

HCP, INC.  
Form 10-Q  
October 31, 2018  
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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, 2018

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)

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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At October 29, 2018, there were 469,918,837 shares of the registrant's \$1.00 par value common stock outstanding.

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## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Real estate:		
Buildings and improvements	\$ 10,956,474	\$ 11,239,732
Development costs and construction in progress	442,007	447,976
Land	1,663,069	1,785,865
Accumulated depreciation and amortization	(2,825,850 )	(2,741,695 )
Net real estate	10,235,700	10,731,878
Net investment in direct financing leases	714,709	714,352
Loans receivable, net	41,302	313,326
Investments in and advances to unconsolidated joint ventures	623,255	800,840
Accounts receivable, net of allowance of \$4,552 and \$4,425, respectively	48,701	40,733
Cash and cash equivalents	78,864	55,306
Restricted cash	29,877	26,897
Intangible assets, net	305,805	410,082
Assets held for sale, net	423,063	417,014
Other assets, net	582,682	578,033
Total assets	\$ 13,083,958	\$ 14,088,461
<b>LIABILITIES AND EQUITY</b>		
Bank line of credit	\$ 636,709	\$ 1,017,076
Term loan	223,468	228,288
Senior unsecured notes	5,706,181	6,396,451
Mortgage debt	139,401	144,486
Other debt	92,494	94,165
Intangible liabilities, net	56,871	52,579
Liabilities of assets held for sale, net	3,146	14,031
Accounts payable and accrued liabilities	410,804	401,738
Deferred revenue	174,509	144,709
Total liabilities	7,443,583	8,493,523
Commitments and contingencies		
Common stock, \$1.00 par value: 750,000,000 shares authorized; 469,916,246 and 469,435,678 shares issued and outstanding, respectively	469,916	469,436
Additional paid-in capital	8,189,946	8,226,113
Cumulative dividends in excess of earnings	(3,584,397 )	(3,370,520 )
Accumulated other comprehensive income (loss)	(4,297 )	(24,024 )
Total stockholders' equity	5,071,168	5,301,005
Joint venture partners	392,319	117,045
Non-managing member unitholders	176,888	176,888
Total noncontrolling interests	569,207	293,933
Total equity	5,640,375	5,594,938
Total liabilities and equity	\$ 13,083,958	\$ 14,088,461

See accompanying Notes to the Unaudited 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,	
	2018	2017	2018	2017
Revenues:				
Rental and related revenues	\$262,828	\$266,109	\$821,462	\$816,147
Tenant recoveries	41,026	36,860	116,984	105,794
Resident fees and services	137,359	126,040	416,947	391,688
Income from direct financing leases	13,573	13,240	40,329	40,516
Interest income	1,236	11,774	9,048	50,974
Total revenues	456,022	454,023	1,404,770	1,405,119
Costs and expenses:				
Interest expense	63,486	71,328	211,626	235,834
Depreciation and amortization	132,198	130,588	418,740	397,893
Operating	181,207	155,338	527,625	467,582
General and administrative	23,503	23,523	75,192	67,287
Transaction costs	4,489	580	9,088	2,504
Impairments (recoveries), net	5,268	25,328	19,180	82,010
Total costs and expenses	410,151	406,685	1,261,451	1,253,110
Other income (expense):				
Gain (loss) on sales of real estate, net	95,332	5,182	162,211	322,852
Loss on debt extinguishments	(43,899 )	(54,227 )	(43,899 )	(54,227 )
Other income (expense), net	1,604	(10,556 )	(37,017 )	40,723
Total other income (expense), net	53,037	(59,601 )	81,295	309,348
Income (loss) before income taxes and equity income (loss) from unconsolidated joint ventures	98,908	(12,263 )	224,614	461,357
Income tax benefit (expense)	4,929	5,481	14,919	14,630
Equity income (loss) from unconsolidated joint ventures	(911 )	1,062	(442 )	4,571
Net income (loss)	102,926	(5,720 )	239,091	480,558
Noncontrolling interests' share in earnings	(3,555 )	(1,937 )	(9,546 )	(7,687 )
Net income (loss) attributable to HCP, Inc.	99,371	(7,657 )	229,545	472,871
Participating securities' share in earnings	(425 )	(131 )	(1,278 )	(560 )
Net income (loss) applicable to common shares	\$98,946	\$(7,788 )	\$228,267	\$472,311
Earnings per common share:				
Basic	\$0.21	\$(0.02 )	\$0.49	\$1.01
Diluted	\$0.21	\$(0.02 )	\$0.49	\$1.01
Weighted average shares outstanding:				
Basic	469,867	468,975	469,732	468,642
Diluted	470,118	468,975	469,876	468,828
Dividends declared per common share	\$0.37	\$0.37	\$1.11	\$1.11

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 102,926	\$(5,720)	\$ 239,091	\$ 480,558
Other comprehensive income (loss):				
Net unrealized gains (losses) on derivatives	342	(3,672 )	5,971	(10,105 )
Change in Supplemental Executive Retirement Plan obligation and other	82	66	264	220
Foreign currency translation adjustment	(921 )	5,750	(4,596 )	14,362
Reclassification adjustment realized in net income (loss)	280	654	18,088	674
Total other comprehensive income (loss)	(217 )	2,798	19,727	5,151
Total comprehensive income (loss)	102,709	(2,922 )	258,818	485,709
Total comprehensive income (loss) attributable to noncontrolling interests	(3,555 )	(1,937 )	(9,546 )	(7,687 )
Total comprehensive income (loss) attributable to HCP, Inc.	\$ 99,154	\$(4,859)	\$ 249,272	\$ 478,022

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.

## CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity
	Shares	Amount						
December 31, 2017	469,436	\$469,436	\$8,226,113	\$(3,370,520)	\$(24,024 )	\$5,301,005	\$293,933	\$5,594,938
Impact of adoption of ASU No. 2017-05 <sup>(1)</sup>	—	—	—	79,144	—	79,144	—	79,144
January 1, 2018	469,436	\$469,436	\$8,226,113	\$(3,291,376)	\$(24,024 )	\$5,380,149	\$293,933	\$5,674,082
Net income (loss)	—	—	—	229,545	—	229,545	9,546	239,091
Other comprehensive income (loss)	—	—	—	—	19,727	19,727	—	19,727
Issuance of common stock, net	601	601	3,709	—	—	4,310	—	4,310
Repurchase of common stock	(138 )	(138 )	(3,204 )	—	—	(3,342 )	—	(3,342 )
Exercise of stock options	17	17	359	—	—	376	—	376
Amortization of deferred compensation	—	—	13,098	—	—	13,098	—	13,098
Common dividends (\$1.11 per share)	—	—	—	(522,566 )	—	(522,566 )	—	(522,566 )
Distributions to noncontrolling interests	—	—	—	—	—	—	(13,924 )	(13,924 )
Issuances of noncontrolling interests	—	—	—	—	—	—	298,929	298,929
Purchase of noncontrolling interests	—	—	(50,129 )	—	—	(50,129 )	(19,277 )	(69,406 )
September 30, 2018	469,916	\$469,916	\$8,189,946	\$(3,584,397)	\$(4,297 )	\$5,071,168	\$569,207	\$5,640,375
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Dividends In Excess	Accumulated Other Comprehensive	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity



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				Of Earnings	Income			
					(Loss)			
January 1, 2017	468,081	\$468,081	\$8,198,890	\$(3,089,734)	\$(29,642 )	\$5,547,595	\$393,713	\$5,941,308
Net income (loss)	—	—	—	472,871	—	472,871	7,687	480,558
Other comprehensive income (loss)	—	—	—	—	5,151	5,151	—	5,151
Issuance of common stock, net	998	998	16,352	—	—	17,350	—	17,350
Conversion of DownREIT units to common stock	68	68	2,003	—	—	2,071	(2,071 )	—
Repurchase of common stock	(144 )	(144 )	(4,315 )	—	—	(4,459 )	—	(4,459 )
Exercise of stock options	32	32	736	—	—	768	—	768
Amortization of deferred compensation	—	—	10,865	—	—	10,865	—	10,865
Common dividends (\$1.11 per share)	—	—	—	(520,779 )	—	(520,779 )	—	(520,779 )
Distributions to noncontrolling interests	—	—	—	—	—	—	(19,520 )	(19,520 )
Issuances of noncontrolling interests	—	—	—	—	—	—	1,050	1,050
Deconsolidation of noncontrolling interests	—	—	—	—	—	—	(58,061 )	(58,061 )
September 30, 2017	469,035	\$469,035	\$8,224,531	\$(3,137,642)	\$(24,491 )	\$5,531,433	\$322,798	\$5,854,231

(1) On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (“ASU 2017-05”), and recognized the cumulative-effect of adoption to beginning retained earnings. Refer to Note 2 for a detailed impact of adoption.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$239,091	\$480,558
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles	418,740	397,893
Amortization of deferred compensation	13,098	10,865
Amortization of deferred financing costs	9,760	11,141
Straight-line rents	(20,888 )	(12,236 )
Equity loss (income) from unconsolidated joint ventures	442	(4,571 )
Distributions of earnings from unconsolidated joint ventures	17,519	27,692
Deferred income tax expense (benefit)	(12,831 )	(17,786 )
Impairments (recoveries), net	19,180	82,010
Loss on extinguishment of debt	43,899	54,227
Loss (gain) on sales of real estate, net	(162,211 )	(322,852 )
Loss (gain) on consolidation, net	41,017	—
Casualty-related loss (recoveries), net	—	9,912
Loss (gain) on sale of marketable securities	—	(50,895 )
Other non-cash items	(1,033 )	(1,529 )
Decrease (increase) in accounts receivable and other assets, net	(4,665 )	(2,221 )
Increase (decrease) in accounts payable and accrued liabilities	31,800	(24,312 )
Net cash provided by (used in) operating activities	632,918	637,896
Cash flows from investing activities:		
Acquisitions of other real estate	(315,392 )	(135,816 )
Development and redevelopment of real estate	(341,906 )	(261,510 )
Leasing costs, tenant improvements, and recurring capital expenditures	(70,237 )	(75,211 )
Proceeds from sales of real estate, net	686,222	1,249,993
Contributions to unconsolidated joint ventures	(10,815 )	(25,776 )
Distributions in excess of earnings from unconsolidated joint ventures	19,631	4,845
Proceeds from the RIDEA II transaction, net	335,709	462,242
Proceeds from the U.K. JV transaction, net	393,997	—
Proceeds from sales/principal repayments on debt investments and direct financing leases	147,435	550,270
Investments in loans receivable, direct financing leases and other	(27,110 )	(28,339 )
Net cash provided by (used in) investing activities	817,534	1,740,698
Cash flows from financing activities:		
Borrowings under bank line of credit, net	1,203,000	23,419
Repayments under bank line of credit	(1,580,668 )	(339,826 )
Issuance and borrowings of debt, excluding bank line of credit	223,587	5,395
Repayments and repurchase of debt, excluding bank line of credit	(927,869 )	(1,466,946 )
Payments for debt extinguishment and deferred financing costs	(41,552 )	(51,415 )
Issuance of common stock and exercise of options	4,686	18,118
Repurchase of common stock	(3,342 )	(4,459 )
Dividends paid on common stock	(522,566 )	(520,779 )
Issuance of noncontrolling interests	298,929	1,050

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Distributions to and purchase of noncontrolling interests	(78,364 )	(19,520 )
Net cash provided by (used in) financing activities	(1,424,159 )	(2,354,963 )
Effect of foreign exchange on cash, cash equivalents and restricted cash	245	401
Net increase (decrease) in cash, cash equivalents and restricted cash	26,538	24,032
Cash, cash equivalents and restricted cash, beginning of period	82,203	136,990
Cash, cash equivalents and restricted cash, end of period	\$ 108,741	\$ 161,022
See accompanying Notes to the Unaudited Consolidated Financial Statements.		

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HCP, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Business

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Overview

HCP, Inc., a Standard & Poor's ("S&P") 500 company, is a Maryland corporation that is organized to qualify as a real estate investment trust ("REIT") which, 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 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 reportable healthcare segments: (i) senior housing triple-net; (ii) senior housing operating portfolio ("SHOP"); (iii) life science and (iv) medical office.

NOTE 2. Summary of Significant Accounting Policies

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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 consolidated financial statements and the reported amounts of revenue 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 ("JVs") and variable interest entities ("VIEs") that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation. 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC").

Recent Accounting Pronouncements

Revenue Recognition. Between May 2014 and February 2017, the Financial Accounting Standards Board ("FASB") issued four Accounting Standards Updates ("ASUs") changing the requirements for recognizing and reporting revenue (together, herein referred to as the "Revenue ASUs"): (i) ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), (ii) ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"), (iii) ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"), and (iv) ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). 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. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. ASU 2017-05 clarifies the scope of the FASB's guidance on nonfinancial asset derecognition and aligns the accounting for partial sales of nonfinancial assets and in-substance nonfinancial assets with the guidance in ASU 2014-09. The Company adopted the Revenue ASUs effective January 1, 2018 and utilized a modified retrospective adoption approach, resulting in a cumulative-effect adjustment to equity of \$79 million as of January 1, 2018. Under the Revenue ASUs, the Company also elected to utilize a practical expedient which allows the Company to only reassess contracts that were not completed as of the adoption date, rather than all historical contracts.



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As the primary source of revenue for the Company is generated through leasing arrangements, for which timing and recognition of revenue will be the same whether accounted for under the Revenue ASUs or lease accounting guidance (see discussion below), the impact of the Revenue ASUs, upon and subsequent to adoption, is generally limited to the following:

The Company, along with its JV partners and independent SHOP operators, provide certain ancillary services to SHOP residents that are not contemplated in the lease with each resident (i.e., guest meals, concierge services, pharmacy services, etc.). These services are provided and paid for in addition to the standard services included in each resident lease (i.e., room and board, standard meals, etc.). The Company bills residents for ancillary services one month in arrears and recognizes revenue as the services are provided, as the Company has no continuing performance obligation related to those services. Included within resident fees and services for the three months ended September 30, 2018 and 2017 is \$10 million and \$9 million, respectively, of ancillary service revenue. Included within resident fees and services for the nine months ended September 30, 2018 and 2017 is \$30 million and \$28 million, respectively, of ancillary service revenue.

Prior to the adoption of the Revenue ASUs, the Company recognized a gain on sale of real estate using the full accrual method when collectibility of the sales price was reasonably assured, the Company was not obligated to perform additional activities that may be considered significant, the initial investment from the buyer was sufficient and other profit recognition criteria had been satisfied. The Company deferred all or a portion of a gain on sale of real estate if the requirements for gain recognition were not met at the time of sale. Subsequent to adopting the Revenue ASUs on January 1, 2018, the Company began recognizing a gain on sale of real estate upon transferring control of the asset to the purchaser, which is generally satisfied at the time of sale. In conjunction with its adoption of the Revenue ASUs, the Company reassessed its historical partial sale of real estate transactions to determine which transactions, if any, were not completed contracts (i.e., the transaction did not qualify for sale treatment under previous guidance). The Company concluded that it had one such material transaction, its partial sale of RIDEA II in the first quarter of 2017 (which was not a completed sale under historical guidance as of the Company's adoption date due to a minor obligation related to the interest sold). In accordance with the Revenue ASUs, the Company recorded its retained 40% equity investment at fair value as of the sale date. As a result, the Company recorded an adjustment to equity as of January 1, 2018 (under the modified retrospective transition approach) representing a step-up in the fair value of its equity investment in RIDEA II of \$107 million (to a carrying value of \$121 million as of January 1, 2018) and a \$30 million impairment charge to decrease the carrying value to the sales price of the investment (see Note 4). The Company completed the sale of its equity investment in June 2018 and no longer holds an economic interest in RIDEA II.

The Company generally expects that the new guidance will result in certain transactions qualifying as sales of real estate at an earlier date than under historical accounting guidance.

Additionally, effective January 1, 2018, the Company adopted the following ASUs, each of which did not have a material impact to its consolidated financial position, results of operations, cash flows or disclosures upon adoption: ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01") and ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall ("ASU 2018-03"). The core principle of the amendments in ASU 2016-01 and ASU 2018-03 involves the measurement of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation) at fair value and the recognition of changes in fair value of those investments during each reporting period in net income (loss). As a result, ASU 2016-01 and ASU 2018-03 eliminate the cost method of accounting for equity securities that do not have readily determinable fair values. Pursuant to the new guidance, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The amendments in ASU 2016-16 require an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time that the transfer occurs. Historical guidance does not require recognition of tax consequences until the asset is eventually sold to a third party.

During the fourth quarter of 2017, the Company adopted ASU No. 2016-18, Restricted Cash (“ASU 2016-18”) and ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”) (collectively, the “Cash Flow ASUs”). ASU 2016-18 requires an entity to reconcile and explain the period-over-period change in total cash, cash equivalents and restricted cash within its statements of cash flows and ASU 2016-15 provides guidance clarifying how certain cash receipts and cash payments should be classified. The full retrospective adoption approach is required for the Cash Flow ASUs and, accordingly, certain line items in the Company’s consolidated statements of cash flows have been reclassified to conform to the current period presentation.

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The following table illustrates changes in the Company's cash flows as reported and as previously reported prior to the adoption of the Cash Flow ASUs during the fourth quarter of 2017 (in thousands):

	Nine Months Ended September 30, 2017	
	As Reported	As Previously Reported
Net cash provided by (used in) investing activities	\$ 1,740,698	\$ 1,755,823
Net increase (decrease) in balance <sup>(1)</sup>	24,032	39,157
Balance - beginning of period <sup>(1)</sup>	136,990	94,730
Balance - end of period <sup>(1)</sup>	161,022	133,887

Amounts in the As Reported column include cash and cash equivalents and restricted cash as required upon the (1) adoption of the Cash Flow ASUs. Amounts in the As Previously Reported column reflect only cash and cash equivalents.

In addition to the changes in the consolidated statements of cash flows as a result of the adoption of the Cash Flow ASUs, certain amounts within the consolidated statements of cash flows have been reclassified for prior periods to conform to the current period presentation. Such reclassifications primarily combined line items of similar classes of transactions and had no impact on cash flows from operating, investing and financing activities.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 amends the current accounting for leases to: (i) require lessees to put most leases on their balance sheets, but continue recognizing expenses on their income statements in a manner similar to requirements under current accounting guidance, (ii) eliminate current real estate specific lease provisions, and (iii) modify the classification criteria and accounting for sales-type leases for lessors. ASU 2016-02 is effective for fiscal years, and interim periods within, beginning after December 15, 2018. Early adoption is permitted. The transition method required by ASU 2016-02 varies based on the specific amendment being adopted. As a result of adopting ASU 2016-02, the Company: (i) will recognize all of its significant operating leases for which it is the lessee, including corporate office leases, equipment leases, and ground leases, on its consolidated balance sheets through a right-of-use asset and corresponding lease liability, (ii) will capitalize fewer costs related to the drafting and execution of its lease agreements, and (iii) may be required to increase its revenue and expense for lessor costs paid directly by lessees under triple-net leases, if the amount paid is readily determinable (i.e., real estate taxes).

ASU 2016-02 provides a practical expedient, which the Company plans to elect, that allows an entity to not reassess the following upon adoption (must be elected as a group): (i) whether an expired or existing contract contains a lease arrangement, (ii) lease classification related to expired or existing lease arrangements, or (iii) whether costs incurred on expired or existing leases qualify as initial direct costs.

Additionally, in July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements ("ASU 2018-11"), which provides lessors with the option to elect a practical expedient allowing them to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure. This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the nonlease component and the related lease component and (ii) the lease component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease or service based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASU 2016-02 and predominantly service-based would be accounted for under the Revenue ASUs). The Company plans to elect this practical expedient as well. The Company completed a preliminary assessment of predominance for its senior housing triple-net, medical office, and life science segments and, effective upon the adoption of ASU 2016-02 (codified under Accounting Standards Codification ("ASC") 842), the Company expects to recognize revenue from these segments under ASC 842. The Company is still in the process of completing its preliminary assessment related to SHOP. The Company plans to finalize its assessment for all segments during the fourth quarter of 2018.



The Company is still evaluating the complete impact of the adoption of ASU 2016-02 and ASU 2018-11 on January 1, 2019 to its consolidated financial position, results of operations and disclosures.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amendments in ASU 2016-13 eliminate the “probable” initial threshold for recognition of credit losses in current accounting guidance and, instead, reflect an entity’s current estimate of all expected credit losses over the life of the financial instrument. Previously, when credit losses were measured under current accounting guidance, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss. ASU 2016-13 is effective for fiscal years, and interim periods within, beginning

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after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within, beginning after December 15, 2018. A reporting entity is required to apply the amendments in ASU 2016-13 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Upon adoption of ASU 2016-13, the Company is required to reassess its financing receivables, including direct financing leases (“DFLs”) and loans receivable, and expects that application of ASU 2016-13 may result in the Company recognizing credit losses at an earlier date than would otherwise be recognized under current accounting guidance. The Company is evaluating the impact of the adoption of ASU 2016-13 on January 1, 2020 to its consolidated financial position and results of operations.

The following ASU has been issued, but not adopted, and the Company does not expect a material impact to its consolidated financial position, results of operations, cash flows, or disclosures upon adoption:

ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). ASU 2017-12 is effective for fiscal years, including interim periods within, beginning after December 15, 2018 and early adoption is permitted. The amendments in ASU 2017-12 expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For cash flow and net investment hedges existing at the date of adoption, a reporting entity must apply the amendments in ASU 2017-12 using the modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The presentation and disclosure amendments in ASU 2017-12 must be applied using a prospective approach.

NOTE 3. Master Transactions and Cooperation Agreement with Brookdale

#### Master Transactions and Cooperation Agreement with Brookdale

On November 1, 2017, the Company and Brookdale Senior Living Inc. (“Brookdale”) entered into a Master Transactions and Cooperation Agreement (the “MTCA”) to provide the Company with the ability to significantly reduce its concentration of assets leased to and/or managed by Brookdale (the “Brookdale Transactions”). Through a series of dispositions and transitions of assets currently leased to and/or managed by Brookdale, as contemplated by the MTCA and further described below, the Company’s exposure to Brookdale is expected to be significantly reduced.

In connection with the overall transaction pursuant to the MTCA, the Company (through certain of its subsidiaries), and Brookdale (through certain of its subsidiaries) (the “Lessee”) entered into an Amended and Restated Master Lease and Security Agreement (the “Amended Master Lease”), which amended and restated the then-existing triple-net leases between the parties for 78 assets, which accounted for primarily all of the assets subject to triple-net leases between the Company and the Lessee (before giving effect to the contemplated sale or transition of 34 assets discussed below). Under the Amended Master Lease, the Company has the benefit of a guaranty from Brookdale of the Lessee’s obligations and, upon a change in control, will have various additional protections under the MTCA and the Amended Master Lease including:

- A security deposit (which increases if specified leverage thresholds are exceeded);
- A termination right if certain financial covenants and a net worth test are not satisfied;
- Enhanced reporting requirements and related remedies; and
- The right to market for sale the CCRC Portfolio (as defined below).

Future changes in control of Brookdale are permitted pursuant to the Amended Master Lease, subject to certain conditions, including the purchaser either meeting experience requirements or retaining a majority of Brookdale’s principal officers.

The Amended Master Lease preserves the renewal terms and, with certain exceptions, the rents under the previously existing triple-net leases. In addition, the Company and Brookdale agreed to the following:

The Company received the right to sell, or transition to other operators, 32 triple-net assets. If such sale or transition does not occur within one year of executing the MTCA, the triple-net lease with respect to such assets will convert to a cash flow lease (under which the Company will bear the risks and rewards of operating the assets) with a term of two years, provided that the Company has the right to terminate the cash flow lease at any time during the term without penalty;

• The Company provided an aggregate \$5 million annual reduction in rent on three assets, effective January 1, 2018;  
• and

• The Company would sell two triple-net assets to Brookdale or its affiliates for \$35 million, both of which were sold in April 2018.

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Also pursuant to the MTCA, the Company and Brookdale agreed to the following:

The Company, which owned 90% of the interests in its RIDEA I and RIDEA III JVs with Brookdale at the time the MTCA was executed, agreed to purchase Brookdale's 10% noncontrolling interest in each JV for an aggregate purchase price of \$95 million. At the time the MTCA was executed, these JVs collectively owned and operated 58 independent living, assisted living, memory care and/or skilled nursing facilities (the "RIDEA Facilities"). The Company completed its acquisitions of the RIDEA III noncontrolling interest for \$32 million in December 2017 and the RIDEA I noncontrolling interest for \$63 million in March 2018;

The Company received the right to sell, or transition to other managers, 36 of the RIDEA Facilities and terminate related management agreements with an affiliate of Brookdale without penalty. If the related management agreements are not terminated within one year of executing the MTCA, the base management fee (5% of gross revenues) increases by 1% of gross revenues per year over the following two years to a maximum of 7% of gross revenues;

The Company would sell four of the RIDEA Facilities to Brookdale or its affiliates for \$240 million, one of which was sold in January 2018 for \$32 million and the remaining three of which were sold in April 2018 for \$208 million; A Brookdale affiliate continues to manage the remaining 18 RIDEA Facilities pursuant to amended management agreements, which provide for extended terms on select assets, modified performance hurdles for extensions and incentive fees, and modified termination rights (including stricter performance-based termination rights, a staggered right to terminate seven agreements over a 10 year period beginning in 2021, and a right to terminate at will upon payment of a termination fee, in lieu of sale-related termination rights), and two other existing facilities managed in separate RIDEA structures; and

The Company received the right to sell, to certain permitted transferees, its 49% ownership interest in JVs that own and operate a portfolio of continuing care retirement communities (the "CCRC Portfolio") and in which Brookdale owns the other 51% interest (the "CCRC JV"), subject to certain conditions and a right of first offer in favor of Brookdale. Brookdale will have a corresponding right to sell its 51% interest in the CCRC JV to certain permitted transferees, subject to certain conditions, a right of first offer and a right to terminate management agreements following such sale of Brookdale's interest, each in favor of HCP. Following a change in control of Brookdale, the Company will have the right to initiate a sale of the CCRC Portfolio, subject to certain rights of first offer and first refusal in favor of Brookdale.

In June 2018, the Company entered into definitive agreements with a third-party buyer to sell 11 senior housing triple-net assets (of the 32 noted above) and 11 RIDEA Facilities (of the 36 noted above) previously leased to Brookdale for total gross proceeds of \$428 million. As part of this transaction, the buyer funded a \$13 million nonrefundable deposit. During the quarter ended September 30, 2018, three RIDEA Facilities were removed from the transaction, resulting in 19 assets to be sold for approximately \$377 million. Those 19 assets were classified as held for sale at September 30, 2018. On October 1, 2018, the Company sold the first 17 assets for approximately \$263 million and anticipates the sale of the final two assets will close during the fourth quarter of 2018.

During the nine months ended September 30, 2018, the Company terminated the previous management agreements or leases with Brookdale on 33 assets and completed the transition of 17 SHOP assets and 16 senior housing triple-net assets to other managers. Additionally, subsequent to September 30, 2018, the Company completed the transition of one senior housing triple-net asset to another manager.

## NOTE 4. Real Estate Transactions

## Dispositions of Real Estate

## Held for Sale

At September 30, 2018, 14 SHOP facilities, 11 senior housing triple-net facilities and one undeveloped life science land parcel were classified as held for sale, with an aggregate carrying value of \$423 million, primarily comprised of real estate assets of \$407 million, net of accumulated depreciation of \$109 million. At December 31, 2017, two senior housing triple-net facilities, four life science facilities and six SHOP facilities were classified as held for sale, with an aggregate carrying value of \$417 million, primarily comprised of real estate assets of \$393 million, net of accumulated depreciation of \$93 million. Liabilities of assets held for sale is primarily comprised of intangible and other liabilities at both September 30, 2018 and December 31, 2017.

RIDEA II Sale Transaction

In January 2017, the Company completed the contribution of its ownership interest in RIDEA II to an unconsolidated JV owned by HCP and an investor group led by Columbia Pacific Advisors, LLC (“CPA”) (the “HCP/CPA JV”). Also in January 2017, RIDEA II was recapitalized with \$602 million of debt, of which \$360 million was provided by a third-party and \$242 million was provided by HCP. In return for both transaction elements, the Company received combined proceeds of \$480 million from the

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HCP/CPA JV and \$242 million in loans receivable and retained an approximately 40% ownership interest in RIDEA II. This transaction resulted in the Company deconsolidating the net assets of RIDEA II and recognizing a net gain on sale of \$99 million. Refer to Note 2 for the impact of adopting the Revenue ASUs on January 1, 2018 to the Company's partial sale of RIDEA II in the first quarter of 2017.

On November 1, 2017, the Company entered into a definitive agreement with an investor group led by CPA to sell its remaining 40% ownership interest in RIDEA II for \$90 million and cause CPA to refinance the Company's \$242 million of loans receivable from RIDEA II. The Company completed the transaction in June 2018, resulting in proceeds of \$332 million. The Company no longer holds an economic interest in RIDEA II.

U.K. Portfolio

In June 2018, the Company entered into a joint venture with an institutional investor (the "U.K. JV") through which the Company sold a 51% interest in substantially all United Kingdom ("U.K.") assets previously owned by the Company (the "U.K. Portfolio") based on a total value of £382 million (\$507 million). The Company retained a 49% noncontrolling interest in the joint venture and received gross proceeds of \$402 million, including proceeds from the refinancing of the Company's previously held intercompany loans. Upon closing the U.K. JV, the Company deconsolidated the U.K. Portfolio, recognized its retained noncontrolling interest investment at fair value (\$105 million) and recognized a gain on sale of \$11 million, net of \$17 million of cumulative foreign currency translation reclassified from other comprehensive income (see Note 18 for the reclassification impact of the Company's hedge of its net investment in the U.K.). The U.K. JV provides numerous mechanisms by which the joint venture partner can acquire the Company's remaining interest in the U.K. JV. The fair value of the Company's retained noncontrolling interest investment is based on Level 2 measurements within the fair value hierarchy.

Additionally, in August 2018, the Company sold its remaining £11 million U.K. development loan at par.

2018 Dispositions

During the quarter ended March 31, 2018, the Company sold two SHOP assets for \$35 million, resulting in total gain on sales of \$21 million (includes asset sales to Brookdale as discussed in Note 3 above).

During the quarter ended June 30, 2018, the Company sold eight SHOP assets for \$268 million and two senior housing triple-net assets for \$35 million, resulting in total gain on sales of \$25 million (includes asset sales to Brookdale as discussed in Note 3 above).

During the quarter ended September 30, 2018, the Company sold four life science assets for \$269 million, 11 SHOP assets for \$76 million and two medical office buildings ("MOBs") for \$21 million, resulting in total gain on sales of \$95 million.

In October 2018, the Company entered into a definitive agreement to sell its Shoreline Technology Center life science campus located in Mountain View, California for \$1.0 billion. Under the agreement, the buyer funded a \$65 million nonrefundable deposit. The sale is expected to generate a gain on sale of approximately \$700 million upon its anticipated closing in the fourth quarter 2018.

2017 Dispositions

In March 2017, the Company sold 64 senior housing triple-net assets, previously under triple-net leases with Brookdale, for \$1.125 billion to affiliates of Blackstone Real Estate Partners VIII, L.P., resulting in a gain on sale of \$170 million.

Additionally, during the quarter ended March 31, 2017, the Company sold four life science facilities for \$76 million and a SHOP asset for \$3 million, resulting in total gain on sales of \$45 million.

During the quarter ended June 30, 2017, the Company sold a land parcel for \$27 million and one life science facility for \$5 million, resulting in total gain on sales of \$1 million.

During the quarter ended September 31, 2017, the Company sold two senior housing triple-net assets for \$15 million, resulting in a gain on sale of \$5 million.

During the quarter ended December 31, 2017, the Company sold four SHOP assets for \$41 million, three MOBs for \$14 million and two senior housing triple-net assets for \$12 million, resulting in total gain on sales of \$34 million.

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## Investments in Real Estate

## MSREI MOB JV

In August 2018, the Company and Morgan Stanley Real Estate Investment (“MSREI”) formed a joint venture (the “MSREI JV”) to own a portfolio of MOBs, which the Company owns 51% of and consolidates. To form the joint venture, MSREI contributed cash of \$298 million and HCP contributed nine wholly-owned MOBs (the “Contributed Assets”). The Contributed Assets are primarily located in Texas and Florida and were valued at approximately \$320 million at the time of contribution. The MSREI JV used substantially all of the cash contributed by MSREI to acquire an additional portfolio of 16 MOBs in Greenville, South Carolina (the “Greenville Portfolio”) for \$285 million. Concurrent with acquiring the additional MOBs, the MSREI JV entered into 10-year leases with an anchor tenant on each MOB in the Greenville Portfolio, which accounts for approximately 93% of the total leasable space in the portfolio.

The Contributed Assets are accounted for at historical depreciated cost by the Company, as the assets continue to be consolidated. The Greenville Portfolio is accounted for as an asset acquisition, which requires the Company to record the individual components of the acquisition at each component’s relative fair value. As a result, the Company recorded net real estate of \$273 million and net intangible assets of \$20 million during the three months ended September 30, 2018 related to the Greenville Portfolio. Additionally, the Company recognized a noncontrolling interest of \$298 million related to the interest owned by MSREI. Refer to Note 15 for a discussion of the Company’s consolidation of the MSREI JV.

## Other Real Estate Investments

During the nine months ended September 30, 2018, the Company acquired development rights on a land parcel in the Boston suburb of Lexington, Massachusetts for \$21 million. The Company commenced a life science development on the land in 2018.

During the year ended December 31, 2017, the Company acquired 20 properties, the impact of which is summarized in the following table (dollars in thousands):

Segment	Consideration		Assets Acquired	
	Cash Paid	Liabilities Assumed	Real Estate	Net Intangibles
SHOP	\$44,258	\$ 797	\$37,940	\$ 7,115
Life science	315,255	3,524	305,760	13,019
Medical office	201,240	1,104	184,115	18,229
	\$560,753	\$ 5,425	\$527,815	\$ 38,363

## Impairments of Real Estate

## 2018

During the second quarter 2018, in conjunction with classifying two underperforming SHOP portfolios (13 assets total) and an undeveloped life science land parcel as held for sale, the Company concluded that the assets were impaired and wrote-down the carrying value of the assets to their fair value less estimated costs to sell. Accordingly, the Company recognized a \$14 million impairment charge during the second quarter of 2018. The fair value of the assets was based on contracted sales prices, which are considered to be Level 2 measurements within the fair value hierarchy.

During the third quarter 2018, in conjunction with classifying three underperforming SHOP assets as held for sale, the Company concluded that the assets were impaired and wrote-down the carrying value of the assets to their fair value less estimated costs to sell. Accordingly, the Company recognized a \$5 million impairment charge during the third quarter of 2018. The fair value of the assets was based on contracted sales prices which are considered to be Level 2 measurements within the fair value hierarchy.

## 2017

During the third quarter 2017, the Company determined that 11 underperforming senior housing triple-net assets that are candidates for potential future sale were impaired. Accordingly, the Company wrote-down the carrying amount of these 11 assets to their fair value, which resulted in an aggregate impairment charge of \$23 million. The fair value of the assets was based on forecasted sales prices which are considered to be Level 2 measurements within the fair value

hierarchy.

**Casualty-Related Losses**

As a result of Hurricane Harvey and Hurricane Irma, the Company recorded an estimated \$11 million of casualty-related losses, net of a small insurance recovery, during the third quarter of 2017. The losses are comprised of \$6 million of property damage and \$5 million of other associated costs, including storm preparation, clean up, relocation and other costs. Of the total \$11 million casualty losses incurred, \$10 million was recorded in other income (expense), net, and \$1 million was recorded in equity income

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(loss) from unconsolidated joint ventures as it relates to casualty losses for properties owned by certain of our unconsolidated joint ventures. In addition, the Company recorded a \$2 million deferred tax benefit associated with the casualty-related losses.

**NOTE 5. Net Investment in Direct Financing Leases**

Net investment in DFLs consists of the following (dollars in thousands):

	September 30, 2018	December 31, 2017
Minimum lease payments receivable	\$ 1,028,487	\$ 1,062,452
Estimated residual value	507,484	504,457
Less unearned income	(821,262 )	(852,557 )
Net investment in direct financing leases	\$ 714,709	\$ 714,352
Properties subject to direct financing leases	29	29

In February 2017, the Company sold a hospital within a DFL in Palm Beach Gardens, Florida for \$43 million to the current tenant and recognized a gain on sale of \$4 million.

**Direct Financing Lease Internal Ratings**

The following table summarizes the Company's internal ratings for DFLs at September 30, 2018 (dollars in thousands):

Segment	Carrying Amount	Percentage of DFL Portfolio	Internal Ratings		
			Performing DFLs	Watch List DFLs	Workout DFLs
Senior housing triple-net	\$630,105	88	\$278,085	\$352,020	\$ —
Other non-reportable segments	84,604	12	84,604	—	—
	\$714,709	100	\$362,689	\$352,020	\$ —

Beginning September 30, 2013, the Company placed a 14-property senior housing triple-net DFL (the "DFL Watchlist Portfolio") on nonaccrual status and "Watch List" status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue for the DFL Watchlist Portfolio is being recognized on a cash basis. During both the three months ended September 30, 2018 and 2017, the Company recognized income from DFLs of \$4 million and received cash payments of \$5 million from the DFL Watchlist Portfolio. During the nine months ended September 30, 2018 and 2017, the Company recognized income from DFLs of \$11 million and \$10 million, respectively, and received cash payments of \$14 million during each period from the DFL Watchlist Portfolio. The carrying value of the DFL Watchlist Portfolio was \$352 million and \$356 million at September 30, 2018 and December 31, 2017, respectively.

**NOTE 6. Loans Receivable**

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

	September 30, 2018			December 31, 2017		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	\$—	\$21,572	\$21,572	\$—	\$269,299	\$269,299
Other <sup>(1)</sup>	19,792	—	19,792	188,418	—	188,418
Unamortized discounts, fees and costs	—	(62 )	(62 )	—	(596 )	(596 )
Allowance for loan losses <sup>(2)</sup>	—	—	—	—	(143,795 )	(143,795 )
	\$19,792	\$21,510	\$41,302	\$188,418	\$124,908	\$313,326

(1) At September 30, 2018, the Company had \$95 million remaining of commitments to fund a \$115 million senior living development project. At December 31, 2017, includes the U.K. Bridge Loan discussed below.

(2) Related to the Company's mezzanine loan facility to Tandem Health Care discussed below.

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## Loans Receivable Internal Ratings

The following table summarizes the Company's internal ratings for loans receivable at September 30, 2018 (dollars in thousands):

Investment Type	Carrying Amount	Percentage of Loan Portfolio	Internal Ratings		
			Performing Loans	Watch List Loans	Workout Loans
Real estate secured	\$ 19,792	48	\$ 19,792	\$ —	—
Other secured	21,510	52	21,510	—	—
	\$ 41,302	100	\$ 41,302	\$ —	—

## Four Seasons Health Care

In March 2017, the Company sold its investment in Four Seasons Health Care's ("Four Seasons") senior secured term loan at par plus accrued interest for £29 million (\$35 million).

Additionally, in March 2017, pursuant to a shift in the Company's investment strategy, the Company sold its £138.5 million par value Four Seasons senior notes (the "Four Seasons Notes") for £83 million (\$101 million). The disposition of the Four Seasons Notes generated a £42 million (\$51 million) gain on sale, recognized in other income (expense), net, as the sales price was above the previously-impaired carrying value of £41 million (\$50 million).

## HC-One Facility

On June 30, 2017, the Company received £283 million (\$367 million) from the repayment of its HC-One mezzanine loan.

## Tandem Health Care Loan

From July 2012 through May 2015, the Company funded, in aggregate, \$257 million under a collateralized mezzanine loan facility (the "Mezzanine Loan") to certain affiliates of Tandem Health Care (together with its affiliates, "Tandem"). During 2017, the Company recorded impairment charges totaling \$144 million on the Mezzanine Loan. The decline in fair value driving each impairment charge was based primarily on declining operating results of the collateral underlying the Mezzanine Loan, as well as market and industry data, which reflected a declining trend in admissions and a continuing shift away from higher-rate Medicare plans in the post-acute/skilled nursing sector. The resulting carrying value of the Mezzanine Loan as of December 31, 2017 was \$105 million. In conjunction with the declining operating results and industry trends, beginning in the first quarter of 2017, the Company elected to recognize interest income on a cash basis. During the three and nine months ended September 30, 2017, the Company recognized interest income and received cash payments of \$8 million and \$23 million, respectively, from Tandem. During the nine months ended September 30, 2018, the Company did not recognize interest income nor receive cash payments from Tandem.

In March 2018, the Company sold the Mezzanine Loan to a third party for approximately \$112 million, resulting in an impairment recovery, net of transaction costs and fees, of \$3 million included in other income (expense), net. The Company holds no further economic interest in the operations of Tandem.

## U.K. Bridge Loan

In 2016, the Company provided a £105 million (\$131 million at closing) bridge loan to MMCG (the "U.K. Bridge Loan") to fund the acquisition of a portfolio of seven care homes in the U.K. Under the U.K. Bridge Loan, the Company retained a three-year call option to acquire those seven care homes at a future date for £105 million, subject to certain conditions precedent being met. In March 2018, upon resolution of all conditions precedent, the Company began the process of exercising its call option to acquire the seven care homes and concluded that it should consolidate the real estate. As a result, the Company derecognized the outstanding loan receivable of £105 million and recognized a £29 million (\$41 million) loss on consolidation. Refer to Note 15 for the complete impact of consolidating the seven care homes during the first quarter of 2018.

In June 2018, the Company completed the process of exercising the above-mentioned call option. The seven care homes acquired through the call option were included in the U.K. JV transaction (see Note 4).



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## NOTE 7. Investments in and Advances to Unconsolidated Joint Ventures

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

Entity <sup>(1)</sup>	Ownership%	Carrying Amount	
		September 30, 2018	December 31, 2017
CCRC JV	49	\$374,988	\$400,241
RIDEA II <sup>(2)</sup>	40	—	259,651
U.K. JV <sup>(3)</sup>	49	105,200	—
Life Science JVs <sup>(4)</sup>	50 - 63	67,328	65,581
MBK JV	50	35,934	38,005
Development JVs <sup>(5)</sup>	50 - 90	26,100	23,365
Medical Office JVs <sup>(6)</sup>	20 - 67	12,313	12,488
K&Y JVs <sup>(7)</sup>	80	1,380	1,283
Advances to unconsolidated joint ventures, net		12	226
		\$623,255	\$800,840

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

(2) In June 2018, the Company sold its equity method investment in RIDEA II (see Note 4).

(3) See Note 4 for discussion of the formation of the U.K. JV and the Company's equity method investment.

(4) Includes the following unconsolidated 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%).

(5) Includes four unconsolidated SHOP development joint ventures (and the Company's ownership percentage): (i) Vintage Park Development JV (85%); (ii) Waldwick JV (85%); (iii) Otay Ranch JV (90%); and (iv) MBK Development JV (50%).

(6) Includes three unconsolidated medical office joint ventures (and the Company's ownership percentage): HCP Ventures IV, LLC (20%); HCP Ventures III, LLC (30%); and Suburban Properties, LLC (67%).

(7) Includes three unconsolidated joint ventures.

## NOTE 8. Intangibles

Intangible assets primarily consist of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles. Intangible liabilities primarily consist of below market lease intangibles and above market ground lease intangibles. The following tables summarize the Company's intangible lease assets and liabilities (in thousands):

Intangible lease assets	September 30, December 31,	
	2018	2017
Gross intangible lease assets	\$ 600,671	\$ 795,305
Accumulated depreciation and amortization	(294,866 )	(385,223 )
Intangible assets, net	\$ 305,805	\$ 410,082
Intangible lease liabilities	September 30, December 31,	
	2018	2017
Gross intangible lease liabilities	\$ 107,687	\$ 126,212
Accumulated depreciation and amortization	(50,816 )	(73,633 )
Intangible liabilities, net	\$ 56,871	\$ 52,579



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## NOTE 9. Debt

**Bank Line of Credit and Term Loan**

The Company's \$2.0 billion unsecured revolving line of credit facility (the "Facility") matures on October 19, 2021 and contains two, six-month extension options. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends on 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, 2018, the margin on the Facility was 1.00% and the facility fee was 0.20%. The Facility also includes a feature that allows the Company to increase the borrowing capacity by an aggregate amount of up to \$750 million, subject to securing additional commitments. At September 30, 2018, the Company had \$637 million, including £55 million (\$72 million), outstanding under the Facility, with a weighted average effective interest rate of 3.33%.

At September 30, 2018, the Company had \$224 million outstanding on its term loan, which accrues interest at a rate of LIBOR plus 1.15%, subject to adjustments based on the Company's credit ratings. On July 3, 2018, the Company exercised its one-time right to repay the outstanding British pound sterling ("GBP") balance and re-borrow in U.S. Dollars ("USD") with all other key terms unchanged, which resulted in repayment of the £169 million balance and re-borrowing of \$224 million. The term loan continues to mature in January 2019 and contains a one-year committed extension option.

The Facility and term loan 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%; (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times; and (v) require a Minimum Consolidated Tangible Net Worth of \$6.5 billion. At September 30, 2018, the Company was in compliance with each of these restrictions and requirements of the Facility and term loan.

**Senior Unsecured Notes**

At September 30, 2018, the Company had senior unsecured notes outstanding with an aggregate principal balance of \$5.8 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, 2018.

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

Period	Amount	Coupon Rate
2018		
July 16, 2018 <sup>(1)</sup>	\$700,000	5.375%
2017		
May 1, 2017	\$250,000	5.625%
July 27, 2017 <sup>(2)</sup>	\$500,000	5.375%

(1)The Company recorded a \$44 million loss on debt extinguishment related to the repurchase of senior notes.

(2)The Company recorded a \$54 million loss on debt extinguishment related to the repurchase of senior notes.

On October 9, 2018, the Company provided a redemption notice to holders of its \$450 million 3.75% senior unsecured notes due in 2019, which will be redeemed in November 2018. There will be no loss on debt extinguishment associated with this redemption.

There were no senior unsecured notes issuances during the nine months ended September 30, 2018 or year ended December 31, 2017.

**Mortgage Debt**

At September 30, 2018, the Company had \$134 million in aggregate principal of mortgage debt outstanding, which is secured by 15 healthcare facilities with a carrying value of \$280 million. In March 2017, the Company paid off \$472

million of mortgage debt.

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 insurance on the assets and includes conditions to obtain lender consent to enter into or terminate material leases. Some of the mortgage debt 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, 2018 (in thousands):

Year	Bank Line of Credit <sup>(1)</sup>	Term Loan	Senior Unsecured Notes <sup>(2)</sup>	Mortgage Debt <sup>(3)</sup>	Total <sup>(4)</sup>
2018 (three months)	\$—	\$—	\$—	\$860	\$860
2019	—	223,587	450,000	3,561	677,148
2020	—	—	800,000	3,609	803,609
2021	636,709	—	—	10,957	647,666
2022	—	—	900,000	2,691	902,691
Thereafter	—	—	3,600,000	112,516	3,712,516
	636,709	223,587	5,750,000	134,194	6,744,490
(Discounts), premium and debt costs, net	—	(119 )	(43,819 )	5,207	(38,731 )
	\$636,709	\$223,468	\$5,706,181	\$139,401	\$6,705,759

(1) Includes £55 million translated into USD.

(2) Effective interest rates on the notes ranged from 2.79% to 6.88% with a weighted average effective interest rate of 4.03% and a weighted average maturity of five years. On October 9, 2018, the Company provided a redemption notice to holders of its \$450 million senior unsecured notes due in 2019, which will be redeemed in November 2018 (see discussion above).

(3) Effective interest rates on the mortgage debt ranged from 2.65% to 5.91% with a weighted average effective interest rate of 4.19% and a weighted average maturity of 19 years.

(4) Excludes \$92 million of other debt that have no scheduled maturities.

NOTE 10. Commitments and Contingencies

## Legal Proceedings

From time to time, the Company is a party to, or has a significant relationship to, legal proceedings, lawsuits and other claims. Except as described below, 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 financial condition, results of operations or cash flows. The Company's policy is to expense legal costs as they are incurred.

**Class Action.** On May 9, 2016, a purported stockholder of the Company filed a putative class action complaint, *Boynton Beach Firefighters' Pension Fund v. HCP, Inc., et al.*, Case No. 3:16-cv-01106-JJH, in the U.S. District Court for the Northern District of Ohio against the Company, certain of its officers, HCR ManorCare, Inc. ("HCRMC"), and certain of its officers, asserting violations of the federal securities laws. The suit asserts claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and alleges that the Company made certain false or misleading statements relating to the value of and risks concerning its investment in HCRMC by allegedly failing to disclose that HCRMC had engaged in billing fraud, as alleged by the U.S. Department of Justice ("DoJ") in a suit against HCRMC arising from the False Claims Act that the DoJ voluntarily dismissed with prejudice. The plaintiff in the class action suit demands compensatory damages (in an unspecified amount), costs and expenses (including attorneys' fees and expert fees), and equitable, injunctive, or other relief as the Court deems just and proper. On November 28, 2017, the Court appointed Societe Generale Securities GmbH (SGSS Germany) and the City of Birmingham Retirement and Relief Systems (Birmingham) as Co-Lead Plaintiffs in the class action. The motion to dismiss was fully briefed on May 21, 2018 and oral arguments were held on October 23, 2018. The Company believes the suit to be without merit and intends to vigorously defend against it.

**Derivative Actions.** On June 16, 2016 and July 5, 2016, purported stockholders of the Company filed two derivative actions, respectively *Subodh v. HCR ManorCare Inc., et al.*, Case No. 30-2016-00858497-CU-PT-CXC and *Stearns v. HCR ManorCare, Inc., et al.*, Case No. 30-2016-00861646-CU-MC-CJC, in the Superior Court of California, County of Orange, against certain of the Company's current and former directors and officers and HCRMC. The Company is

named as a nominal defendant. As both derivative actions contained substantially the same allegations, they have been consolidated into a single action (the “California derivative action”). The consolidated action alleges that the defendants engaged in various acts of wrongdoing, including, among other things, breaching fiduciary duties by publicly making false or misleading statements of fact regarding HCRMC’s finances and prospects, and failing to maintain adequate internal controls. On April 18, 2017, the Court approved the parties’ stipulation to stay the case pending disposition of the motion to dismiss the class action litigation.

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On April 10, 2017, a purported stockholder of the Company filed a derivative action, *Weldon v. Martin et al.*, Case No. 3:17-cv-755, in federal court in the Northern District of Ohio, Western Division, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The Weldon complaint asserts similar claims to those asserted in the California derivative action. In addition, the complaint asserts a claim under Section 14(a) of the Exchange Act, alleging that the Company made false statements in its 2016 proxy statement by not disclosing that the Company's performance issues in 2015 were the direct result of alleged billing fraud at HCRMC. On April 18, 2017, the Court re-assigned and transferred this action to the judge presiding over the related federal securities class action. On July 11, 2017, the Court approved a stipulation by the parties to stay the case pending disposition of the motion to dismiss the class action.

On July 21, 2017, a purported stockholder of the Company filed another derivative action, *Kelley v. HCR ManorCare, Inc., et al.*, Case No. 8:17-cv-01259, in federal court in the Central District of California, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The Kelley complaint asserts similar claims to those asserted in Weldon and in the California derivative action. Like Weldon, the Kelley complaint also additionally alleges that the Company made false statements in its 2016 proxy statement, and asserts a claim for a violation of Section 14(a) of the Exchange Act. On November 28, 2017, the federal court in the Central District of California granted Defendants' motion to transfer the action to the Northern District of Ohio (i.e., the court where the class action and other federal derivative action are pending). The Court in the Northern District of Ohio is currently considering whether to consolidate the Weldon and Kelley actions, appointment of lead plaintiffs and counsel, and whether the stay in Weldon should continue as to either or both actions.

The Company's Board of Directors received letters dated August 17, 2016, April 19, 2017, and April 20, 2017 from private law firms acting on behalf of clients who are purported stockholders of the Company, each asserting allegations similar to those made in the California derivative action matters discussed above. Each letter demands that the Board of Directors take action to assert the Company's rights. The Board of Directors completed its evaluation and rejected the demand letters in December of 2017.

The Company believes that the plaintiffs lack standing or the lawsuits and demands are without merit, but cannot predict the outcome of these proceedings or reasonably estimate any potential loss at this time. Accordingly, no loss contingency has been recorded for these matters as of September 30, 2018, as the likelihood of loss is not considered probable or estimable.

**Commitments**

The Company's commitments related to development and redevelopment projects increased by \$160 million, to \$293 million at September 30, 2018 when compared to December 31, 2017. The Company's ground and other operating lease obligations increased by \$105 million (when compared to December 31, 2017), to \$501 million at September 30, 2018, primarily as a result of the acquisition of the Greenville Portfolio by the MSREI JV (see Note 4). There have been no other material changes, outside of the ordinary course of business, to the Company's commitments during the nine months ended September 30, 2018.

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## NOTE 11. Equity

## Accumulated Other Comprehensive Income (Loss)

The following table summarizes the Company's accumulated other comprehensive income (loss) (in thousands):

	September 30, December 31,	
	2018	2017
Cumulative foreign currency translation adjustment <sup>(1)</sup>	\$ (921 )	\$ (6,955 )
Unrealized gains (losses) on derivatives, net	(521 )	(13,950 )
Supplemental Executive Retirement plan minimum liability and other	(2,855 )	(3,119 )
Total other comprehensive income (loss)	\$ (4,297 )	\$ (24,024 )

(1) See Note 4 for a discussion of the U.K. JV transaction.

## NOTE 12. Segment Disclosures

The Company evaluates its business and allocates resources based on its reportable business segments: (i) senior housing triple-net, (ii) SHOP, (iii) life science and (iv) medical office. The Company has non-reportable segments that are comprised primarily of the Company's debt investments, hospital properties, unconsolidated JVs (see below) and U.K. investments. The accounting policies of the segments are the same as those in Note 2 to the Consolidated Financial Statements in the Company's 2017 Annual Report on Form 10-K filed with the SEC, as updated by Note 2 herein.

During the three and nine months ended September 30, 2018, six and 16 senior housing triple-net facilities, respectively, were transferred to the Company's SHOP segment. During the three and nine months ended September 30, 2017, three and four senior housing triple-net facilities, respectively, were transferred to the Company's SHOP segment. When an asset is transferred from one segment to another, the results associated with that asset are included in the original segment until the date of transfer. Results generated after the transfer date are included in the new segment.

The Company evaluates performance based upon: (i) property NOI and (ii) Adjusted NOI. NOI is defined as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expenses (which exclude transition costs); NOI excludes all other financial statement amounts included in net income (loss). Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL non-cash interest, amortization of market lease intangibles, termination fees, and the impact of deferred community fee income and expense.

During the fourth quarter of 2017, as a result of a change in how operating results are reported to the chief operating decision makers for the purpose of evaluating performance and allocating resources, the Company began excluding unconsolidated JVs from its evaluation of its segments' operating results. Unconsolidated JVs are now reflected in other non-reportable segments.

The adjustments to NOI and resulting Adjusted NOI for SHOP have been recast for prior periods to conform to the current period presentation which excludes: (i) the impact of deferred community fee income and expense, resulting in recognition as cash is received and expenses are paid and (ii) adjustments related to unconsolidated JVs (see above). Non-segment assets consist of assets in the Company's other non-reportable segments and corporate non-segment assets. Corporate non-segment assets consist primarily of corporate assets, including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities and, if any, real estate assets and liabilities held for sale. See Note 16 for other information regarding concentrations of credit risk.

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The following tables summarize information for the reportable segments (in thousands):

For the three months ended September 30, 2018:

	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Rental revenues <sup>(1)</sup>	\$ 67,487	\$ 137,044	\$ 98,040	\$ 129,618	\$ 22,597	\$ —	\$ 454,786
Operating expenses	(840 )	(106,182 )	(23,668 )	(49,150 )	(1,367 )	—	(181,207 )
NOI	66,647	30,862	74,372	80,468	21,230	—	273,579
Adjustments to NOI <sup>(2)</sup>	534	1,378	(1,439 )	(319 )	(857 )	—	(703 )
Adjusted NOI	67,181	32,240	72,933	80,149	20,373	—	272,876
Addback adjustments	(534 )	(1,378 )	1,439	319	857	—	703
Interest income	—	—	—	—	1,236	—	1,236
Interest expense	(599 )	(688 )	(78 )	(117 )	—	(62,004 )	(63,486 )
Depreciation and amortization	(18,884 )	(25,166 )	(34,432 )	(50,294 )	(3,422 )	—	(132,198 )
General and administrative	—	—	—	—	—	(23,503 )	(23,503 )
Transaction costs	—	—	—	—	—	(4,489 )	(4,489 )
Recoveries (impairments), net	—	(5,268 )	—	—	—	—	(5,268 )
Gain (loss) on sales of real estate, net	463	10,163	80,580	3,903	223	—	95,332
Loss on debt extinguishments	—	—	—	—	—	(43,899 )	(43,899 )
Other income (expense), net	—	—	—	—	—	1,604	1,604
Income tax benefit (expense)	—	—	—	—	—	4,929	4,929
Equity income (loss) from unconsolidated JVs	—	—	—	—	(911 )	—	(911 )
Net income (loss)	\$ 47,627	\$ 9,903	\$ 120,442	\$ 33,960	\$ 18,356	\$ (127,362 )	\$ 102,926

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

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, deferral of community fees, net and termination fees.

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For the three months ended September 30, 2017:

	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Rental revenues <sup>(1)</sup>	\$ 77,220	\$ 126,040	\$ 90,174	\$ 119,847	\$ 28,968	\$ —	\$ 442,249
Operating expenses	(934 )	(86,821 )	(19,960 )	(46,486 )	(1,137 )	—	(155,338 )
NOI	76,286	39,219	70,214	73,361	27,831	—	286,911
Adjustments to NOI <sup>(2)</sup>	(600 )	(35 )	(785 )	(578 )	(1,283 )	—	(3,281 )
Adjusted NOI	75,686	39,184	69,429	72,783	26,548	—	283,630
Addback adjustments	600	35	785	578	1,283	—	3,281
Interest income	—	—	—	—	11,774	—	11,774
Interest expense	(640 )	(933 )	(87 )	(126 )	(618 )	(68,924 )	(71,328 )
Depreciation and amortization	(25,547 )	(24,884 )	(30,851 )	(42,047 )	(7,259 )	—	(130,588 )
General and administrative	—	—	—	—	—	(23,523 )	(23,523 )
Transaction costs	—	—	—	—	—	(580 )	(580 )
Recoveries (impairments), net	—	—	—	—	(25,328 )	—	(25,328 )
Gain (loss) on sales of real estate, net	5,176	(2 )	8	—	—	—	5,182
Loss on debt extinguishments	—	—	—	—	—	(54,227 )	(54,227 )
Other income (expense), net	—	—	—	—	—	(10,556 )	(10,556 )
Income tax benefit (expense)	—	—	—	—	—	5,481	5,481
Equity income (loss) from unconsolidated JVs	—	—	—	—	1,062	—	1,062
Net income (loss)	\$ 55,275	\$ 13,400	\$ 39,284	\$ 31,188	\$ 7,462	\$ (152,329 )	\$ (5,720 )

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

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, deferral of community fees, net and termination fees.

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For the nine months ended September 30, 2018:

	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Rental revenues <sup>(1)</sup>	\$212,489	\$420,067	\$298,692	\$378,798	\$85,676	\$—	\$1,395,722
Operating expenses	(2,677 )	(309,694 )	(68,208 )	(143,114 )	(3,932 )	—	(527,625 )
NOI	209,812	110,373	230,484	235,684	81,744	—	868,097
Adjustments to NOI <sup>(2)</sup>	(323 )	(356 )	(7,423 )	(2,383 )	(3,566 )	—	(14,051 )
Adjusted NOI	209,489	110,017	223,061	233,301	78,178	—	854,046
Addback adjustments	323	356	7,423	2,383	3,566	—	14,051
Interest income	—	—	—	—	9,048	—	9,048
Interest expense	(1,806 )	(2,067 )	(240 )	(356 )	(1,469 )	(205,688 )	(211,626 )
Depreciation and amortization	(62,041 )	(80,797 )	(105,782 )	(142,229 )	(27,891 )	—	(418,740 )
General and administrative	—	—	—	—	—	(75,192 )	(75,192 )
Transaction costs	—	—	—	—	—	(9,088 )	(9,088 )
Recoveries (impairments), net	(6,273 )	(5,268 )	(7,639 )	—	—	—	(19,180 )
Gain (loss) on sales of real estate, net	(22,687 )	79,340	80,581	3,903	21,074	—	162,211
Loss on debt extinguishments	—	—	—	—	—	(43,899 )	(43,899 )
Other income (expense), net	—	—	—	—	(40,567 )	3,550	(37,017 )
Income tax benefit (expense)	—	—	—	—	—	14,919	14,919
Equity income (loss) from unconsolidated JVs	—	—	—	—	(442 )	—	(442 )
Net income (loss)	\$117,005	\$101,581	\$197,404	\$97,002	\$41,497	\$(315,398 )	\$239,091

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

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, deferral of community fees, net and termination fees.

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For the nine months ended September 30, 2017:

	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Rental revenues <sup>(1)</sup>	\$255,332	\$391,684	\$262,224	\$357,381	\$87,524	\$—	\$1,354,145
Operating expenses	(2,927 )	(267,226 )	(56,024 )	(137,930 )	(3,475 )	—	(467,582 )
NOI	252,405	124,458	206,200	219,451	84,049	—	886,563
Adjustments to NOI <sup>(2)</sup>	(2,844 )	(334 )	(1,211 )	(2,304 )	(3,162 )	—	(9,855 )
Adjusted NOI	249,561	124,124	204,989	217,147	80,887	—	876,708
Addback adjustments	2,844	334	1,211	2,304	3,162	—	9,855
Interest income	—	—	—	—	50,974	—	50,974
Interest expense	(1,898 )	(6,950 )	(288 )	(382 )	(3,541 )	(222,775 )	(235,834 )
Depreciation and amortization	(77,478 )	(75,657 )	(95,648 )	(127,261 )	(21,849 )	—	(397,893 )
General and administrative	—	—	—	—	—	(67,287 )	(67,287 )
Transaction costs	—	—	—	—	—	(2,504 )	(2,504 )
Recoveries (impairments), net	—	—	—	—	(82,010 )	—	(82,010 )
Gain (loss) on sales of real estate, net	273,409	131	45,922	(406 )	3,796	—	322,852
Loss on debt extinguishments	—	—	—	—	—	(54,227 )	(54,227 )
Other income (expense), net	—	—	—	—	50,895	(10,172 )	40,723
Income tax benefit (expense)	—	—	—	—	—	14,630	14,630
Equity income (loss) from unconsolidated JVs	—	—	—	—	4,571	—	4,571
Net income (loss)	\$446,438	\$41,982	\$156,186	\$91,402	\$86,885	\$(342,335 )	\$480,558

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

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, deferral of community fees, net and termination fees.

The following table summarizes the Company's revenues by segment (in thousands):

Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Senior housing triple-net	\$67,487	\$77,220	\$212,489	\$255,332
SHOP	137,044	126,040	420,067	391,684
Life science	98,040	90,174	298,692	262,224
Medical office	129,618	119,847	378,798	357,381
Other non-reportable segments	23,833	40,742	94,724	138,498
Total revenues	\$456,022	\$454,023	\$1,404,770	\$1,405,119

See Notes 3, 4 and 6 for significant transactions impacting the Company's segment assets during the periods presented.



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## NOTE 13. Earnings Per Common Share

Basic income (loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of DownREIT units, stock options, certain performance restricted stock units and unvested restricted stock units. Only those instruments having a dilutive impact on our basic income (loss) per share are included in diluted income (loss) per share during the periods presented.

Restricted stock and certain performance restricted stock units are considered participating securities, because dividend payments are not forfeited even if the underlying award does not vest, and require use of the two-class method when computing basic and diluted earnings per 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,	
	2018	2017	2018	2017
Numerator				
Net income (loss)	\$102,926	\$(5,720)	\$239,091	\$480,558
Noncontrolling interests' share in earnings	(3,555 )	(1,937 )	(9,546 )	(7,687 )
Net income (loss) attributable to HCP, Inc.	99,371	(7,657 )	229,545	472,871
Less: Participating securities' share in earnings	(425 )	(131 )	(1,278 )	(560 )
Net income (loss) applicable to common shares	\$98,946	\$(7,788)	\$228,267	\$472,311
Denominator				
Basic weighted average shares outstanding	469,867	468,975	469,732	468,642
Dilutive potential common shares - equity awards	251	—	144	186
Diluted weighted average common shares	470,118	468,975	469,876	468,828
Earnings per common share:				
Basic	\$0.21	\$(0.02 )	\$0.49	\$1.01
Diluted	\$0.21	\$(0.02 )	\$0.49	\$1.01

For all periods presented in the above table, 7 million shares issuable upon conversion of DownREIT units and approximately 1 million equity awards (restricted stock units and stock options) were not included because they are anti-dilutive. For the three months ended September 30, 2017, diluted loss per share from continuing operations is calculated using the weighted-average common shares outstanding during the period.

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NOTE 14. Supplemental Cash Flow Information

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

Nine  
Months  
Ended  
September  
30,