incentive Plan authorized up to 2,200,000 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 grant. Officers and key salaried employees of the Company 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. In addition, during 1997, the Company adopted a Stock Plan for Non-Employee Directors which authorizes up to 240,000 shares to be issued.

The following summarizes the activity in the Plans for the years ended December 31 (shares in thousands):

	1999		1998		1997	
	Shares	**Average Exercise Price**	Shares	Average Exercise Price	Shares	Average Exercise Price
Stock Options:						
Options at beginning of year	**1,418**	**$ 22.06**	1,126	$ 21.56	749	$ 19.51
Options granted	**410**	**20.17**	362	23.00	475	24.44
Options exercised	**(6)**	**21.81**	(63)	18.57	(84)	19.16
Options terminated	**(9)**	**23.90**	(7)	24.90	(14)	23.61
	1,813	**$ 21.62**	1,418	$ 22.06	1,126	$ 21.56
At end of year:						
Shares exercisable	**733**	**$ 21.17**	466	$ 20.83	406	$ 20.79
Weighted average fair value of options granted during the year		**$ 2.11**		$ 1.98		$ 1.97

The stock options generally vest over a five year period and expire ten years from the date of grant. Options at December 31, 1999, had exercise prices ranging from $17.875 to $27.375 per share and a weighted average contractual life of 4.7 years.

The Company issued 86,250, 74,100 and 157,000 restricted shares during 1999, 1998 and 1997, respectively, including 9,000, 2,250 and 2,000 shares for directors in 1999, 1998 and 1997, respectively. Vesting periods range from six months for directors to periods of five to ten years for officers and key salaried employees. Expense, which is recognized as the shares vest based on the market value at the date of the award, totaled $1,080,000, $601,000 and $257,000 in 1999, 1998 and 1997, respectively.

The Company has elected to follow APB Opinion No. 25, *Accounting for Stock Issued to Employees* in accounting for its employee stock options as permitted under FASB Statement No. 123 ("FASB 123"), *Accounting for Stock-Based Compensation,* and, accordingly, recognizes no compensation expense for the stock option grants when the market price on the underlying stock on the date of grant equals the exercise price of the Company's employee stock option.

Pro forma information has been determined as if the Company had accounted for its employee stock options and restricted shares under the fair value method. The pro forma disclosures are not likely to be representative of the effects on reported net income for future years because they do not take into consideration stock based incentives granted prior to 1995. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following range of assumptions: risk-free interest rates from 5.10% to 7.60%, dividend yields of 8% to 9%, expected lives of seven years, and expected volatility of .18% to .23%. Had compensation cost for the stock based compensation plans been determined in accordance with FASB 123, net income would have been reduced by $621,000, $393,000, and $212,000 in 1999, 1998 and 1997, respectively.

The Company has a 401-(k) Profit Sharing Plan covering all eligible employees. Under the Plan, eligible employees may make contributions, and the Company may make a profit sharing contribution. Company contributions to this Plan totaled $144,000, $120,000, and $110,000 in 1999, 1998 and 1997, respectively.

NOTE 9

PREFERRED STOCK

In January 1999, the Company announced the sale of 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. The Company has the right to redeem the preferred shares after five years.

In May 1998, the Company sold 3,000,000 shares of 8.875% Series B Cumulative Redeemable Non-Voting Preferred Stock with a liquidation preference of $25.00 per share. Dividends are payable quarterly in arrears. On and after May 1, 2003, the Preferred Stock may be redeemed for cash at the option of the Company, in whole or in part, at $25.00 per share, plus accrued and unpaid dividends thereon to the redemption date.

NOTE 10

DISTRIBUTIONS

To qualify as a real estate investment trust for federal income tax purposes, 95% of taxable income (not including capital gains) must be distributed to shareholders. Real estate investment trusts which 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 Company's excise tax expense was $0, $315,000 and $360,000 for the years ended December 31, 1999, 1998 and 1997, respectively. Undistributed net income for federal income tax purposes amounted to $6,242,000 at December 31, 1999. 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 and the provision for losses for reporting purposes versus bad debt expense for tax purposes. Cash distributions paid to shareholders, for federal income tax purposes, are as follows:

	Year ended December 31		
	1999	1998	1997
Per Share:			
Ordinary income	**$ 2.217**	$ 2.142	$ 2.085
Capital gains	**.053**	.048	.025
TOTALS	**$ 2.270**	$ 2.190	$ 2.110

NOTE 11

COMMITMENTS AND CONTINGENCIES

At December 31, 1999, the Company had outstanding commitments to provide financing for facilities in the approximate amount of $53,356,000 for ongoing construction activity expected over the next twelve to fifteen months. The above commitments are generally on similar terms as existing financings of a like nature with rates of return to the Company based upon current market rates at the time of the commitment.

The Company has agreements to purchase two health care facilities, or the loans with respect thereto, in the event that the present owners default upon their obligations. In consideration for these agreements, the Company receives and recognizes fees annually related to these agreements. Although the terms of these agreements vary, the purchase prices are equal to the amount of the outstanding obligations financing the facility. These agreements expire through the year 2005. In addition, the Company has an outstanding letter of credit relating to one construction project. At December 31, 1999, obligations under these agreements for which the Company was contingently liable aggregated approximately $12,425,000.

NOTE 12

SHAREHOLDER RIGHTS PLAN

Under the terms of a Shareholder Rights Plan approved by the Board of Directors in July 1994, a Preferred Share Right (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 the Common Stock, or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Common Stock. Once the Rights become exercisable, they entitle all other shareholders 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 the Company for $.01 per Right at any time before public disclosure that a 15% position has been acquired.

NOTE 13

EARNINGS PER SHARE

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

	1999	1998	1997
Numerator for basic and diluted earnings per share – income available to common shareholders	**$ 62,824**	$ 58,149	$ 46,478
Denominator for basic earnings per share – weighted average shares	**28,128**	25,579	21,594
Effect of dilutive securities:			
Employee stock options	**15**	174	182
Nonvested restricted shares	**241**	201	153
Dilutive potential common shares	**256**	375	335
Denominator for diluted earnings per share – adjusted weighted average shares	**28,384**	25,954	21,929
Basic earnings per share	**$ 2.23**	$ 2.27	$ 2.15
Diluted earnings per share	**$ 2.21**	$ 2.24	$ 2.12

The diluted earnings per share calculation excludes the dilutive effect of 1,813,000 and 179,000 shares for 1999 and 1998, 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.

NOTE 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 and Construction Loans—The carrying amount is a reasonable estimate of fair value for working capital and construction loans because the interest earned on these instruments is variable.

Cash and Cash Equivalents—The carrying amount approximates fair value because of the short maturity of these financial instruments.

Marketable Securities —The assets are recorded at their fair market value.

Direct Investments—Direct investments are recognized at historical cost, which the Company believes approximates fair market value.

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

Senior Unsecured Notes and Industrial Development Bonds—The fair value of the senior unsecured notes payable was estimated by discounting the future cash flow using the current borrowing rate available to the Company for similar debt.

Mortgage Notes Payable—Mortgage notes payable is a reasonable estimate of fair value.

Secured Debt—Same as Line of Credit Arrangements.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1999 and 1998, are as follows (in thousands):

	December 31, 1999		December 31, 1998	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets:				
Mortgage loans	**$ 374,390**	**$ 381,082**	$ 355,974	$ 375,252
Working capital and construction loans	**26,629**	**26,629**	49,989	49,989
Cash and cash equivalents	**2,129**	**2,129**	1,269	1,269
Marketable securities	**863**	**863**	4,106	4,106
Direct investments	**25,361**	**25,361**	26,180	26,180
Financial Liabilities:				
Borrowings under line of credit arrangements	**177,500**	**177,500**	171,550	171,550
Senior unsecured notes	**290,000**	**257,679**	240,000	239,396
Secured Debt	**64,000**	**64,000**		
Mortgage notes payable	**7,342**	**7,342**	7,429	7,429

NOTE 15

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations of the Company for the years ended December 31, 1999 and 1998 (in thousands, except per share data):

	Year Ended December 31, 1999			
	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Revenues	**$ 28,164**	**$ 32,469**	**$ 34,160**	**$ 33,811**
Net Income Available to Common Shareholders	**16,219**	**15,787**	**16,195**	**14,623**
Net Income Available to Common Shareholders				
Basic	**.58**	**.56**	**.57**	**.52**
Diluted	**.57**	**.56**	**.57**	**.51**

	Year Ended December 31, 1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 21,226	$ 23,159	$ 25,837	$ 27,770
Net Income Available to Common Shareholders	13,409	13,907	14,365	16,468
Net Income Available to Common Shareholders				
Basic	.55	.55	.57	.60
Diluted	.54	.54	.56	.60

MARKET AND DIVIDEND INFORMATION

The following table sets forth, for the periods indicated, the high and low prices of the Company's Common Stock on the New York Stock Exchange, as reported on the Composite Tape and dividends paid per share. There were 5,240 shareholders of record as of December 31, 1999.

	Sales Price		
1999	**High**	**Low**	**Dividends Paid**
First Quarter	**$ 26.6250**	**$ 21.1875**	**$ 0.560**
Second Quarter	**25.6250**	**20.7500**	**0.565**
Third Quarter	**23.8750**	**19.3125**	**0.570**
Fourth Quarter	**20.0000**	**14.6875**	**0.575**

	Sales Price		
1998	High	Low	Dividends Paid
First Quarter	$ 29.2500	$ 26.6250	$ 0.540
Second Quarter	28.4375	25.3750	0.545
Third Quarter	27.5000	22.3750	0.550
Fourth Quarter	26.6250	20.0000	0.555

INCOME TAX INFORMATION

	1999 Dividend Report Dates				
	Feb. 22	**May 20**	**Aug. 20**	**Nov. 22**	**Total**
Ordinary Income	**$ 0.560**	**$ 0.565**	**$ 0.570**	**$ 0.522**	**$ 2.217**
Short-Term Capital Gain	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Mid-Term Capital Gain	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Long-Term Capital Gain	**0.000**	**0.000**	**0.000**	**0.023**	**0.023**
Unrecaptured Sec. 1250 Gain	**0.000**	**0.000**	**0.000**	**0.030**	**0.030**
Return of Capital	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Total	**$ 0.560**	**$ 0.565**	**$ 0.570**	**$ 0.575**	**$ 2.270**
Foreign Tax Credit	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Tax Exempt Interest	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Board of Directors

William C. Ballard, Jr.
4, 5, 6
Of Counsel
Greenebaum Doll &
McDonald PLLC
Louisville, Kentucky

Pier C. Borra
3, 4, 6
Chairman, President and
Chief Executive Officer
CORA Health Services, Inc.
Lima, Ohio

George L. Chapman
2, 4, 5, 6
Chairman, Chief Executive
Officer and President
Health Care REIT, Inc.
Toledo, Ohio

Jeffrey H. Donahue
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Executive Vice President and
Chief Financial Officer
The Rouse Company
Columbia, Maryland

Peter J. Grua
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Principal and President
HLM Management Company, Inc.
Boston, Massachusetts

Sharon M. Oster
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Professor of Management
Yale School of Management
Yale University
New Haven, Connecticut

Bruce G. Thompson
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President
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Toledo, Ohio

R. Scott Trumbull
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Executive Vice President
Owens-Illinois, Inc.
Toledo, Ohio

Richard A. Unverferth
1, 2, 3, 4, 5, 6
Chairman
Unverferth Manufacturing
Company, Inc.
H.C.F., Inc.
Kalida, Ohio

Committees:
1. Audit Committee
2. Executive Committee
3. Compensation Committee
4. Investment Committee
5. Nominating Committee
6. Planning Committee

Shareholder Information

Officers
George L. Chapman
Chairman, Chief Executive
Officer and President

Raymond W. Braun
Vice President and
Chief Operating Officer

Edward F. Lange, Jr.
Vice President, Chief
Financial Officer and
Treasurer

Erin C. Ibele
Vice President and
Corporate Secretary

Michael A. Crabtree
Controller

J. Michael Stephen
Vice President, Marketing

Todd B. Cermak
Portfolio Officer

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Form 10-K
The Company's Form 10-K Annual Report, filed with the Securities and Exchange Commission, is available at no charge upon written request to the Corporate Secretary.

Exchange Listing
New York Stock Exchange
Trading Symbol: HCN

Member
National Association of Real Estate Investment Trusts, Inc.

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