

HCP, INC.
Form 10-Q
November 04, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014.

OR

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

For the transition period from to

Commission file number 001-08895

HCP, INC.

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(Exact name of registrant as specified in its charter)

Maryland	33-0091377
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1920 Main Street, Suite 1200

Irvine, CA 92614

(Address of principal executive offices)

(949) 407-0700

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of October 30, 2014, there were 459,263,486 shares of the registrant's \$1.00 par value common stock outstanding.

Table of Contents

HCP, INC.

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Income</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
	<u>Condensed Consolidated Statements of Equity</u>	6
	<u>Condensed Consolidated Statements of Cash Flows</u>	7
	<u>Notes to the Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	58
Item 4.	<u>Controls and Procedures</u>	58

PART II. OTHER INFORMATION

Item 1A.	<u>Risk Factors</u>	60
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
Item 6.	<u>Exhibits</u>	60
	<u>Signatures</u>	63

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Real estate:		
Buildings and improvements	\$ 10,852,544	\$ 10,544,110
Development costs and construction in progress	261,514	225,869
Land	1,885,081	1,822,862
Accumulated depreciation and amortization	(2,159,115)	(1,965,592)
Net real estate	10,840,024	10,627,249
Net investment in direct financing leases	7,245,122	7,153,399
Loans receivable, net	418,801	366,001
Investments in and advances to unconsolidated joint ventures	647,923	196,576
Accounts receivable, net of allowance of \$4,073 and \$1,529, respectively	34,687	27,494
Cash and cash equivalents	83,531	300,556
Restricted cash	54,448	37,229
Intangible assets, net	479,226	489,842
Real estate assets held for sale, net	—	9,819
Other assets, net	941,128	867,705
Total assets(1)	\$ 20,744,890	\$ 20,075,870
LIABILITIES AND EQUITY		
Bank line of credit	\$ 70,000	\$ —
Term loan	222,118	226,858
Senior unsecured notes	7,625,041	6,963,375
Mortgage debt	1,199,633	1,396,485
Other debt	97,845	74,909
Intangible liabilities, net	88,490	98,810
Accounts payable and accrued liabilities	329,209	318,427
Deferred revenue	76,380	65,872
Total liabilities(2)	9,708,716	9,144,736
Commitments and contingencies		
Common stock, \$1.00 par value: 750,000,000 shares authorized; 459,145,515 and 456,960,648 shares issued and outstanding, respectively	459,146	456,961
Additional paid-in capital	11,409,843	11,334,041

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Cumulative dividends in excess of earnings	(1,078,400)	(1,053,215)
Accumulated other comprehensive loss	(17,464)	(14,487)
Total stockholders' equity	10,773,125	10,723,300
Joint venture partners	73,977	23,729
Non-managing member unitholders	189,072	184,105
Total noncontrolling interests	263,049	207,834
Total equity	11,036,174	10,931,134
Total liabilities and equity	\$ 20,744,890	\$ 20,075,870

(1) The Company's consolidated total assets at September 30, 2014 and December 31, 2013 include assets of certain variable interest entities ("VIEs") that can only be used to settle the liabilities of those VIEs. Total assets at September 30, 2014 includes VIE assets as follows: buildings and improvements \$668 million; land \$113 million; accumulated depreciation and amortization \$105 million; accounts receivable \$2 million; cash \$52 million; and other assets \$19 million. Total assets at December 31, 2013 includes other assets of \$1 million from VIEs. See Note 17 to the Condensed Consolidated Financial Statements for additional information.

(2) The Company's consolidated total liabilities at September 30, 2014 and December 31, 2013 include certain liabilities of VIEs for which the VIE creditors do not have recourse to HCP, Inc. Total liabilities at September 30, 2014 includes accounts payable and accrued liabilities of \$36 million and deferred revenue of \$11 million from VIEs. Total liabilities at December 31, 2013 includes accounts payable and accrued liabilities of \$9 million from VIEs. See Note 17 to the Condensed Consolidated Financial Statements for additional information.

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental and related revenues	\$ 321,451	\$ 284,072	\$ 894,465	\$ 843,380
Tenant recoveries	29,323	25,920	81,867	75,266
Resident fees and services	62,213	36,370	138,205	108,509
Income from direct financing leases	165,687	157,253	495,724	472,409
Interest income	17,517	42,078	51,150	68,611
Investment management fee income	447	464	1,340	1,406
Total revenues	596,638	546,157	1,662,751	1,569,581
Costs and expenses:				
Interest expense	111,275	108,088	324,755	325,650
Depreciation and amortization	122,975	104,783	343,496	317,172
Operating	99,599	75,417	254,173	221,990
General and administrative	24,954	45,326	75,410	90,043
Total costs and expenses	358,803	333,614	997,834	954,855
Other income, net	3,111	1,632	5,750	17,032
Income before income taxes and equity income from unconsolidated joint ventures	240,946	214,175	670,667	631,758
Income taxes	(55)	(1,034)	(2,840)	(3,553)
Equity income from unconsolidated joint ventures	10,168	13,892	39,388	44,278
Income from continuing operations	251,059	227,033	707,215	672,483
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes	—	1,527	1,736	5,699
Gain on sales of real estate, net of income taxes	—	8,298	28,010	9,185
Total discontinued operations	—	9,825	29,746	14,884
Net income	251,059	236,858	736,961	687,367
Noncontrolling interests' share in earnings	(3,405)	(3,102)	(11,311)	(9,625)
Net income attributable to HCP, Inc.	247,654	233,756	725,650	677,742

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Participating securities' share in earnings	(446)	(474)	(1,999)	(1,330)
Net income applicable to common shares	\$ 247,208	\$ 233,282	\$ 723,651	\$ 676,412
Basic earnings per common share:				
Continuing operations	\$ 0.54	\$ 0.49	\$ 1.52	\$ 1.46
Discontinued operations	—	0.02	0.06	0.03
Net income applicable to common shares	\$ 0.54	\$ 0.51	\$ 1.58	\$ 1.49
Diluted earnings per common share:				
Continuing operations	\$ 0.54	\$ 0.49	\$ 1.52	\$ 1.46
Discontinued operations	—	0.02	0.06	0.03
Net income applicable to common shares	\$ 0.54	\$ 0.51	\$ 1.58	\$ 1.49
Weighted average shares used to calculate earnings per common share:				
Basic	458,799	455,345	458,119	454,553
Diluted	459,141	456,078	458,473	455,388
Dividends declared per common share	\$ 0.545	\$ 0.525	\$ 1.635	1.575

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 251,059	\$ 236,858	\$ 736,961	\$ 687,367
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on securities:				
Unrealized gains (losses)	(1)	—	(5)	1,355
Reclassification adjustment realized in net income	—	—	—	(9,131)
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses)	2,521	(3,710)	1,829	5,635
Reclassification adjustment realized in net income	(1,409)	191	(766)	751
Change in Supplemental Executive Retirement Plan obligation	55	56	163	167
Foreign currency translation adjustment	(6,961)	(56)	(4,198)	(3)
Total other comprehensive loss	(5,795)	(3,519)	(2,977)	(1,226)
Total comprehensive income	245,264	233,339	733,984	686,141
Total comprehensive income attributable to noncontrolling interests	(3,405)	(3,102)	(11,311)	(9,625)
Total comprehensive income attributable to HCP, Inc.	\$ 241,859	\$ 230,237	\$ 722,673	\$ 676,516

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

(Unaudited)

Common Stock	Additional Paid-In	Cumulative Dividends In Excess	Accumulated Other Comprehensive	Total Stockholders'	Total Noncontrolling	Total
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