

HCP, INC.
Form 10-Q
May 06, 2014
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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 March 31, 2014.

OR

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

For the transition period from to

Commission file number 001-08895

HCP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

33-0091377
(I.R.S. Employer
Identification No.)

3760 Kilroy Airport Way, Suite 300

Long Beach, CA 90806

(Address of principal executive offices)

(562) 733-5100

(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 x NO o

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 x NO o

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 x

Accelerated Filer o

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Non-accelerated Filer ☐
(Do not check if a smaller reporting company)

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 May 1, 2014, there were 458,197,511 shares of the registrant's \$1.00 par value common stock outstanding.

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HCP, INC.

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Table of Contents**HCP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)****(Unaudited)**

	March 31, 2014	December 31, 2013
ASSETS		
Real estate:		
Buildings and improvements	\$ 10,570,071	\$ 10,544,110
Development costs and construction in progress	211,181	225,869
Land	1,827,137	1,822,862
Accumulated depreciation and amortization	(2,015,034)	(1,965,592)
Net real estate	10,593,355	10,627,249
Net investment in direct financing leases	7,190,400	7,153,399
Loans receivable, net	371,172	366,001
Investments in and advances to unconsolidated joint ventures	193,930	196,576
Accounts receivable, net of allowance of \$1,897 and \$1,529, respectively	28,539	27,494
Cash and cash equivalents	49,738	300,556
Restricted cash	30,296	37,229
Intangible assets, net	472,058	489,842
Real estate assets held for sale, net		9,819
Other assets, net	929,190	867,705
Total assets(1)	\$ 19,858,678	\$ 20,075,870
LIABILITIES AND EQUITY		
Term loan	\$ 228,269	\$ 226,858
Senior unsecured notes	6,912,812	6,963,375
Mortgage debt	1,235,169	1,396,485
Other debt	74,097	74,909
Intangible liabilities, net	94,615	98,810
Accounts payable and accrued liabilities	276,342	318,427
Deferred revenue	67,801	65,872
Total liabilities(2)	8,889,105	9,144,736
Commitments and contingencies		
Common stock, \$1.00 par value: 750,000,000 shares authorized; 458,043,744 and 456,960,648 shares issued and outstanding, respectively	458,044	456,961
Additional paid-in capital	11,362,581	11,334,041
Cumulative dividends in excess of earnings	(1,044,302)	(1,053,215)
Accumulated other comprehensive loss	(14,570)	(14,487)
Total stockholders' equity	10,761,753	10,723,300
Joint venture partners	23,788	23,729
Non-managing member unitholders	184,032	184,105
Total noncontrolling interests	207,820	207,834
Total equity	10,969,573	10,931,134
Total liabilities and equity	\$ 19,858,678	\$ 20,075,870

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(1) The Company's consolidated total assets at March 31, 2014 and December 31, 2013 include assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs. At both March 31, 2014 and December 31, 2013: other assets, net, \$1 million. See Note 16 to the Condensed Consolidated Financial Statements for additional information.

(2) The Company's consolidated total liabilities at March 31, 2014 and December 31, 2013 include liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. At both March 31, 2014 and December 31, 2013: accounts payable and accrued liabilities, \$9 million. See Note 16 to the Condensed Consolidated Financial Statements for additional information.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Rental and related revenues	\$ 284,823	\$ 281,539
Tenant recoveries	25,434	24,202
Resident fees and services	38,053	35,746
Income from direct financing leases	164,537	156,870
Interest income	16,696	12,386
Investment management fee income	449	443
Total revenues	529,992	511,186
Costs and expenses:		
Interest expense	106,638	109,110
Depreciation and amortization	107,388	103,179
Operating	75,707	72,686
General and administrative	21,394	20,656
Total costs and expenses	311,127	305,631
Other income, net	1,930	12,112
Income before income taxes and equity income from unconsolidated joint ventures	220,795	217,667
Income taxes	(1,446)	(916)
Equity income from unconsolidated joint ventures	14,528	14,801
Income from continuing operations	233,877	231,552
Discontinued operations:		
Income before gain on sales of real estate, net of income taxes	1,736	2,232
Gain on sales of real estate, net of income taxes	28,010	
Total discontinued operations	29,746	2,232
Net income	263,623	233,784
Noncontrolling interests share in earnings	(4,512)	(3,199)
Net income attributable to HCP, Inc.	259,111	230,585
Participating securities share in earnings	(1,064)	(478)
Net income applicable to common shares	\$ 258,047	\$ 230,107
Basic earnings per common share:		
Continuing operations	\$ 0.50	\$ 0.50
Discontinued operations	0.06	0.01
Net income applicable to common shares	\$ 0.56	\$ 0.51
Diluted earnings per common share:		
Continuing operations	\$ 0.50	\$ 0.50
Discontinued operations	0.06	0.01
Net income applicable to common shares	\$ 0.56	\$ 0.51
Weighted average shares used to calculate earnings per common share:		

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Basic	457,294	453,651
Diluted	457,674	454,613
Dividends declared per common share	\$ 0.545	0.525

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**HCP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 263,623	\$ 233,784
Other comprehensive income (loss):		
Change in net unrealized gains on securities:		
Unrealized gains	3	1,355
Reclassification adjustment realized in net income		(9,131)
Change in net unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses)	(695)	5,320
Reclassification adjustment realized in net income	605	272
Change in Supplemental Executive Retirement Plan obligation	54	55
Foreign currency translation adjustment	(50)	178
Total other comprehensive loss	(83)	(1,951)
Total comprehensive income	263,540	231,833
Total comprehensive income attributable to noncontrolling interests	(4,512)	(3,199)
Total comprehensive income attributable to HCP, Inc.	\$ 259,028	\$ 228,634

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

(Unaudited)

	Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Noncontrolling	Equity
			Capital	In Excess	Comprehensive	Equity	Interests	
				Of Earnings	Income (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				259,111		259,111	4,512	263,623
Other comprehensive loss					(83)	(83)		(83)
Issuance of common stock, net	1,287	1,287	31,419			32,706	(73)	32,633
Repurchase of common stock	(208)	(208)	(7,860)			(8,068)		(8,068)
Exercise of stock options	4	4	91			95		95
Amortization of deferred compensation			4,890			4,890		4,890
Common dividends (\$0.545 per share)				(250,198)		(250,198)		(250,198)
Distributions to noncontrolling interests							(3,975)	(3,975)
Issuance of noncontrolling interests							1,193	1,193
Purchase of noncontrolling interests							(1,671)	(1,671)
March 31, 2014	458,044	\$ 458,044	\$ 11,362,581	\$ (1,044,302)	\$ (14,570)	\$ 10,761,753	\$ 207,820	\$ 10,969,573

	Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Noncontrolling	Equity
			Capital	In Excess	Comprehensive	Equity	Interests	
				Of Earnings	Income (Loss)			
January 1, 2013	453,191	\$ 453,191	\$ 11,180,066	\$ (1,067,367)	\$ (14,653)	\$ 10,551,237	\$ 202,540	\$ 10,753,777
Net income				230,585		230,585	3,199	233,784
Other comprehensive loss					(1,951)	(1,951)		(1,951)
Issuance of common stock, net	555	555	13,901			14,456	(2,179)	12,277
Repurchase of common stock	(14)	(14)	(675)			(689)		(689)
Exercise of stock options	685	685	19,980			20,665		20,665
Amortization of deferred compensation			5,430			5,430		5,430
Common dividends (\$0.525 per share)				(238,467)		(238,467)		(238,467)
Distributions to noncontrolling interests							(3,754)	(3,754)
							987	987

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Issuance of
noncontrolling interests

March 31, 2013	454,417	\$	454,417	\$	11,218,702	\$	(1,075,249)	\$	(16,604)	\$	10,581,266	\$	200,793	\$	10,782,059
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See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 263,623	\$ 233,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles:		
Continuing operations	107,388	103,179
Discontinued operations		1,538
Amortization of above and below market lease intangibles, net	(168)	(78)
Amortization of deferred compensation	4,890	5,430
Amortization of deferred financing costs, net	4,965	4,644
Straight-line rents	(13,968)	(18,793)
Loan and direct financing lease interest accretion	(21,503)	(24,266)
Deferred rental revenues	(145)	1,257
Equity income from unconsolidated joint ventures	(14,528)	(14,801)
Distributions of earnings from unconsolidated joint ventures	2,430	803
Gain on sales of real estate	(28,010)	
Marketable securities and other (gains) losses, net	63	(11,082)
Changes in:		
Accounts receivable, net	(1,045)	1,967
Other assets	(8,942)	(8,699)
Accounts payable and accrued liabilities	(47,869)	(60,533)
Net cash provided by operating activities	247,181	214,350
Cash flows from investing activities:		
Acquisitions of real estate	(5,473)	(25,654)
Development of real estate	(33,983)	(38,749)
Leasing costs and tenant and capital improvements	(12,405)	(8,959)
Proceeds from sales of real estate, net	36,753	
Distributions in excess of earnings from unconsolidated joint ventures	772	568
Proceeds from the sale of marketable securities		28,030
Principal repayments on loans receivable	3,133	2,188
Investments in loans receivable and other	(42,281)	(14,957)
Decrease in restricted cash	6,933	173
Net cash used in investing activities	(46,551)	(57,360)
Cash flows from financing activities:		
Net borrowings under bank line of credit		14,000
Issuance of senior unsecured notes	350,000	
Repayments of senior unsecured notes	(400,000)	(150,000)
Repayments of mortgage debt	(162,739)	(12,135)
Deferred financing costs	(9,239)	
Issuance of common stock and exercise of options	32,728	32,942
Repurchase of common stock	(8,068)	(689)
Dividends paid on common stock	(250,198)	(238,467)
Issuance of noncontrolling interests	41	987
Distributions to noncontrolling interests	(3,975)	(3,754)

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Net cash used in financing activities	(451,450)		(357,116)
Effect of foreign exchange on cash and cash equivalents	2		
Net decrease in cash and cash equivalents	(250,818)		(200,126)
Cash and cash equivalents, beginning of period	300,556		247,673
Cash and cash equivalents, end of period	\$ 49,738	\$	47,547

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 and was organized to qualify as a self-administered real estate investment trust (REIT) in 1985. The Company is headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. The Company's portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. The Company makes investments within the healthcare segments using the following five investment products: (i) properties under lease, (ii) debt investments, (iii) developments and redevelopments, (iv) investment management and (v) investments in senior housing operations utilizing the structure permitted by the Housing and Economic Recovery Act of 2008, which is commonly referred to as RIDEA.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed 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 condensed consolidated financial statements include the accounts of HCP, Inc., its wholly-owned subsidiaries and joint ventures or variable interest entities (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 only 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 months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the SEC).

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Certain amounts in the Company's condensed consolidated financial statements have been reclassified for prior periods to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets and the related operating results reclassified from continuing to discontinued operations on the condensed consolidated statements of income (see Note 4).

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts, including an allowance for operating lease straight line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. For operating lease straight line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease.

The Company evaluates the liquidity and creditworthiness of its tenants, operators and borrowers on a monthly and quarterly basis. The Company's evaluation considers industry and economic conditions, individual and portfolio property performance, credit enhancements, liquidity and other factors. The Company's tenants, borrowers and operators furnish property, portfolio and guarantor/operator-level financial statements, among other information, on a monthly or quarterly basis; the Company utilizes this financial information to calculate the lease or debt service coverages that it uses as a primary credit quality indicator. Lease and debt service coverage information is evaluated together with other property, portfolio and operator performance information, including revenue, expense, net operating income, occupancy, rental rate, reimbursement trends, capital expenditures and EBITDA, along with liquidity. The Company evaluates, on a monthly basis or immediately upon a change in circumstances, its tenants', operators' and borrowers' ability to service their obligations with the Company.

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In connection with the Company's quarterly loans receivable and direct financing leases (DFLs) (collectively Finance Receivables) review process, Finance Receivables are assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection of all amounts owed is reasonably assured. Watch List Finance Receivables meet all present contractual obligations; however, the timing and/or collection of all amounts owed may not be reasonably assured. Workout Finance Receivables are defined as Finance Receivables where the Company has determined, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement.

Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured. If the ultimate collectibility of the recorded nonaccrual Finance Receivable balance is in doubt, the cost recovery method is used, and cash collected is applied to first reduce the carrying value of the Finance Receivable. Otherwise, the cash basis method is used, whereby income may be recognized to the extent cash is received. Generally, the Company returns a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of remaining loan or lease payments is no longer in doubt.

Allowances are established for Finance Receivables based upon an estimate of probable losses on an individual basis if they are determined to be impaired. Finance Receivables are impaired when it is deemed probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan or lease. An allowance is based upon the Company's assessment of the borrower's or lessee's overall financial condition, economic resources, payment record, the prospects for support from any financially responsible guarantors and, if appropriate, the net realizable value of any collateral. These estimates consider all available evidence, including the expected future cash flows discounted at the Finance Receivable's effective interest rate, fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors, as appropriate.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08). This update changes the requirements for reporting and the definition of discontinued operations. Based on the current revisions, the disposal of a component of an entity, or a group of components of an entity, is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when certain defined criteria are met. ASU 2014-08 is effective for fiscal years and interim periods ending after December 15, 2014 and shall be applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. Upon the Company's early adoption of ASU 2014-08, on June 30, 2014, it does not expect that future sales of real estate assets will represent strategic shifts or have a major effect on the Company's operations or financial results; therefore, such dispositions would not be considered discontinued operations.

(3) Real Estate Property Investments

During the three months ended March 31, 2014, the Company acquired land for a senior housing community development project for \$7 million, subject to a 15 percent noncontrolling interest. During the three months ended March 31, 2013, the Company acquired the four remaining senior housing communities from a joint venture between Emeritus Corporation (Emeritus) and Blackstone Real Estate Partners VI for \$38 million and acquired 38 acres of land to be developed for use in the post-acute/skilled nursing segment for \$0.4 million.

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During the three months ended March 31, 2014 and 2013, the Company funded an aggregate of \$49 million and \$42 million, respectively, for construction, tenant and other capital improvement projects, primarily in its senior housing, life science and medical office segments.

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During the three months ended March 31, 2014, the Company sold two post-acute/skilled nursing facilities for \$22 million and a hospital for \$17 million. There were no sales of real estate assets during the three months ended March 31, 2013.

At December 31, 2013, one hospital and two post-acute/skilled nursing facilities were classified as held for sale, with a carrying value of \$10 million. There were no assets classified as held for sale at March 31, 2014.

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

	Three Months Ended March 31,	
	2014	2013
Rental and related revenues	\$ 1,810	\$ 5,083
Depreciation and amortization expenses		1,538
Operating expenses	54	919
Other expenses, net	20	394
Income before gain on sales of real estate, net of income taxes	\$ 1,736	\$ 2,232
Gain on sales of real estate, net of income taxes	\$ 28,010	\$
Number of properties included in discontinued operations	3	13

(5) Net Investment in Direct Financing Leases

The components of net investment in DFLs consisted of the following (dollars in thousands):

	March 31,	December 31,
	2014	2013
Minimum lease payments receivable(1)	\$ 24,666,528	\$ 24,808,386
Estimated residual values	4,134,405	4,134,405
Less unearned income	(21,610,533)	(21,789,392)
Net investment in direct financing leases	\$ 7,190,400	\$ 7,153,399
Properties subject to direct financing leases	364	364

The minimum lease payments receivable are primarily attributable to HCR ManorCare, Inc. (HCR ManorCare) (\$23.4 billion and \$23.5 billion at March 31, 2014 and December 31, 2013, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of \$524 million beginning April 1, 2014 (prior to April 1, 2014, annual rent was \$506 million). The rent increases by 3.5% per year over the next two years and by 3% for the remaining portion of the initial lease term. The properties are grouped into four pools, and HCR ManorCare has a

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one-time extension option for each pool with rent increased for the first year of the extension option to the greater of fair market rent or a 3% increase over the rent for the prior year. Including the extension options, which the Company determined to be bargain renewal options, the four leased pools had total initial available terms ranging from 23 to 35 years.

The following table summarizes the Company's internal ratings for net investment in DFLs at March 31, 2014 (in thousands):

Investment Type	Carrying Amount	Percentage of DFL Portfolio	Performing DFLs	Internal Ratings Watch List DFLs	Workout DFLs
Senior housing	\$ 1,484,656	21	\$ 1,111,264	\$ 373,392	\$
Post-acute/skilled nursing	5,581,853	77	5,581,853		
Hospital	123,891	2	123,891		
	\$ 7,190,400	100	\$ 6,817,008	\$ 373,392	\$

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During the quarter ended September 30, 2013, the Company placed a 14-property senior housing DFL (the "DFL Portfolio") on non-accrual status. Based on the Company's determination that the collection of all rental payments was no longer reasonably assured, rental revenue for the DFL Portfolio is recognized on a cash basis. Furthermore, the Company determined that the DFL Portfolio was not impaired at September 30, 2013, 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 \$376 million 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 March 31, 2014 and 2013, the Company recognized DFL income of \$4.9 million and \$7.0 million, respectively, and received cash payments of \$5.8 million and \$5.8 million, respectively, from the DFL Portfolio. The carrying value of the DFL Portfolio was \$373 million and \$374 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value.

(6) Loans Receivable

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

	March 31, 2014			December 31, 2013		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	\$	\$ 234,455	\$ 234,455	\$	\$ 234,455	\$ 234,455
Other(1)	152,759		152,759	147,669		147,669
Unamortized discounts, fees and costs		(2,632)	(2,632)		(2,713)	(2,713)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)
	\$ 152,759	\$ 218,413	\$ 371,172	\$ 147,669	\$ 218,332	\$ 366,001

(1) Includes \$123 million and \$117 million at March 31, 2014 and December 31, 2013, respectively, of construction loans outstanding related to senior housing development projects. At March 31, 2014, the Company had \$25 million remaining in its commitments to fund development projects.

The following table summarizes the Company's internal ratings for loans receivable at March 31, 2014 (in thousands):

Investment Type	Carrying Amount	Percentage of Loan Portfolio	Performing Loans	Internal Ratings Watch List Loans	Workout Loans
Real estate secured	\$ 152,759	41	\$ 152,759	\$	\$
Other secured	218,413	59	200,342		18,071
	\$ 371,172	100	\$ 353,101	\$	\$ 18,071

Other Secured Loans

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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. At March 31, 2014, the loans were subordinate to \$442 million of senior mortgage debt. The loans bear interest at fixed rates of 12% and 14% per annum for the First and Second Tranches, respectively. This loan facility has a total term of up to 63 months from the First Tranche closing, is prepayable at the borrower's option and is secured by real estate partnership interests. The loans are subject to prepayment premiums if repaid on or before the third anniversary from the First Tranche closing date.

Delphis Operations, L.P. Loan. The Company holds a 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 a partnership interest in an operating surgical facility that leases a property owned by the Company. This loan is on cost recovery status. The carrying value of the loan, net of an allowance for loan losses of \$13 million, was \$18.1 million at both March 31, 2014 and December 31, 2013. At March 31, 2014, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value.

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A reconciliation of the Company's allowance related to the Company's senior secured loan to Delphis follows (in thousands):

	Amount
Balance at January 1, 2014	\$ 13,410
Additions	
Balance at March 31, 2014	\$ 13,410

(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 at March 31, 2014 (dollars in thousands):

Entity(1)	Segment	Investment(2)	Ownership%
HCR ManorCare	post-acute/skilled nursing	\$ 82,311	9.5
HCP Ventures III, LLC	medical office	7,065	30
HCP Ventures IV, LLC	medical office and hospital	29,074	20
HCP Life Science(3)	life science	68,798	50-63
Suburban Properties, LLC	medical office	6,180	67
Advances to unconsolidated joint ventures, net		502	
		\$ 193,930	
Edgewood Assisted Living Center, LLC	senior housing	\$ (431)	
Seminole Shores Living Center, LLC	senior housing	(656)	
		\$ (1,087)	

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

(2) Represents the carrying value of the Company's investment in the unconsolidated joint venture. Negative balances are recorded in accounts payable and accrued liabilities on the Company's Condensed Consolidated Balance Sheets. Includes a 72% interest in a senior housing partnership which has an investment balance of zero.

(3) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. 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 unconsolidated joint ventures follows (in thousands):

	March 31, 2014	December 31, 2013
Real estate, net	\$ 3,644,045	\$ 3,662,450
Goodwill and other assets, net	5,414,544	5,384,553
Total assets	\$ 9,058,589	\$ 9,047,003

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Capital lease obligations and mortgage debt	\$	6,736,980	\$	6,768,815
Accounts payable		1,083,690		1,045,260
Other partners' capital		1,102,974		1,098,228
HCP's capital(1)		134,945		134,700
Total liabilities and partners' capital	\$	9,058,589	\$	9,047,003

(1) The combined basis difference of the Company's investments in these joint ventures of \$57 million, as of March 31, 2014, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease-related net intangibles.

		Three Months Ended March 31,	
		2014	2013
Total revenues	\$	1,079,891	\$ 1,093,374
Net income		7,996	10,584
HCP's share of earnings(1)		14,528	14,801
Fees earned by HCP		449	443
Distributions received by HCP		3,202	1,371

(1) The Company's joint venture interest in HCR ManorCare is accounted for using the equity method and results in an ongoing elimination of DFL income proportional to HCP's ownership in HCR ManorCare. The elimination of the respective proportional lease expense at the HCR ManorCare level in substance results in \$15.6 million and \$15.9 million of DFL income that is recharacterized to the Company's share of earnings from HCR ManorCare (equity income from unconsolidated joint ventures) for the three months ended March 31, 2014 and 2013, respectively.

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(8) Intangibles

At March 31, 2014 and December 31, 2013, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles, were \$776 million and \$781 million, respectively. At March 31, 2014 and December 31, 2013, the accumulated amortization of intangible assets was \$304 million and \$292 million, respectively.

At both March 31, 2014 and December 31, 2013, intangible lease liabilities, comprised of below market lease intangibles and above market ground lease intangibles were \$207 million. At March 31, 2014 and December 31, 2013, the accumulated amortization of intangible liabilities was \$113 million and \$108 million, respectively.

(9) Other Assets

The Company's other assets consisted of the following (in thousands):

	March 31,	December 31,
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