

HCP, INC.
Form 10-Q
November 03, 2015
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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, 2015.

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.

(Exact name of registrant as specified in its charter)

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Maryland 33-0091377
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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

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, 2015, there were 465,042,243 shares of the registrant's \$1.00 par value common stock outstanding.

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HCP, INC.

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HCP, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Real estate:		
Buildings and improvements	\$ 12,384,413	\$ 10,972,973
Development costs and construction in progress	355,174	275,233
Land	2,016,606	1,889,438
Accumulated depreciation and amortization	(2,506,844)	(2,250,757)
Net real estate	12,249,349	10,886,887
Net investment in direct financing leases	6,891,030	7,280,334
Loans receivable, net	765,593	906,961
Investments in and advances to unconsolidated joint ventures	607,790	605,448
Accounts receivable, net of allowance of \$3,683 and \$3,785, respectively	49,994	36,339
Cash and cash equivalents	120,498	183,810
Restricted cash	65,709	48,976
Intangible assets, net	559,677	481,013
Other assets, net	883,333	940,172
Total assets(1)	\$ 22,192,973	\$ 21,369,940
LIABILITIES AND EQUITY		
Bank line of credit	\$ 1,000,824	\$ 838,516
Term loans	540,784	213,610
Senior unsecured notes	8,568,729	7,626,194
Mortgage debt	939,982	984,431
Other debt	94,561	97,022
Intangible liabilities, net	73,233	84,723
Accounts payable and accrued liabilities	401,838	432,934
Deferred revenue	112,565	95,411
Total liabilities(2)	11,732,516	10,372,841
Commitments and contingencies		
Common stock, \$1.00 par value: 750,000,000 shares authorized; 464,441,628 and 459,746,267 shares issued and outstanding, respectively	464,442	459,746
Additional paid-in capital	11,612,246	11,431,987
Cumulative dividends in excess of earnings	(1,876,486)	(1,132,541)
Accumulated other comprehensive loss	(32,450)	(23,895)
Total stockholders' equity	10,167,752	10,735,297
Joint venture partners	106,572	73,214

Non-managing member unitholders	186,133	188,588
Total noncontrolling interests	292,705	261,802
Total equity	10,460,457	10,997,099
Total liabilities and equity	\$ 22,192,973	\$ 21,369,940

- (1) HCP, Inc.'s consolidated total assets at September 30, 2015 and December 31, 2014 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, 2015 include VIE assets as follows: buildings and improvements \$770 million; land \$125 million; accumulated depreciation and amortization \$128 million; accounts receivable \$15 million; cash \$61 million; intangible assets, net \$31 million; and other assets, net \$13 million. Total assets at December 31, 2014 include VIE assets as follows: buildings and improvements \$677 million; land \$113 million; accumulated depreciation and amortization \$111 million; accounts receivable \$5 million; cash \$42 million; and other assets, net \$23 million. See Note 18 to the Consolidated Financial Statements for additional information.
- (2) HCP, Inc.'s consolidated total liabilities at September 30, 2015 and December 31, 2014 include certain liabilities of VIEs for which the VIE creditors do not have recourse to the Company. Total liabilities at September 30, 2015 include accounts payable and accrued liabilities \$62 million and deferred revenue \$16 million from VIEs. Total liabilities at December 31, 2014 include accounts payable and accrued liabilities \$34 million and deferred revenue \$12 million from VIEs. See Note 18 to the Consolidated Financial Statements for additional information.

See accompanying Notes to the Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental and related revenues	\$ 293,566	\$ 321,451	\$ 845,382	\$ 894,465
Tenant recoveries	33,084	29,323	94,356	81,867
Resident fees and services	155,290	62,213	367,141	138,205
Income from direct financing leases	155,717	165,687	478,976	495,724
Interest income	19,842	17,517	89,049	51,150
Investment management fee income	454	447	1,372	1,340
Total revenues	657,953	596,638	1,876,276	1,662,751
Costs and expenses:				
Interest expense	122,157	111,275	357,569	324,755
Depreciation and amortization	134,704	122,975	369,629	343,496
Operating	173,515	99,599	441,888	254,173
General and administrative	20,534	19,479	74,152	62,034
Acquisition and pursuit costs	1,553	5,475	23,350	13,376
Impairments	69,622	—	592,921	—
Total costs and expenses	522,085	358,803	1,859,509	997,834
Other (expense) income:				
Gains on sales of real estate, net of income taxes	52	—	6,377	—
Other (expense) income, net	(1,026)	3,111	11,753	5,750
Total other (expense) income, net	(974)	3,111	18,130	5,750
Income before income taxes and equity income from and impairment of unconsolidated joint ventures	134,894	240,946	34,897	670,667
Income tax benefit (expense)	1,980	(55)	6,620	(2,840)
Equity income from unconsolidated joint ventures	8,314	10,168	33,916	39,388
Impairment of investments in unconsolidated joint ventures	(27,234)	—	(27,234)	—
Income from continuing operations	117,954	251,059	48,199	707,215
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes	—	—	—	1,736

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Gain on sales of real estate, net of income taxes	—	—	—	28,010
Total discontinued operations	—	—	—	29,746
Net income	117,954	251,059	48,199	736,961
Noncontrolling interests' share in earnings	(2,592)	(3,405)	(8,566)	(11,311)
Net income attributable to HCP, Inc.	115,362	247,654	39,633	725,650
Participating securities' share in earnings	(316)	(446)	(1,020)	(1,999)
Net income applicable to common shares	\$ 115,046	\$ 247,208	\$ 38,613	\$ 723,651
Basic earnings per common share:				
Continuing operations	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.52
Discontinued operations	—	—	—	0.06
Net income applicable to common shares	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.58
Diluted earnings per common share:				
Continuing operations	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.52
Discontinued operations	—	—	—	0.06
Net income applicable to common shares	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.58
Weighted average shares used to calculate earnings per common share:				
Basic	463,337	458,799	462,039	458,119
Diluted	463,586	459,141	462,302	458,473
Dividends declared per common share	\$ 0.565	\$ 0.545	\$ 1.695	\$ 1.635

See accompanying Notes to the Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 117,954	\$ 251,059	\$ 48,199	\$ 736,961
Other comprehensive loss:				
Change in net unrealized losses on securities	(361)	(1)	(358)	(5)
Change in net unrealized (losses) gains on cash flow hedges:				
Unrealized (losses) gains	(87)	2,521	(289)	1,829
Reclassification adjustment realized in net income	(367)	(1,409)	(19)	(766)
Change in Supplemental Executive Retirement Plan obligation	70	55	208	163
Foreign currency translation adjustment	410	(6,961)	(8,097)	(4,198)
Total other comprehensive loss	(335)	(5,795)	(8,555)	(2,977)
Total comprehensive income	117,619	245,264	39,644	733,984
Total comprehensive income attributable to noncontrolling interests	(2,592)	(3,405)	(8,566)	(11,311)
Total comprehensive income attributable to HCP, Inc.	\$ 115,027	\$ 241,859	\$ 31,078	\$ 722,673

See accompanying Notes to the Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

(Unaudited)

	Common Shares	Stock Amount	Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity
January 1, 2015	459,746	459,746	11,431,987	(1,132,541)	(23,895)	10,735,297	261,802	10,997,099
Net income	—	—	—	39,633	—	39,633	8,566	48,199
Other comprehensive loss	—	—	—	—	(8,555)	(8,555)	—	(8,555)
Issuance of common stock, net	4,054	4,054	140,591	—	—	144,645	(2,659)	141,986
Repurchase of common stock	(178)	(178)	(7,828)	—	—	(8,006)	—	(8,006)
Exercise of stock options	820	820	26,691	—	—	27,511	—	27,511
Amortization of deferred compensation	—	—	21,068	—	—	21,068	—	21,068
Common dividends (\$1.695 per share)	—	—	—	(783,578)	—	(783,578)	—	(783,578)
Distributions to noncontrolling interests	—	—	(263)	—	—	(263)	(13,444)	(13,707)
Issuance of noncontrolling interests	—	—	—	—	—	—	38,440	38,440
September 30, 2015	464,442	\$ 464,442	\$ 11,612,246	\$ (1,876,486)	\$ (32,450)	\$ 10,167,752	\$ 292,705	\$ 10,460,457

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	Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Paid-In	Dividends	Other	Stockholders'	Noncontrolling	Equity
			Capital	In Excess	Comprehens	Equity	Interests	Equity
				Of Earnings	Loss			
January 1, 2014	456,961	\$ 456,961	\$ 11,334,041	\$ (1,053,215)	\$ (14,487)	\$ 10,723,300	\$ 207,834	\$ 10,931,134
Net income	—	—	—	725,650	—	725,650	11,311	736,961
Other comprehensive loss	—	—	—	—	(2,977)	(2,977)	—	(2,977)
Issuance of common stock, net	2,351	2,351	67,474	—	—	69,825	(73)	69,752
Repurchase of common stock	(297)	(297)	(11,302)	—	—	(11,599)	—	(11,599)
Exercise of stock options	131	131	3,176	—	—	3,307	—	3,307
Amortization of deferred compensation	—	—	16,467	—	—	16,467	—	16,467
Common dividends (\$1.635 per share)	—	—	—	(750,835)	—	(750,835)	—	(750,835)
Distributions to noncontrolling interests	—	—	—	—	—	—	(11,706)	(11,706)
Issuance of noncontrolling interests	—	—	—	—	—	—	57,354	57,354
Purchase of noncontrolling interests	—	—	(13)	—	—	(13)	(1,671)	(1,684)
September 30, 2014	459,146	\$ 459,146	\$ 11,409,843	\$ (1,078,400)	\$ (17,464)	\$ 10,773,125	\$ 263,049	\$ 11,036,174

See accompanying Notes to the Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 48,199	\$ 736,961
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles	369,629	343,496
Amortization of market lease intangibles, net	(980)	(619)
Amortization of deferred compensation	21,068	16,467
Amortization of deferred financing costs, net	14,950	14,122
Straight-line rents	(24,817)	(35,082)
Loan and direct financing lease interest accretion	(71,243)	(58,271)
Deferred rental revenues	(1,496)	(420)
Equity income from unconsolidated joint ventures	(33,916)	(39,388)
Distributions of earnings from unconsolidated joint ventures	4,587	3,895
Lease termination income, net	(1,103)	(38,001)
Gain on sales of real estate	(6,377)	(28,010)
Foreign exchange and other gains, net	(7,103)	(2,143)
Impairments	620,155	—
Changes in:		
Accounts receivable, net	(10,634)	(7,193)
Other assets	(1,186)	(14,345)
Accounts payable and accrued liabilities	(52,073)	(8,447)
Net cash provided by operating activities	867,660	883,022
Cash flows from investing activities:		
Acquisition of RIDEA III, net	(770,325)	—
Cash used to acquire the CCRC unconsolidated joint venture interest, net	—	(370,186)
Acquisitions of other real estate	(430,336)	(467,147)
Development of real estate	(190,082)	(118,732)
Leasing costs and tenant and capital improvements	(52,371)	(44,953)
Proceeds from sales of real estate, net	19,555	36,938
Contributions to unconsolidated joint ventures	(43,242)	(2,935)
Distributions in excess of earnings from unconsolidated joint ventures	16,086	1,986
Proceeds from the sales of marketable securities	782	—
Principal repayments on loans receivable	51,491	49,503
Investments in loans receivable and other	(283,252)	(24,480)
Increase in restricted cash	(3,891)	(17,219)

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Net cash used in investing activities	(1,685,585)	(957,225)
Cash flows from financing activities:		
Net borrowings under bank line of credit	282,099	70,000
Repayments under bank line of credit	(102,063)	—
Borrowings under term loan	333,014	—
Issuance of senior unsecured notes	1,338,555	1,150,000
Repayments of senior unsecured notes	(400,000)	(487,000)
Issuance of mortgage and other debt	—	39,671
Repayments of mortgage and other debt	(50,187)	(202,134)
Deferred financing costs	(14,556)	(16,550)
Issuance of common stock and exercise of options	169,497	73,059
Repurchase of common stock	(8,006)	(11,599)
Dividends paid on common stock	(783,578)	(750,835)
Issuance of noncontrolling interests	4,812	4,282
Distributions to and purchase of noncontrolling interests	(13,707)	(11,719)
Net cash provided by (used in) financing activities	755,880	(142,825)
Effect of foreign exchange on cash and cash equivalents	(1,267)	3
Net decrease in cash and cash equivalents	(63,312)	(217,025)
Cash and cash equivalents, beginning of period	183,810	300,556
Cash and cash equivalents, end of period	\$ 120,498	\$ 83,531

See accompanying Notes to the Consolidated Financial Statements.

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HCP, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Business

HCP, Inc., a Standard & Poor's ("S&P") 500 company, together with its consolidated entities (collectively, "HCP" or the "Company"), invests primarily in real estate serving the healthcare industry in the United States ("U.S."). The Company is a Maryland corporation organized in 1985 and qualifies as a self-administered real estate investment trust ("REIT"). The Company is headquartered in Irvine, California, with offices in Nashville, Los Angeles, San Francisco and London. The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. The Company's diverse portfolio is comprised of investments in the following healthcare segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital.

NOTE 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

The consolidated financial statements include the accounts of HCP, Inc., its wholly-owned subsidiaries, joint ventures and VIEs that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC").

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU

2015-16 simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by requiring the acquirer to (i) recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined, (ii) record, in the same period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, and (iii) present separately or disclose the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the adoption of ASU 2015-16 on January 1, 2016 to its consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability (consistent with debt discounts). In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent

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Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting) (“ASU 2015-15”). ASU 2015-15 allows debt issuance costs related to line-of-credit agreements to be presented in the balance sheet as an asset. ASU 2015-03 and ASU 2015-15 are effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company plans to early adopt ASU 2015-03 and ASU 2015-15 as of December 31, 2015; the adoption is not expected to have a material impact on its consolidated financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-2, Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 requires amendments to both the VIE and voting consolidation accounting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify (a) the identification of variable interests (fees paid to a decision maker or service provider), (b) the VIE characteristics for a limited partnership or similar entity and (c) the primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current voting model that a general partner controls a limited partnership or similar entity. ASU 2015-02 is effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the amendments in ASU 2015-02 using either a modified retrospective or retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Company is evaluating the impact of the adoption of ASU 2015-02 on January 1, 2016 to its consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). This update changes the requirements for recognizing revenue. ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted for annual periods, and interim periods within, beginning after December 15, 2016. The Company is evaluating the impact of the adoption of ASU 2014-09 on January 1, 2018 to its consolidated financial position or results of operations.

Reclassification

Certain amounts in the Company’s consolidated financial statements have been reclassified for prior periods to conform to the current period presentation. As a result of the Company’s increasing transaction volume, “acquisition and pursuit costs” are separately presented on the consolidated statements of operations from “general and administrative expenses.”

NOTE 3. Brookdale Lease Amendments and Terminations and the Formation of Two RIDEA Joint Ventures (“Brookdale Transaction”)

On July 31, 2014, Brookdale Senior Living (“Brookdale”) completed its acquisition of Emeritus Corporation (“Emeritus”). On August 29, 2014, the Company and Brookdale completed a multiple-element transaction with three major components:

- amended existing lease agreements on 153 HCP-owned senior housing communities previously leased and operated by Emeritus, that included the termination of embedded purchase options in these leases relating to 30 properties and future rent reductions;
- terminated existing lease agreements on 49 HCP-owned senior housing properties previously leased and operated by Emeritus, that included the termination of embedded purchase options in these leases relating to 19 properties. At closing, the Company contributed 48 of these properties to a newly formed consolidated partnership that is operated under a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as “RIDEA”) (“RIDEA II”); the 49th property was contributed on January 1, 2015. Brookdale owns a 20% noncontrolling equity interest in RIDEA II and manages the facilities on behalf of the partnership; and
- entered into new unconsolidated joint ventures that own 14 campuses of continuing care retirement communities (“CCRC”) in a RIDEA structure (collectively, the “CCRC JV”) with the Company owning a 49% equity interest and Brookdale owning a 51% equity interest. Brookdale manages these communities on behalf of this partnership.

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As a result of terminating the leases discussed above, the Company recognized a net gain of \$38 million in August 2014 consisting of: (i) \$108 million gain based on the fair value of the net consideration received; less (ii) \$70 million to write-off the direct leasing costs and straight-line rent receivables related to the in-place leases.

NOTE 4. Real Estate Property Investments

Acquisition of Private Pay Senior Housing Portfolio (“RIDEA III”)

On June 30, 2015, the Company and Brookdale acquired a portfolio of 35 private pay senior housing communities from Chartwell Retirement Residences, including two leasehold interests, representing 5,025 units. The portfolio was acquired in a RIDEA structure (“RIDEA III”), with Brookdale owning a 10% noncontrolling interest. Brookdale has operated these communities since 2011 and continues to manage the communities under a long-term management agreement, which is cancellable under certain conditions (subject to a fee if terminated within seven years from the acquisition date). The Company paid \$770 million in cash consideration, net of cash assumed, and assumed \$32 million of net liabilities and \$29 million of noncontrolling interests to acquire: (i) real estate with a fair value of \$771 million, (ii) lease-up intangible assets with a fair value of \$53 million and (iii) working capital of \$7 million. As a result of the acquisition, the Company recognized a net termination fee of \$8 million in rental and related revenues, which represents the termination value of the two leasehold interests. The lease-up intangible assets recognized were attributable to the value of the acquired underlying operating resident leases of the senior housing communities that were stabilized or nearly stabilized (i.e., resident occupancy above 80%). From the acquisition date to September 30, 2015, the Company recognized revenues and earnings of \$47 million and \$1 million, respectively, from RIDEA III. As of September 30, 2015, the purchase price allocation is preliminary and may be subject to change.

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations assume that the RIDEA III acquisition was completed as of January 1, 2014 (in thousands, except per share amounts):

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	2014
Revenues	\$ 644,856	\$ 1,963,402	\$ 1,807,405
Net income	255,107	56,009	749,106
Net income applicable to HCP, Inc.	251,297	46,662	736,580
Basic earnings per common share	0.55	0.10	1.60

Diluted earnings per common share	0.55	0.10	1.60
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2015 Other Acquisitions

In addition to the RIDEA III acquisition discussed above, a summary of other real estate acquisitions for the nine months ended September 30, 2015 follows (in thousands):

Segment	Consideration			Assets Acquired(1)	
	Cash Paid/ Debt Settled	Liabilities Assumed	Noncontrolling Interest	Real Estate	Intangibles Net
Senior housing	\$ 221,023 (2)	\$ 8,227	\$ 3,885	\$ 209,084	\$ 24,051
Post-acute/skilled nursing	178,707 (2)	—	—	151,663	27,044
Medical office	377,351 (3)	12,849	—	349,649	40,551
	\$ 777,081	\$ 21,076	\$ 3,885	\$ 710,396	\$ 91,646

(1) Amounts include preliminary purchase price allocations which may be subject to change.

(2) Includes £174 million (\$254 million) of the Company's HC-One Facility (see Note 7) converted to fee ownership in a portfolio of 36 care homes located throughout the United Kingdom ("U.K.") and includes £27 million (\$42 million) of a loan originated in May 2015 converted to fee ownership in two U.K. care homes.

(3) Includes \$225 million for a medical office building ("MOB") portfolio acquisition completed in June 2015 and placed in HCP Ventures V, of which in October 2015 the Company issued a 49% noncontrolling interest in HCP Ventures V for \$110 million (see Note 13).

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2014 Acquisitions

A summary of real estate acquisitions for the nine months ended September 30, 2014 follows (in thousands):

Segment	Consideration		Noncontrolling Interest	Assets Acquired Net	
	Cash Paid	Liabilities Assumed		Real Estate	Intangibles
Senior housing	\$ 215,381 (1)	\$ 1,021	\$ 6,321	(2) \$ 205,778	\$ 16,945
Life science	43,500	250	—	41,281	2,469
Medical office	208,266	463	—	186,799	21,930
	\$ 467,147	\$ 1,734	\$ 6,321	\$ 433,858	\$ 41,344

(1) Includes £76 million (\$129 million) translated into U.S. dollars.

(2) Includes \$5 million of non-managing member limited liability company units.

Completed Developments

During the nine months ended September 30, 2014, the Company placed in service the following: (i) two life science facilities, (ii) a MOB and (iii) a post-acute/skilled nursing facility. These completed developments represented \$41 million of gross real estate on the Company's consolidated balance sheets as of the date they were placed in service. There were no completed developments placed in service during the nine months ended September 30, 2015.

Construction, Tenant and Other Capital Improvements

A summary of the Company's funding for construction, tenant and other capital improvements follows (in thousands):

Segment	Nine Months Ended September 30,	
	2015	2014
Senior housing	\$ 76,640	\$ 23,876
Post-acute/skilled nursing	3,369	2,533
Life science	80,871	91,178
Medical office	93,012	43,773
Hospital	37	1,357
	\$ 253,929	\$ 162,717

NOTE 5. Dispositions of Real Estate and Discontinued Operations

During the nine months ended September 30, 2015, the Company sold the following: (i) nine senior housing facilities for \$60 million resulting from Brookdale's exercise of its purchase option received as part of the Brookdale Transaction, (ii) a parcel of land in its life science segment for \$11 million and (iii) a MOB for \$400,000.

During the nine months ended September 30, 2014, the Company sold the following: (i) two post-acute/skilled nursing facilities for \$22 million, (ii) a hospital for \$17 million and (iii) a MOB for \$145,000.

On August 29, 2014, in conjunction with the Brookdale Transaction, the Company contributed three senior housing facilities with a carrying value of \$92 million into the CCRC JV (an unconsolidated joint venture with Brookdale discussed in Notes 3 and 8). The Company recorded its investment in the CCRC JV for the contribution of these properties at their carrying value (carryover basis) and therefore did not recognize either a gain or loss upon the contribution.

The Company separately presented as discontinued operations the results of operations for all consolidated assets disposed of and all properties held for sale, if any, prior to the adoption of ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, on April 1, 2014 (the "adoption date"). The amounts included in discontinued operations, for the nine months ended September 30, 2014, represent the activity for properties sold prior to the adoption date. No properties sold subsequent to the adoption date met the new criteria for reporting discontinued operations.

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The following table summarizes operating income and gain on sales of real estate included in discontinued operations (dollars in thousands):

	Nine Months Ended September 30, 2014
Rental and related revenues	\$ 1,810
Operating expenses	54
Other expenses, net	20
Income before gain on sales of real estate, net of income taxes	\$ 1,736
Gain on sales of real estate, net of income taxes	\$ 28,010
Number of properties included in discontinued operations	3

Subsequent Disposition. On October 6, 2015, the Company sold a parcel of land in its life science segment for \$40 million.

NOTE 6. Net Investment in Direct Financing Leases

Net investment in direct financing leases (“DFLs”) consisted of the following (dollars in thousands):

	September 30, 2015	December 31, 2014
Minimum lease payments receivable	\$ 26,517,705	\$ 24,182,525
Estimated residual values	3,905,685	4,126,426
Less unearned income	(23,532,360)	(21,028,617)
Net investment in direct financing leases	\$ 6,891,030	\$ 7,280,334
Properties subject to direct financing leases	362	363

HCR ManorCare, Inc.

The Company acquired 334 post-acute, skilled nursing and assisted living facilities in its 2011 transaction with HCR ManorCare Inc. (“HCRMC”) and entered into a triple-net lease agreement (the “Master Lease”) with a subsidiary (“Lessee”) of HCRMC.

During the first quarter of 2015, the Company and HCRMC agreed to market for sale the real estate and operations associated with 50 non-strategic facilities that are under the Master Lease. HCRMC will receive an annual rent reduction under the Master Lease based on 7.75% of the net sales proceeds received by HCP. The first facility sale closed on July 31, 2015. The remaining facility sales are expected to occur during the fourth quarter of 2015 and the first quarter of 2016.

On March 29, 2015, certain subsidiaries of the Company entered into an amendment to the Master Lease (the "HCRMC Lease Amendment") effective April 1, 2015. The HCRMC Lease Amendment reduced initial annual rent by a net \$68 million from \$541 million to \$473 million. Commencing on April 1, 2016, the minimum rent escalation shall be reset to 3.0% for each lease year through the expiration of the initial term of each applicable pool of facilities. Prior to the HCRMC Lease Amendment, rent payments would have increased 3.5% on April 1, 2015 and 2016 and 3.0% thereafter. The initial term was extended five years to an average of 16 years and the extension options' aggregate terms remained the same.

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As consideration for the rent reduction, the Company received a Deferred Rent Obligation from the Lessee equal to an aggregate amount of \$525 million, which was allocated into two tranches: (i) a Tranche A Deferred Rent Obligation of \$275 million and (ii) a Tranche B Deferred Rent Obligation of \$250 million. Until the entire Tranche A Deferred Rent Obligation is paid in full, the Lessee will make rental payments equal to 6.9% of the outstanding amount (representing \$19 million) for the initial lease year (the “Tranche A Current Payment”), increased each year thereafter by 3.0%. Commencing on April 1, 2016, until the Tranche B Deferred Rent Obligation is paid in full, the outstanding principal balance of the Tranche B Deferred Rent Obligation will be increased annually by (i) 3.0% initially, (ii) 4.0% commencing on April 1, 2019, (iii) 5.0% commencing on April 1, 2020, and (iv) 6.0% commencing on April 1, 2021 and for the remainder of its term. The Deferred Rent Obligation is due and payable on the earlier of (i) certain capital or liquidity events of HCRMC, including an IPO or sale, or (ii) March 31, 2029, which is not subject to any extensions. The HCRMC Lease Amendment also imposes certain restrictions on the Lessee and HCRMC until the Deferred Rent Obligation is paid in full, including with respect to the payment of dividends and the transfer of interest in HCRMC.

Additionally, HCRMC agreed to sell, and HCP agreed to purchase, nine post-acute facilities for an aggregate purchase price of \$275 million. The proceeds from the nine facilities will be used to reduce the Tranche A Deferred Rent Obligation as the purchases are consummated. The closing of the purchases of these facilities will be subject to certain customary conditions and approvals. Subsequent to September 30, 2015, HCRMC and HCP completed three of the nine facility purchases for \$87 million in October 2015. The purchases of the remaining six facilities are expected to occur by the end of the first quarter of 2016. If the closing with respect to any of these facilities has not occurred by April 1, 2016, the obligation to purchase any unsold facilities will terminate. Following the purchase of a facility, the Lessee will lease such facility from the Company pursuant to the Master Lease. The nine facilities will contribute an aggregate of \$19 million of annual rent (subject to escalation) under the Master Lease.

In March 2015, the Company recorded a net impairment charge of \$478 million related to its DFL investments with HCRMC. The impairment charge reduced the carrying value of the HCRMC DFL investments from \$6.6 billion to \$6.1 billion, based on the present value of the future lease payments effective April 1, 2015 under the HCRMC Lease Amendment discounted at the original DFL investments’ effective lease rate. There is no related allowance for credit losses recorded within the carrying value of the HCRMC DFL investments.

See Notes 8 and 15 for additional discussion of the Company’s equity interest in HCRMC and related September 2015 impairment charge. See Note 8 for additional discussion of the U.S. Department of Justice action related to HCRMC.

Direct Financing Lease Internal Ratings

The following table summarizes the Company’s internal ratings for DFLs at September 30, 2015 (dollars in thousands):

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Segment	Carrying Amount	Percentage of DFL Portfolio	Internal Ratings		
			Performing DFLs	Watch List DFLs	Workout DFLs
Senior housing	\$ 1,574,246	23	\$ 1,207,550	\$ 366,696	\$ —
Post-acute/skilled nursing	5,192,893	75	5,192,893	—	—
Hospital	123,891	2	123,891	—	—
	\$ 6,891,030	100	\$ 6,524,334	\$ 366,696	\$ —

As a result of HCRMC related events, the Company reassessed the collectability of all contractual rent payments under the amended Master Lease. The Company has concluded that the collection of the amended rent payments is reasonably assured and has assigned an internal rating of “Performing” to its HCRMC DFL investments.

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Beginning September 30, 2013, the Company placed a 14-property senior housing DFL (the “DFL Portfolio”) on non-accrual status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue from the DFL Portfolio is recognized on a cash basis. The Company re-assessed the DFL Portfolio for impairment on September 30, 2015 and determined that the DFL Portfolio was not impaired based on its belief that: (i) it was not probable that it will not collect all of the rental payments under the terms of the lease; and (ii) the fair value of the underlying collateral exceeded the DFL Portfolio’s carrying amount. The fair value of the DFL Portfolio was estimated based on a discounted cash flow model, the inputs to which are considered to be a Level 3 measurement within the fair value hierarchy. Inputs to this valuation model include real estate capitalization rates, industry growth rates and operating margins, some of which influence the Company’s expectation of future cash flows from the DFL Portfolio and, accordingly, the fair value of its investment. During the three months ended September 30, 2015 and 2014, the Company recognized DFL income of \$3 million and \$5 million, respectively, and received cash payments of \$5 million and \$6 million, respectively, from the DFL Portfolio. During the nine months ended September 30, 2015 and 2014, the Company recognized DFL income of \$12 million and \$15 million, respectively, and received cash payments of \$16 million and \$18 million, respectively, from the DFL Portfolio. The carrying value of the DFL Portfolio was \$367 million and \$370 million at September 30, 2015 and December 31, 2014, respectively.

NOTE 7. Loans Receivable

The following table summarizes the Company’s loans receivable (in thousands):

	September 30, 2015			December 31, 2014		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine(1) (2)	\$ —	\$ 696,877	\$ 696,877	\$ —	\$ 799,064	\$ 799,064
Other(2) (3)	90,650	—	90,650	135,363	—	135,363
Unamortized discounts, fees and costs(1)	—	(8,524)	(8,524)	—	(14,056)	(14,056)
Allowance for loan losses	—	(13,410)	(13,410)	—	(13,410)	(13,410)
	\$ 90,650	\$ 674,943	\$ 765,593	\$ 135,363	\$ 771,598	\$ 906,961

- (1) At September 30, 2015, included £269 million (\$408 million) outstanding and £4 million (\$6 million) of associated unamortized discounts, fees and costs both related to the HC-One Facility.
- (2) At September 30, 2015, the Company had £40 million (\$60 million) remaining under its commitments to fund development projects and capital expenditures under the HC-One Facility.
- (3) At September 30, 2015, the Company had \$2 million remaining of commitments to fund development projects and capital expenditures under the senior housing development loan program.

Loans Receivable Internal Ratings

The following table summarizes the Company's internal ratings for loans receivable at September 30, 2015 (dollars in thousands):

Investment Type	Carrying Amount	Percentage of Loan Portfolio	Internal Ratings		
			Performing Loans	Watch List Loans	Workout Loans
Real estate secured	\$ 90,650	12	\$ 90,650	\$ —	\$ —
Other secured	674,943	88	657,956	—	16,987
	\$ 765,593	100	\$ 748,606	\$ —	\$ 16,987

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Other Secured Loans

HC-One Facility. In November 2014, the Company was the lead investor in the financing of Formation Capital and Safanad's acquisition of NHP, a company that, at closing, owned 273 nursing and residential care homes representing over 12,500 beds in the U.K. principally operated by HC-One. The Company provided a loan facility (the "HC-One Facility"), secured by substantially all of NHP's assets, totaling £395 million, with £363 million (\$574 million) drawn at closing. The HC-One Facility has a five-year term and was initially funded by a £355 million draw on the Company's revolving line of credit facility that is discussed in Note 11. In February 2015, the Company increased the HC-One Facility by £108 million (\$164 million) to £502 million (\$795 million), in conjunction with HC-One's acquisition of Meridian Healthcare. In April 2015, the Company converted £174 million of the HC-One Facility into a sale-leaseback transaction for 36 nursing and residential care homes located throughout the U.K. (see Note 4). During the three and nine months ended September 30, 2015, the Company received paydowns of £29 million (\$45 million). In September 2015, the Company amended and increased its commitment under the HC-One Facility by £11 million primarily for the funding of capital expenditures and a development project. As part of the amendments, the Company shortened the non-call period by 17 months and provided consent for (i) the pay down of £34 million from disposition proceeds without a prepayment premium and (ii) the spinoff of 36 properties into a separate joint venture. In return, the Company retained security over the spinoff properties for a period of two years.

Brookdale Receivable. In conjunction with the Brookdale Transaction, on August 29, 2014, the Company provided \$68 million in financing to Brookdale in the form of a 7% interest-only loan secured by Brookdale's 20% equity interest in RIDEA II. On November 3, 2014, the Company received \$68 million from the early repayment of this loan. See additional information regarding the Brookdale Transaction in Note 3.

Tandem Health Care Loan. On July 31, 2012, the Company closed a mezzanine loan facility to lend up to \$205 million to Tandem Health Care ("Tandem"), as part of the recapitalization of a post-acute/skilled nursing portfolio. The Company funded \$100 million (the "First Tranche") at closing and funded an additional \$102 million (the "Second Tranche") in June 2013. In May 2015, the Company increased and extended the mezzanine loan facility with Tandem to (i) fund \$50 million (the "Third Tranche") and \$5 million (the "Fourth Tranche"), which proceeds were used to repay a portion of Tandem's existing senior and mortgage debt, respectively; (ii) extend its maturity to October 2018; and (iii) extend the prepayment penalty period to January 2017. The loans bear interest at fixed rates of 12%, 14%, 6% and 6% per annum for the First, Second, Third and Fourth Tranches, respectively. At September 30, 2015, the facility had an outstanding balance of \$256 million at an 11.5% blended interest rate and was subordinate to \$382 million of senior mortgage debt.

Delphis Operations, L.P. Loan. The Company holds a senior secured term loan made to Delphis Operations, L.P. ("Delphis" or the "Borrower") that is collateralized by assets of the Borrower. The Borrower's collateral is comprised primarily of partnership interests in an operating surgical facility that leases a property owned by the Company. This loan is on cost recovery status and has an internal rating of "workout". The carrying value of the loan, net of an allowance for loan losses, was \$17 million at both September 30, 2015 and December 31, 2014. During the three and nine months ended September 30, 2014, the Company received cash payments from the Borrower of \$0.6 million. At both September 30, 2015 and December 31, 2014, the allowance related to the Company's senior secured term loan to Delphis was \$13 million with no additional allowances recognized during the nine months ended September 30, 2015 or the year ended December 31, 2014.

Subsequent Event. In October 2015, the Company received \$23 million in proceeds from the sale of Delphis' collateral and recognized an impairment recovery of \$6 million for the amount received in excess of the loan's carrying value.

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NOTE 8. Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities that are accounted for under the equity method at September 30, 2015 (dollars in thousands):

Entity(1)	Segment	Carrying Amount	Ownership%
CCRC JV(2)	senior housing	\$ 447,658	49
HCRMC	senior housing and post-acute/skilled nursing	21,238	9
MBK JV(3)	senior housing	26,400	50
HCP Ventures III, LLC	medical office	6,329	30
HCP Ventures IV, LLC	medical office and hospital	24,705	20
HCP Life Science(4)	life science	68,834	50 – 63
Vintage Park	senior housing	5,745	85
MBK Development JV(3)	senior housing	1,824	50
Suburban Properties, LLC	medical office	4,861	67
Advances to unconsolidated joint ventures, net		196	
		\$ 607,790	

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures.

(2) Includes two unconsolidated joint ventures in a RIDEA structure (CCRC PropCo CCRC OpCo).

(3) Includes two unconsolidated joint ventures in a RIDEA structure (PropCo and OpCo).

(4) Includes three unconsolidated joint ventures between the Company and an institutional capital partner. HCP Life Science includes the following partnerships (and the Company's ownership percentage): (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

Summarized combined financial information for the Company's equity method investments follows (in thousands):

	September 30, 2015	December 31, 2014
Real estate, net	\$ 4,987,309	\$ 5,134,587
Goodwill and other assets, net	5,238,342	4,986,310
Total assets	\$ 10,225,651	\$ 10,120,897

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Capital lease obligations and debt	\$ 7,205,096	\$ 7,197,940
Accounts payable	1,139,955	1,015,912
Other partners' capital	1,241,809	1,281,413
HCP's capital(1)	638,791	625,632
Total liabilities and partners' capital	\$ 10,225,651	\$ 10,120,897

- (1) The combined basis difference of the Company's investments in these joint ventures of \$31 million, as of September 30, 2015, is attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease-related net intangibles.

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Total revenues	\$ 1,126,797	\$ 1,082,110	\$ 3,435,943	\$ 3,209,039
Income (loss) from discontinued operations	2,100	2,000	(3,900)	(6,800)
Net loss	(65,819)	(702)	(77,529)	(4,826)
HCP's share of earnings(1)	8,314	10,168	33,916	39,388
Fees earned by HCP	454	447	1,372	1,340
Distributions received by HCP	16,186	2,113	20,673	5,881

(1) The Company's joint venture interest in HCRMC is accounted for using the equity method and results in an ongoing elimination of DFL income proportional to HCP's ownership in HCRMC. The elimination of the respective proportional lease expense at the HCRMC level in substance results in \$14 million and \$16 million of DFL income that is recharacterized to the Company's share of earnings from HCRMC (equity income from unconsolidated joint ventures) for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, \$44 million and \$47 million, respectively, of DFL income was recharacterized to the Company's share of earnings from HCRMC.

CCRC JV. On August 29, 2014, as part of the Brookdale Transaction discussed in Note 3, HCP and Brookdale formed unconsolidated joint ventures that own 14 CCRC campuses in a RIDEA structure. At closing, Brookdale contributed eight of its owned campuses; the Company contributed two campuses previously leased to Brookdale valued at \$162 million (carrying value of \$92 million) and \$370 million of cash. At closing, the CCRC JV campuses were encumbered by \$569 million of mortgage debt and entrance fee obligations.

HCRMC. On April 20, 2015, the U.S. Department of Justice ("DOJ") unsealed a previously filed complaint in the United States District Court for the Eastern District of Virginia against HCRMC and certain of its affiliates in three consolidated cases following a civil investigation arising out of three lawsuits filed by former employees of HCRMC under the qui tam provisions of the federal False Claims Act. The DOJ's complaint in intervention is captioned United States of America, ex rel. Ribik, Carson, and Slough v. HCR ManorCare, Inc., ManorCare Inc., HCR ManorCare Services, LLC and Heartland Employment Services, LLC (Civil Action Numbers: 1:09cv13; 1:11cv1054; 1:14cv1228 (CMH/TCB)). The complaint alleges that HCRMC submitted claims to Medicare for therapy services that were not covered by the skilled nursing facility benefit, were not medically reasonable and necessary, and were not skilled in nature, and therefore not entitled to Medicare reimbursement. While this litigation is at an early stage and HCRMC has indicated that it believes the claims are unjust and it will vigorously defend against them, a significant adverse judgment against HCRMC or significant settlement obligation could impact the carrying value of the Company's investments in HCRMC's operations and/or DFLs investment further (see Note 6).

On October 28, 2015, the Company concluded that its 9% equity investment in HCRMC was other-than-temporarily impaired as of September 30, 2015 and recorded an impairment charge of \$27 million during the three months ended September 30, 2015 (see Note 15).

MBK JVs. On March 30, 2015, the Company and MBK Senior Living (“MBK”), a subsidiary of Mitsui & Co. Ltd, formed a new RIDEA joint venture (“MBK JV”) that owns three senior housing facilities with the Company and MBK each owning a 50% equity interest. MBK manages these communities on behalf of the joint venture. The Company contributed \$27 million of cash and MBK contributed the three senior housing facilities with a fair value of \$126 million, which were encumbered by \$78 million of mortgage debt at closing. On September 25, 2015, the Company and MBK formed a new RIDEA joint venture (“MBK Development JV”) which acquired a \$3 million parcel of land for the purpose of developing a 74-unit class A senior housing facility in Santa Rosa, California. The parcel of land is located adjacent to the Oakmont Gardens independent living facility currently owned and operated by the MBK JV.

NOTE 9. Intangibles

At September 30, 2015 and December 31, 2014, gross intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles, were \$948 million and \$830 million, respectively. At September 30, 2015 and December 31, 2014, the accumulated amortization of intangible assets was \$388 million and \$349 million, respectively.

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At September 30, 2015 and December 31, 2014, gross intangible lease liabilities, comprised of below market tenant lease intangibles and above market ground lease intangibles were \$204 million and \$209 million, respectively. At September 30, 2015 and December 31, 2014, the accumulated amortization of intangible liabilities was \$131 million and \$124 million, respectively.

NOTE 10. Other Assets

A summary of the Company's other assets follows (in thousands):

	September 30, 2015	December 31, 2014
Straight-line rent receivables, net of allowance of \$33,527 and \$34,182, respectively	\$ 378,295	\$ 355,864
Marketable debt securities, net	118,019	231,442
Leasing costs and inducements, net	158,297	146,500
Deferred financing costs, net	53,750	47,592
Goodwill	50,346	50,346
Other	124,626	108,428
Total other assets	\$ 883,333	\$ 940,172

At September 30, 2015 and December 31, 2014, within other assets is a non-interest bearing receivable of \$14 million and \$26 million, respectively, from Brookdale payable in eight quarterly installments. At September 30, 2015 and December 31, 2014, other assets also includes loan receivables of \$21 million and \$15 million, respectively, from HCP Ventures IV, LLC ("HCP Ventures IV"), an unconsolidated joint venture (see Note 8) with an interest rate of 12% per annum which mature through September 2016. The loan is senior to equity distributions to the Company's joint venture partner.

Marketable debt securities, net are classified as held-to-maturity debt securities and primarily represent senior notes issued by Elli Investments Limited ("Elli"), a company beneficially owned by funds or limited partnerships managed by Terra Firma, as part of the financing for Elli's acquisition of Four Seasons Health Care (the "Four Seasons Notes"). The Four Seasons Notes mature in June 2020, are non-callable through June 2016 and bear interest on their par value at a fixed rate of 12.25% per annum. The Company purchased an aggregate par value of £138.5 million of the Four Seasons Notes at a discount for £136.8 million (\$215 million) in June 2012, representing 79% of the total £175 million issued and outstanding Four Seasons Notes. In June 2015 and September 2015, the Company determined that the Four Seasons Notes were other-than-temporarily impaired (see Note 15).

NOTE 11. Debt

Bank Line of Credit and Term Loans

The Company's \$2.0 billion unsecured revolving line of credit facility (the "Facility") matures on March 31, 2018 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon the Company's credit ratings. The Company pays a facility fee on the entire revolving commitment that depends on its credit ratings. Based on the Company's credit ratings at September 30, 2015, the margin on the Facility was 0.925%, and the facility fee was 0.15%. The Facility also includes a feature that allows the Company to increase the borrowing capacity by an aggregate amount of up to \$500 million, subject to securing additional commitments from existing lenders or new lending institutions. At September 30, 2015, the Company had \$1.0 billion, including £242 million (\$366 million), outstanding under the Facility with a weighted average effective interest rate of 1.52%.

On January 12, 2015, the Company entered into a credit agreement with a syndicate of banks for a £220 million (\$333 million at September 30, 2015) four-year unsecured term loan (the "2015 Term Loan") that accrues interest at a rate of GBP LIBOR plus 0.975%, subject to adjustments based on the Company's credit ratings. Proceeds from this term loan were used to repay a £220 million draw on the Facility that partially funded the November 2014 HC-One Facility (see Note 7). Concurrently, the Company entered into a three-year interest rate swap agreement that effectively fixes the interest rate of the 2015 Term Loan at 1.79% (see Note 21). The 2015 Term Loan contains a one-year committed extension option.

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The Facility and term loans contain certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and term loans also require a Minimum Consolidated Tangible Net Worth of \$9.5 billion at September 30, 2015. At September 30, 2015, the Company was in compliance with each of these restrictions and requirements.

Senior Unsecured Notes

At September 30, 2015, the Company had senior unsecured notes outstanding with an aggregate principal balance of \$8.6 billion. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at September 30, 2015.

The following table summarizes the Company's senior unsecured notes issuances for the periods presented (dollars in thousands):

Period	Amount	Coupon Rate	Maturity Date	Net Proceeds
Nine months ended September 30, 2015:				
January 21, 2015	\$ 600,000	3.400 %	2025	\$ 591,000
May 20, 2015	\$ 750,000	4.000 %	2025	\$ 739,000
Year ended December 31, 2014:				
February 21, 2014	\$ 350,000	4.200 %	2024	\$ 346,000
August 14, 2014	\$ 800,000	3.875 %	2024	\$ 792,000

The following table summarizes the Company's senior unsecured notes payoffs for the periods presented (dollars in thousands):

Period	Amount	Coupon Rate
Nine months ended September 30, 2015:		

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March 1, 2015	\$ 200,000	6.00	%
June 8, 2015	\$ 200,000	7.07	%
Year ended December 31, 2014:			
February 1, 2014	\$ 400,000	2.70	%
June 14, 2014	\$ 62,000	6.00	%
June 14, 2014	\$ 25,000	3 Month LIBOR+0.9	%

Mortgage Debt

At September 30, 2015, the Company had \$940 million in aggregate principal amount of mortgage debt outstanding, which is secured by 63 healthcare facilities (including redevelopment properties) with a carrying value of \$1.2 billion.

Mortgage debt generally requires monthly principal and interest payments, is collateralized by real estate assets and is generally non-recourse. Mortgage debt typically restricts transfer of the encumbered assets, prohibits additional liens, restricts prepayment, requires payment of real estate taxes, requires maintenance of the assets in good condition, requires maintenance of insurance on the assets and includes conditions to obtain lender consent to enter into or terminate material leases. Some of the mortgage debt is also cross-collateralized by multiple assets and may require tenants or operators to maintain compliance with the applicable leases or operating agreements of such real estate assets.

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Debt Maturities

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at September 30, 2015, (in thousands):

Year	Bank Line of Credit(1)	Term Loans(2)	Senior		Total(5)
			Unsecured Notes(3)	Mortgage Debt(4)	
2015 (three months)	\$ —	\$ —	\$ —	\$ 7,542	\$ 7,542
2016	—	207,528	900,000	279,194	1,386,722
2017	—	—	750,000	581,891	1,331,891
2018	1,000,824	—	600,000	6,583	1,607,407
2019	—	333,256	450,000	2,072	785,328
Thereafter	—	—	5,900,000	63,170	5,963,170
	1,000,824	540,784	8,600,000	940,452	11,082,060
Discounts, net	—	—	(31,271)	(470)	(31,741)
	\$ 1,000,824	\$ 540,784	\$ 8,568,729	\$ 939,982	\$ 11,050,319

(1) Includes £242 million (\$366 million) translated into U.S. dollars.

(2) Represents £357 million translated into U.S. dollars.

(3) Interest rates on the notes ranged from 2.79% to 6.88% with a weighted average effective interest rate of 4.71% and a weighted average maturity of six years.

(4) Interest rates on the mortgage debt ranged from 3.16% to 8.35% with a weighted average effective interest rate of 6.21% and a weighted average maturity of three years.

(5) Excludes \$95 million of other debt that represents Life Care Bonds and Demand Notes that have no scheduled maturities.

Other Debt

At September 30, 2015, the Company had \$67 million of non-interest bearing life care bonds at two of its continuing care retirement communities and non-interest bearing occupancy fee deposits at two of its senior housing facilities, all of which are payable to certain residents of the facilities (collectively, "Life Care Bonds"). The Life Care Bonds are generally refundable to the residents upon the termination of the contract or upon the successful resale of the unit.

At September 30, 2015, the Company had \$28 million of on-demand notes ("Demand Notes") from the CCRC JV. The Demand Notes bear interest at a rate of 4.5%.

NOTE 12. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company's business. The Company is not aware of any legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company's business, prospects, financial condition, results of operations or cash flows. The Company's policy is to expense legal costs as they are incurred.

Liquidity Support Arrangement

The Company has a 20% ownership interest in an unconsolidated joint venture, HCP Ventures IV, which has \$107 million of contractual secured debt obligations ("Contractual Obligations") coming due through February 2016. In the event: (i) HCP Ventures IV is unable to refinance these Contractual Obligations with third party lenders or (ii) the equity members do not jointly agree to make additional capital contributions to repay such Contractual Obligations, the Company has committed to provide the necessary level of financial support in the form of a shortfall loan to enable HCP Ventures IV to repay such Contractual Obligations. Additionally, the Company has committed to fund, in the form of a shortfall loan, up to \$24.5 million for prior and future capital expenditures of which \$21 million has been funded as of September 30, 2015 and included in other assets, net. This liquidity support arrangement is permitted under the joint venture agreement between the members, and any such funding earns interest at a rate equal to 12% per annum from the date actually advanced until the date it is repaid in full (see Notes 8, 10 and 18).

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NOTE 13. Equity

Common Stock

The following table lists the common stock cash dividends declared by the Company in 2015:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
January 29	February 9	\$ 0.565	February 24
April 30	May 11	0.565	May 26
July 30	August 10	0.565	August 25
October 29	November 9	0.565	November 24

In June 2015, the Company established an at-the-market equity offering program (“ATM Program”). Under this program, the Company may sell shares of its common stock from time to time having an aggregate gross sales price of up to \$750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. During the three and nine months ended September 30, 2015, the Company issued 1.25 million shares of common stock at a weighted average price of \$40.58 for proceeds of \$50 million, net of fees and commissions of \$1 million.

The following is a summary of the Company’s other common stock activities (shares in thousands):

	Nine Months Ended September 30,	
	2015	2014
Dividend Reinvestment and Stock Purchase Plan	2,345	1,775
Conversion of DownREIT units(1)	75	2
Exercise of stock options	820	131
Vesting of restricted stock units	382	575
Repurchase of common stock	178	297

(1) Non-managing member LLC units.

Subsequent Event. During October 2015, the Company issued 589,000 shares of common stock under its ATM Program at a weighted average price of \$39.20 for proceeds of \$23 million, net of fees and commissions of \$350,000.

Accumulated Other Comprehensive Loss

The following is a summary of the Company's accumulated other comprehensive loss (in thousands):

	September 30, 2015	December 31, 2014
Cumulative foreign currency translation adjustment	\$ (18,844)	\$ (10,747)
Unrealized losses on cash flow hedges, net	(9,932)	(9,624)
Supplemental Executive Retirement Plan minimum liability	(3,329)	(3,537)
Unrealized (losses) gains on available for sale securities	(345)	13
Total accumulated other comprehensive loss	\$ (32,450)	\$ (23,895)

Noncontrolling Interests

At September 30, 2015, non-managing members held an aggregate of 4 million units in five limited liability companies ("DownREITs"), for which the Company is the managing member. At September 30, 2015, the carrying and fair values of these DownREIT units were \$186 million and \$224 million, respectively.

See Note 17 for the supplemental schedule of non-cash financing activities.

Subsequent Event. On October 7, 2015, the Company issued a 49% noncontrolling interest in HCP Ventures V to an institutional capital investor for \$110 million. HCP Ventures V owns a portfolio of 11 on-campus MOBs located in Texas acquired through a sale-leaseback transaction with Memorial Hermann in June 2015 (see Note 4).

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NOTE 14. Segment Disclosures

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the medical office segment, the Company invests through the acquisition and development of MOB's, which generally require a greater level of property management. Otherwise, the Company primarily invests, through the acquisition and development of real estate, in single tenant and operator properties and debt issued by tenants and operators in these sectors. The accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements herein and in the Company's 2014 Annual Report on Form 10-K filed with the SEC. There were no intersegment sales or transfers during the nine months ended September 30, 2015 and 2014. The Company evaluates performance based upon (i) property net operating income from continuing operations ("NOI"), (ii) adjusted NOI (cash NOI), and (iii) adjusted NOI plus interest income ("Portfolio Income") of the combined investments in each segment.

Non-segment assets consist primarily of corporate assets, including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities, deferred financing costs and, if any, real estate held for sale. Interest expense, depreciation and amortization, and non-property specific revenues and expenses are not allocated to individual segments in evaluating the Company's segment-level performance. See Note 19 for other information regarding concentrations of credit risk.

Summary information for the reportable segments follows (in thousands):

For the three months ended September 30, 2015:

	Senior Housing	Post-acute/ Skilled nursing	Life Science	Medical Office	Hospital	Total
Rental revenues(1)	\$ 131,267	\$ 132,650	\$ 86,140	\$ 109,915	\$ 22,395	\$ 482,367
Resident fees and services	155,290	—	—	—	—	155,290
Operating expenses	(111,167)	(531)	(17,785)	(43,432)	(600)	(173,515)
NOI	175,390	132,119	68,355	66,483	21,795	464,142
Non-cash adjustments to NOI(2)	(6,141)	(20,362)	(2,613)	(1,363)	286	(30,193)
Adjusted (cash) NOI	169,249	111,757	65,742	65,120	22,081	433,949
Interest income	2,411	17,431	—	—	—	19,842

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Portfolio Income	\$ 171,660	\$ 129,188	\$ 65,742	\$ 65,120	\$ 22,081	453,791
Addback non-cash adjustments						30,193
Investment management fee income						454
Interest expense						(122,157)
Depreciation and amortization						(134,704)
General and administrative expenses						(20,534)
Acquisition and pursuit costs						(1,553)
Impairments						(69,622)
Gains on sales of real estate, net of income taxes						52
Other expense, net						(1,026)
Income tax benefit						1,980
Equity income in unconsolidated joint ventures						8,314
Impairment of investments in unconsolidated joint ventures						(27,234)
Net income						\$ 117,954

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For the three months ended September 30, 2014:

	Senior Housing	Post-acute/ Skilled nursing	Life Science	Medical Office	Hospital	Total
Rental revenues(1)	\$ 183,834	\$ 139,205	\$ 79,450	\$ 92,412	\$ 21,560	\$ 516,461
Resident fees and services	62,213	—	—	—	—	62,213
Operating expenses	(43,017)	(534)	(16,637)	(38,459)	(952)	(99,599)
NOI	203,030	138,671	62,813	53,953	20,608	479,075
Non-cash adjustments to NOI(2)	(47,518)	(16,693)	(2,091)	528	130	(65,644)
Adjusted (cash) NOI	155,512	121,978	60,722	54,481	20,738	413,431
Interest income	3,919	13,598	—	—	—	17,517
Portfolio Income	\$ 159,431	\$ 135,576	\$ 60,722	\$ 54,481	\$ 20,738	430,948
Addback non-cash adjustments						65,644
Investment management fee income						447
Interest expense						(111,275)
Depreciation and amortization						(122,975)
General and administrative expenses						(19,479)
Acquisition and pursuit costs						(5,475)
Other expense, net						3,111
Income tax benefit						(55)
Equity income in unconsolidated joint ventures						10,168
Net income						\$ 251,059

For the nine months ended September 30, 2015:

	Senior Housing	Post-acute/ Skilled nursing	Life Science	Medical Office	Hospital	Total
Rental revenues(1)	\$ 382,559	\$ 404,121	\$ 255,100	\$ 310,805	\$ 66,129	\$ 1,418,714
Resident fees and services	367,141	—	—	—	—	367,141
Operating expenses	(263,191)	(1,602)	(51,718)	(122,469)	(2,908)	(441,888)
NOI	486,509	402,519	203,382	188,336	63,221	1,343,967
Non-cash adjustments to NOI(2)	(11,316)	(57,522)	(8,433)	(4,399)	764	(80,906)
Adjusted (cash) NOI	475,193	344,997	194,949	183,937	63,985	1,263,061

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Interest income	22,042	67,007	—	—	—	89,049
Portfolio Income	\$ 497,235	\$ 412,004	\$ 194,949	\$ 183,937	\$ 63,985	1,352,110
Addback non-cash adjustments						80,906
Investment management fee income						1,372
Interest expense						(357,569)
Depreciation and amortization						(369,629)
General and administrative expenses						(74,152)
Acquisition and pursuit costs						(23,350)
Impairments						(592,921)
Gains on sales of real estate, net of income taxes						6,377
Other income, net						11,753
Income tax benefit						6,620
Equity income in unconsolidated joint ventures						33,916
Impairment of investments in unconsolidated joint ventures						(27,234)
Net income						\$ 48,199

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For the nine months ended September 30, 2014:

	Senior Housing	Post-acute/ Skilled nursing	Life Science	Medical Office	Hospital	Total
Rental revenues(1)	\$ 485,823	\$ 415,533	\$ 233,113	\$ 273,215	\$ 64,372	\$ 1,472,056
Resident fees and services	138,205	—	—	—	—	138,205
Operating expenses	(92,388)	(1,599)	(46,247)	(111,140)	(2,799)	(254,173)
NOI	531,640	413,934	186,866	162,075	61,573	1,356,088
Non-cash adjustments to NOI(2)	(72,277)	(51,752)	(7,976)	(795)	301	(132,499)
Adjusted (cash) NOI	459,363	362,182	178,890	161,280	61,874	1,223,589
Interest income	10,633	40,517	—	—	—	51,150
Portfolio Income	\$ 469,996	\$ 402,699	\$ 178,890	\$ 161,280	\$ 61,874	1,274,739
Addback non-cash adjustments						132,499
Investment management fee income						1,340
Interest expense						(324,755)
Depreciation and amortization						(343,496)
General and administrative expenses						(62,034)
Acquisition and pursuit costs						(13,376)
Other income, net						5,750
Income tax expense						(2,840)
Equity income in unconsolidated joint ventures						39,388
Total discontinued operations						29,746
Net income						\$ 736,961

(1) Represents rental and related revenues, tenant recoveries and income from DFLs.

(2) Represents straight-line rents, DFL accretion, amortization of market lease intangibles and lease termination fees.

A summary of the Company's total assets by segment follows (in thousands):

Segment	September 30, 2015	December 31, 2014
Senior housing	\$ 9,490,110	\$ 8,383,345
Post-acute/skilled nursing	6,368,064	6,875,122
Life science	4,198,937	4,154,789
Medical office	3,439,970	2,988,888
Hospital	639,807	640,253

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Gross segment assets	24,136,888	23,042,397
Accumulated depreciation and amortization	(2,895,184)	(2,600,072)
Net segment assets	21,241,704	20,442,325
Other non-segment assets	951,269	927,615
Total assets	\$ 22,192,973	\$ 21,369,940

At both September 30, 2015 and December 31, 2014, goodwill of \$50 million was allocated to segment assets as follows: (i) senior housing—\$31 million, (ii) post-acute/skilled nursing—\$3 million, (iii) medical office—\$11 million and (iv) hospital—\$5 million.

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NOTE 15. Impairments

On October 28, 2015, the Company concluded that its 9% equity investment in HCRMC (see Note 8) was other-than-temporarily impaired as of September 30, 2015 and recorded an impairment charge of \$27 million during the three months ended September 30, 2015. The impairment charge reduced the carrying amount of the Company's investment in HCRMC from \$48 million to its fair value of \$21 million. The impairment determination primarily resulted from the Company's review of recent HCRMC operating results and market and industry data which, among other factors, show a declining trend in admissions from hospitals and continuing trends in mix and length of stay driven by Medicare Advantage and other managed care plans.

The fair value of the Company's equity investment in HCRMC was based on a discounted cash flow valuation model and inputs were considered to be Level 3 measurements within the fair value hierarchy. Inputs to this valuation model include earnings multiples, discount rate, industry growth rates of revenue, operating expenses and facility occupancy, some of which influence the Company's expectation of future cash flows from its investment in HCRMC and, accordingly, the fair value of its investment.

In June 2015 and September 2015, the Company determined that its Four Seasons Notes (see Note 10) were other-than-temporarily impaired resulting from a continued decrease in the fair value of its investment. Although the Company does not intend to sell and does not believe it will be required to sell the Four Seasons Notes before their maturity, the Company determined that a credit loss existed resulting from several factors including: (i) deterioration in Four Seasons' operating performance since the fourth quarter of 2014 and (ii) credit downgrades received during the first half of 2015. Accordingly, the Company recorded impairment charges during the three months ended June 30, 2015 and September 30, 2015 of \$42 million and \$70 million, respectively, reducing the carrying value of the Four Seasons Notes at September 30, 2015 to \$100 million (£66 million). Elli remains obligated to repay the aggregate par value at maturity and interest payments due June 15 and December 15 each year. When the remaining semi-annual interest payments are received, the Company expects to reduce the carrying value of the Four Seasons Notes during the related fiscal period.

The fair value of the Four Seasons Notes used to calculate the impairment charge was based on quoted market prices. However, because the Four Seasons Notes are not actively traded, these prices are considered to be Level 2 measurements within the fair value hierarchy. When calculating the fair value and determining whether a credit loss existed, the Company also evaluated Four Season's ability to repay the Four Seasons Notes according to their contractual terms based on its estimate of future cash flows. The estimated future cash flow inputs included forecasted revenues, capital expenditures, operating expenses, care home occupancy and continued implementation of Four Seasons' business plan which includes executing on its business line segmentation and continuing to invest in its core real estate portfolio. This information was consistent with the results of the valuation technique used by the Company to determine if a credit loss existed and to calculate the fair value of the Four Seasons Notes during its impairment review.

In June 2015, the Company determined a MOB was impaired and recognized an impairment charge of \$3 million, which reduced the carrying value of the Company's investment to \$400,000. The fair value of the MOB was based on its projected sales prices, which was considered to be a Level 2 measurement within the fair value hierarchy. In July 2015, the Company sold the MOB for \$400,000 (see Note 5).

In March 2015, the Company recorded a net impairment charge of \$478 million related to its DFL investments with HCRMC (see Note 6).

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NOTE 16. Earnings Per Common Share

The following table illustrates the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator				
Income from continuing operations	\$ 117,954	\$ 251,059	\$ 48,199	\$ 707,215
Noncontrolling interests' share in continuing operations	(2,592)	(3,405)	(8,566)	(10,134)
Income from continuing operations applicable to HCP	115,362	247,654	39,633	697,081
Participating securities' share in continuing operations	(316)	(446)	(1,020)	(1,999)
Income from continuing operations applicable to common shares	115,046	247,208	38,613	695,082
Discontinued operations	—	—	—	29,746
Noncontrolling interests' share in discontinued operations	—	—	—	(1,177)
Net income applicable to common shares	\$ 115,046	\$ 247,208	\$ 38,613	\$ 723,651
Denominator				
Basic weighted average common shares	463,337	458,799	462,039	458,119
Dilutive potential common shares	249	342	263	354
Diluted weighted average common shares	463,586	459,141	462,302	458,473
Basic earnings per common share				
Income from continuing operations	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.52
Discontinued operations	—	—	—	0.06
Net income applicable to common shares	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.58
Diluted earnings per common share				
Income from continuing operations	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.52
Discontinued operations	—	—	—	0.06
Net income applicable to common shares	\$ 0.25	\$ 0.54	\$ 0.08	\$ 1.58

Restricted stock and certain of the Company's performance restricted stock units are considered participating securities, because dividend payments are not forfeited even if the underlying award does not vest, which requires the use of the two-class method when computing basic and diluted earnings per share. Options to purchase approximately 1.2 million and 1.1 million shares of common stock that had an exercise price (including deferred compensation

expense) in excess of the average closing market price of the Company's common stock during the three months ended September 30, 2015 and 2014, respectively, were not included in the Company's earnings per share calculations because they are anti-dilutive. Restricted stock and performance restricted stock units representing 0.3 million and 0.1 million shares of common stock during the three months ended September 30, 2015 and 2014, respectively, were not included because they are anti-dilutive. Additionally, 6 million shares issuable upon conversion of 4 million DownREIT units during the three months ended September 30, 2015 and 2014 were not included because they are anti-dilutive.

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NOTE 17. Supplemental Cash Flow Information

The following table provides supplemental cash flow information (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Supplemental cash flow information:		
Interest paid, net of capitalized interest	\$ 393,095	\$ 359,483
Income taxes paid	4,808	4,282
Capitalized interest	5,995	8,185
Supplemental schedule of non-cash investing activities:		
Accrued construction costs	46,104	28,933
Loan originated in connection with Brookdale Transaction	—	67,640
Real estate contributed to CCRC JV	—	91,603
Settlement of loans receivable as consideration for real estate acquisition	346,745	32,000
Tenant funded tenant improvements owned by HCP	17,552	—
Supplemental schedule of non-cash financing activities:		
Vesting of restricted stock units	382	575
Cancellation of restricted stock	—	1
Conversion of non-managing member units into common stock	2,454	73
Noncontrolling interest issued in connection with Brookdale Transaction	—	46,751
Noncontrolling interest and other liabilities, net assumed in connection with the RIDEA III acquisition	61,219	—
Noncontrolling interest issued in connection with real estate acquisitions	3,885	6,321
Noncontrolling interest disposed in connection with real estate sales	—	1,671
Other liabilities assumed with real estate acquisitions	21,076	1,734
Unrealized (losses) gains on available-for-sale securities and derivatives designated as cash flow hedges, net	(647)	1,824

NOTE 18. Variable Interest Entities

Unconsolidated Variable Interest Entities

At September 30, 2015, the Company had investments in: (i) three unconsolidated VIE joint ventures; (ii) 48 properties leased to VIE tenants; (iii) a loan to a VIE borrower; and (iv) marketable debt securities of two VIE borrowers. The Company has determined that it is not the primary beneficiary of these VIEs. The Company does not consolidate these VIEs because it does not have the ability to control the activities that most significantly impact their

economic performance. Except for the Company's equity interest in the unconsolidated joint ventures (CCRC OpCo, HCP Ventures IV and Vintage Park discussed below), the Company has no formal involvement in these VIEs beyond its investments.

The Company holds a 49% ownership interest in CCRC OpCo, a joint venture entity formed in August 2014 that operates senior housing properties in a RIDEA structure, that has been identified as a VIE (see Notes 3 and 8). The equity members of CCRC OpCo "lack power" because they share certain operating rights with Brookdale as manager of the CCRCs. The assets of CCRC OpCo primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable, and cash and cash equivalents; its obligations primarily consist of operating lease obligations to CCRC PropCo and accounts payable and expense accruals associated with the cost of its CCRCs' operations. Assets generated by the CCRC operations (primarily rents from CCRC residents) of CCRC OpCo may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to manage such facilities).

In the first quarter of 2015, upon the occurrence of a reconsideration event, it was determined that HCP Ventures IV is a VIE because this entity is "thinly capitalized." The ability to control the activities that most significantly impact HCP Ventures IV's economic performance are shared among equity members. The assets of HCP Ventures IV primarily consist of MOBs and hospitals that it owns and leases, intangible assets, straight-line rents receivable, and cash and cash equivalents; its obligations primarily consist of mortgage debt, member loans, intangible liabilities, deferred revenue, and accounts payable and accrued liabilities associated with the cost of its rental properties. Assets generated by the operations

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(primarily rental revenues) of HCP Ventures IV may only be used to settle its contractual obligations (primarily operating expenses and debt service payments).

The Company holds an 85% ownership interest in Vintage Park (see Note 8) that has been identified as a VIE. Although power is shared among equity members, one equity member does not have a substantive investment in the entity. The assets of Vintage Park primarily consist of an in-progress independent living facility development project that it owns and cash and cash equivalents; its obligations primarily consist of accounts payable and expense accruals associated with the cost of the development obligations. Any assets generated by Vintage Park may only be used to settle its contractual obligations (primarily development expenses and debt service payments).

The Company leases 48 properties to a total of seven tenants that have been identified as VIEs (“VIE tenants”) because these VIE tenants are “thinly capitalized” entities that rely on the operating cash flows generated from the senior housing facilities to pay operating expenses, including the rent obligations under their leases.

The Company holds Four Seasons Notes (see Note 10). In the second quarter of 2015, upon the occurrence of a reconsideration event, it was determined that the issuer of the Four Seasons Notes is a VIE because this entity is “thinly capitalized” (see Note 15).

The Company holds an interest-only, senior secured term loan made to a borrower (Delphis Operations, L.P.) that has been identified as a VIE because it is a “thinly capitalized” entity (see Note 7). The loan is collateralized by all of the assets of the borrower (comprised primarily of a partnership interest in an operating surgical facility that leases a property owned by the Company).

The Company holds commercial mortgage-backed securities (“CMBS”) issued by Federal Home Loan Mortgage Corporation (“Freddie MAC”) through a special purpose entity that has been identified as a VIE because it is “thinly capitalized”. The CMBS issued by the VIE are backed by mortgage debt obligations on real estate assets.

The classification of the related assets and liabilities and their maximum loss exposure as a result of the Company’s involvement with these VIEs at September 30, 2015 are presented below (in thousands):

Maximum Loss

Carrying

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VIE Type	Exposure(1)	Asset/Liability Type	Amount
VIE tenants—DFLs	\$ 600,235	Net investment in DFLs	\$ 600,235
VIE tenants—operating leases	11,299	Lease intangibles, net and straight-line rent receivables	11,299
Four Seasons Notes	100,348	Marketable debt securities	100,348
CCRC OpCo	234,246	Investments in unconsolidated joint ventures	234,246
HCP Ventures IV	152,415	Investments in unconsolidated joint ventures	45,416
Vintage Park	5,745	Investments in unconsolidated joint ventures	5,745
Loan—senior secured	16,987	Loans receivable, net	16,987
CMBS	17,751	Marketable debt securities	17,751

(1) The Company's maximum loss exposure related to VIE tenants, CCRC OpCo, Vintage Park, and loans and marketable debt securities to VIE borrowers represents the aggregate carrying amount of such investments (including accrued interest). The Company's maximum loss exposure related to HCP Ventures IV represents the aggregate carrying amount of its investments plus commitments under its support arrangement, which may be mitigated by the refinancing of HCP Ventures IV's Contractual Obligations which it expects to occur as such debt becomes due in late 2015 and early 2016 (see Note 12).

With the exception of HCP Ventures IV, as of September 30, 2015, the Company has not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash shortfalls). At September 30, 2015, the Company has a loan of \$21 million to HCP Ventures IV. HCP Ventures IV has \$107 million of Contractual Obligations coming due through February 2016. The Company has committed to provide the necessary level of financial support, in the form of a shortfall loan, to HCP Ventures IV in the event the joint venture is (i) unable to refinance its Contractual Obligations with third party lenders or (ii) the equity members do not jointly agree to make additional capital contributions to repay its

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Contractual Obligations. See Notes 3, 6, 7, 8, 10 and 12 for additional descriptions of the nature, purpose and operating activities of the Company's unconsolidated VIEs and interests therein.

Consolidated Variable Interest Entities

RIDEA I. The Company holds a 90% ownership interest in a joint venture entity formed in September 2011 that operates senior housing properties in a RIDEA structure ("RIDEA I OpCo"). The Company consolidates RIDEA I OpCo as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIE's economic performance. The assets of RIDEA I OpCo primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to a non-VIE consolidated subsidiary of the Company and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily from senior housing resident rents) of RIDEA I OpCo may only be used to settle its contractual obligations (primarily from the rental costs and operating expenses incurred to manage such facilities).

RIDEA II. The Company holds an 80% ownership interest in joint venture entities formed in August 2014 that own and operate senior housing properties in a RIDEA structure ("RIDEA II"). The Company consolidates RIDEA II ("SH PropCo" and "SH OpCo") as the primary beneficiary because it has the ability to control the activities that most significantly impact these VIEs' economic performance. The assets of SH PropCo primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; its obligations primarily consist of a note payable to a non-VIE consolidated subsidiary of the Company. The assets of SH OpCo primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to SH PropCo and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily from senior housing resident rents) of the RIDEA II structure may only be used to settle its contractual obligations (primarily from the rental costs and operating expenses incurred to manage such facilities).

RIDEA III. The Company holds a 90% ownership interest in a joint venture entity formed in June 2015 that operates senior housing properties in a RIDEA structure ("RIDEA III OpCo"). The Company consolidates RIDEA III OpCo as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIE's economic performance. The assets of RIDEA III OpCo primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to a non-VIE consolidated subsidiary of the Company and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily from senior housing resident rents) of RIDEA III OpCo may only be used to settle its contractual obligations (primarily from the rental costs and operating expenses incurred to manage such facilities).

Other consolidated VIEs. The Company made a loan to an entity that entered into a tax credit structure ("Tax Credit Subsidiary") and a loan to an entity that made an investment in a development joint venture ("Development JV") both of which are considered VIEs. The Company consolidates the Tax Credit Subsidiary and Development JV because it is the primary beneficiary as it has the ability to control the activities that most significantly impact the VIEs' economic

performance. The assets and liabilities of the Tax Credit Subsidiary and Development JV substantially consist of development in progress, notes receivable, prepaid expenses, notes payable, and accounts payable and accrued liabilities generated from their operating activities. Any assets generated by the operating activities of the Tax Credit Subsidiary and Development JV may only be used to settle their contractual obligations.

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NOTE 19. Concentration of Credit Risk

Concentrations of credit risk arise when one or more tenants, operators or obligors related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of risks. The Company does not have significant foreign operations.

The following tables provide information regarding the Company's concentrations with respect to certain tenants and operators; the information provided is presented for the gross assets and revenues that are associated with certain tenants and operators as percentages of their respective segment's and total Company's gross assets and revenues:

The following table lists the Company's senior housing concentrations:

	Percentage of Gross Assets		Percentage of Revenues		Percentage of Revenues		
	September 30, 2015	December 31, 2014	Three Months Ended September 30, 2015	September 30, 2014	Three Months Ended September 30, 2015	September 30, 2014	
Operators							
Brookdale(1)	28	% 36	% 21	% 32	% 24	% 40	%
HCRMC	10	% 11	% 7	% 7	% 8	% 9	%

The following table lists the Company's post-acute/skilled nursing concentrations:

	Percentage of Gross Assets		Percentage of Revenues		Percentage of Revenues		
	September 30, 2015	December 31, 2014	Three Months Ended September 30, 2015	September 30, 2014	Three Months Ended September 30, 2015	September 30, 2014	
Operators							
HCRMC	82	% 82	% 81	% 86	% 79	% 86	%

The following table lists the total Company concentrations:

Operators	Percentage of Gross Assets		Percentage of Revenues		Percentage of Revenues		
	September 30, 2015	December 31, 2014	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	
HCRMC	28	% 31	% 21	% 25	% 23	% 27	%
Brookdale(1)	12	% 13	% 9	% 13	% 10	% 15	%

(1) On July 31, 2014, Brookdale completed its acquisition of Emeritus. These percentages of segment revenues and total revenues for the three and nine months ended September 30, 2014 are prepared on a pro forma basis to reflect the combined concentration for Brookdale and Emeritus, as if the merger had occurred as of the beginning of the period presented. On August 29, 2014, the Company and Brookdale amended or terminated all former leases with Emeritus and entered into two RIDEA joint ventures (see Notes 3 and 18). Percentages do not include senior housing facilities that Brookdale manages (is not a tenant) under a RIDEA structure.

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HCRMC's summarized consolidated financial information follows (in millions):

	September 30,		December 31,	
	2015		2014	
Real estate and other property, net	\$	2,641.1	\$	2,934.4
Cash and cash equivalents		150.5		127.9
Goodwill, intangible and other assets, net		4,820.6		4,621.7
Total assets	\$	7,612.2	\$	7,684.0
Debt and financing obligations	\$	6,049.3	\$	6,108.3
Accounts payable, accrued liabilities and other		975.3		932.7
Total equity		587.6		643.0
Total liabilities and equity	\$	7,612.2	\$	7,684.0
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues	\$	1,009.6	\$	3,091.1
Operating, general and administrative expense	(885.7)	(881.3)	(2,667.8)	(2,676.5)
Depreciation and amortization expense	(33.3)	(35.7)	(104.6)	(106.0)
Interest expense	(119.7)	(101.6)	(339.9)	(305.9)
Other income, net	2.6	0.8	7.5	5.4
Loss on disposal of assets	(76.0)	(1.4)	(76.0)	(1.4)
(Loss) income from continuing operations before income tax expense	(102.5)	6.8	(89.7)	17.4
Income taxes	(44.4)	3.1	(38.8)	7.4
(Loss) income from continuing operations	(58.1)	3.7	(50.9)	10.0
Income (loss) from discontinued operations, net of taxes	2.1	2.0	(3.9)	(6.8)
Net (loss) income	\$	(56.0)	\$	(54.8)
		\$		\$
		5.7		3.2

As of September 30, 2015, Brookdale provided comprehensive property management and accounting services with respect to 106 of the Company's senior housing facilities and 14 CCRCs owned by the CCRC JV, for which the Company or joint venture pays annual management fees pursuant to long-term management agreements. Most of the management agreements have initial terms ranging from 10 to 15 years, with three to four 5-year renewals. The base management fees are 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA facilities. In addition, there are incentive management fees payable to Brookdale if operating results of the RIDEA properties exceed pre-established EBITDAR (as defined) thresholds.

Brookdale is subject to the registration and reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale contained or referred to in this report has been derived from SEC filings made by Brookdale or other publicly available information, or was provided to the Company by Brookdale, and the Company has not verified this information through an independent investigation or otherwise. The Company has no reason to believe that this information is inaccurate in any material respect, but the Company cannot assure the reader of its accuracy. The Company is providing this data for informational purposes only and encourages the reader to obtain Brookdale's publicly available filings, which can be found on the SEC's website at www.sec.gov.

To mitigate the credit risk of leasing properties to certain senior housing and post-acute/skilled nursing operators, leases with operators are often combined into portfolios that contain cross-default terms, so that if a tenant of any of the properties in a portfolio defaults on its obligations under its lease, the Company may pursue its remedies under the lease with respect to any of the properties in the portfolio. Certain portfolios also contain terms whereby the net operating profits of the properties are combined for the purpose of securing the funding of rental payments due under each lease.

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NOTE 20. Fair Value Measurements

Items Measured at Fair Value on a Recurring Basis

The following table illustrates the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2015 in the consolidated balance sheets (in thousands):

Financial Instrument(1)	Fair Value	Level 1	Level 2	Level 3
Marketable equity securities	\$ 1,254	\$ 1,254	\$ —	\$ —
Interest-rate swap liabilities	7,655	—	7,655	—
Currency swap assets	1,118	—	1,118	—
Warrants	43	—	—	43

(1) Interest rate and currency swaps, as well as common stock warrant fair values, are determined based on observable and unobservable market assumptions utilizing standardized derivative pricing models.

Recognized gains and losses are recorded in other income, net on the Company's consolidated statements of operations. In September 2015, the Company exercised \$2 million of warrants classified as Level 3 within the fair value hierarchy in exchange for marketable equity securities classified as Level 1. During the nine months ended September 30, 2015, there were no other transfers of financial assets or liabilities within the fair value hierarchy.

Disclosures About Fair Value of Financial Instruments

Cash and cash equivalents, restricted cash, accounts receivable, net, and accounts payable and accrued liabilities – The carrying values are reasonable estimates of fair value because of the short-term maturities of these instruments.

Loans receivable, net and mortgage debt – The fair values are based on discounting future cash flows utilizing current market rates for loans and debt of the same type and remaining maturity.

Marketable debt securities – The fair value is based on quoted prices from inactive markets.

Marketable equity securities and senior unsecured notes – The fair values are based on quoted prices in active markets.

Warrants – The fair value is based on significant unobservable market inputs utilizing standardized derivative pricing models.

Bank line of credit, term loans and other debt – The carrying values are a reasonable estimate of fair value because the borrowings are primarily based on market interest rates and the Company's current credit ratings.

Interest-rate swaps – The fair value is based on observable inputs utilizing standardized pricing models that consider forward yield curves and discount rates which are observable in active and inactive markets.

Currency swaps – The fair value is based on observable inputs utilizing standardized pricing models that consider the future value of the currency exchange rates, comprised of current spot and traded forward points, and calculating a present value of the net amount using discount rates based on observable traded interest rates.

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The table below summarizes the carrying values and fair values of the Company's financial instruments (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans receivable, net(2)	\$ 765,593	\$ 779,525	\$ 906,961	\$ 898,522
Marketable debt securities(2)	118,019	118,019	231,442	252,125
Marketable equity securities(1)	1,254	1,254	43	43
Warrants(3)	43	43	2,220	2,220
Bank line of credit(2)	1,000,824			