HCP, INC.
Form 10-Q
August 02, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013.

OR

o 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
Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

As of July 25, 2013, there were 455,098,236 shares of the registrant s $1.00 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

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HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

		June 30, 2013		December 31, 2012
ASSETS				
Real estate:				
Buildings and improvements	$	10,692,628	$	10,522,399
Development costs and construction in progress		221,907		236,864
Land		1,852,768		1,847,928
Accumulated depreciation and amortization		(1,905,879)		(1,731,742)
Net real estate		10,861,424		10,875,449
Net investment in direct financing leases		6,958,129		6,881,393
Loans receivable, net		555,791		276,030
Investments in and advances to unconsolidated joint ventures		208,878		212,213
Accounts receivable, net of allowance of $2,058 and $1,668, respectively		33,270		34,150
Cash and cash equivalents		53,114		247,673
Restricted cash		44,953		37,848
Intangible assets, net		518,982		552,701
Real estate held for sale, net		6,936		9,578
Other assets, net		810,316		788,520
Total assets(1)	$	20,051,793	$	19,915,555
LIABILITIES AND EQUITY				
Bank line of credit	$	261,582	$	
Term loan		208,418		222,694
Senior unsecured notes		6,564,842		6,712,624
Mortgage debt		1,653,426		1,676,544
Other debt		78,633		81,958
Intangible liabilities, net		108,864		105,909
Accounts payable and accrued liabilities		313,627		293,994
Deferred revenue		64,142		68,055
Total liabilities(2)		9,253,534		9,161,778
Commitments and contingencies				
Common stock, $1.00 par value: 750,000,000 shares authorized; 455,094,411 and 453,191,321 shares issued and outstanding, respectively		455,094		453,191
Additional paid-in capital		11,254,658		11,180,066
Cumulative dividends in excess of earnings		(1,100,834)		(1,067,367)
Accumulated other comprehensive loss		(12,360)		(14,653)
Total stockholders equity		10,596,558		10,551,237
Joint venture partners		16,910		14,752
Non-managing member unitholders		184,791		187,788
Total noncontrolling interests		201,701		202,540
Total equity		10,798,259		10,753,777
Total liabilities and equity	$	20,051,793	$	19,915,555

(1) The Company s consolidated total assets at December 31, 2012, include assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs as follows: accounts receivable, net, $2 million; cash and cash equivalents, $10 million; and other assets, net, $2 million. See Note 16 to the Condensed Consolidated Financial Statements for additional information.

(2) The Company s consolidated total liabilities at December 31, 2012, include liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. as follows: other debt, $0.2 million; accounts payable and accrued liabilities, $14 million; and deferred revenue, $2 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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues:				
Rental and related revenues	$ 280,616	$ 244,603	$ 565,251	$ 484,859
Tenant recoveries	25,146	23,581	49,349	46,231
Resident fees and services	37,590	35,569	74,481	71,748
Income from direct financing leases	158,286	154,976	315,156	309,511
Interest income	14,147	1,216	26,533	2,035
Investment management fee income	499	470	942	963
Total revenues	516,284	460,415	1,031,712	915,347
Costs and expenses:				
Interest expense	108,716	102,354	218,006	206,044
Depreciation and amortization	110,686	84,873	215,314	170,062
Operating	74,814	70,076	148,419	137,409
General and administrative	24,073	14,801	44,744	34,884
Total costs and expenses	318,289	272,104	626,483	548,399
Other income, net	3,240	1,028	15,303	1,462
Income before income taxes and equity income from unconsolidated joint ventures	201,235	189,339	420,532	368,410
Income taxes	(1,654)	(171)	(2,530)	541
Equity income from unconsolidated joint ventures	15,585	15,732	30,386	29,407
Income from continuing operations	215,166	204,900	448,388	398,358
Discontinued operations:				
Income before gain on sales of real estate	672	75	1,234	325
Gain on sales of real estate	887		887	2,856
Total discontinued operations	1,559	75	2,121	3,181
Net income	216,725	204,975	450,509	401,539
Noncontrolling interests share in earnings	(3,324)	(2,951)	(6,523)	(6,135)
Net income attributable to HCP, Inc.	213,401	202,024	443,986	395,404
Preferred stock dividends				(17,006)
Participating securities share in earnings	(378)	(557)	(856)	(1,674)
Net income applicable to common shares	$ 213,023	$ 201,467	$ 443,130	$ 376,724
Basic earnings per common share:				
Continuing operations	$ 0.47	$ 0.48	$ 0.97	$ 0.90
Discontinued operations			0.01	0.01
Net income applicable to common shares	$ 0.47	$ 0.48	$ 0.98	$ 0.91
Diluted earnings per common share:				
Continuing operations	$ 0.47	$ 0.48	$ 0.97	$ 0.90
Discontinued operations				

Net income applicable to common shares	$	0.47	$	0.48	$	0.97	$	0.90
Weighted average shares used to calculate earnings per common share:								
Basic		454,618		420,468		454,137		415,243
Diluted		455,431		421,671		455,024		416,666
Dividends declared per common share	$	0.525	$	0.50	$	1.05		1.00

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 216,725	$ 204,975	$ 450,509	$ 401,539
Other comprehensive income (loss):				
Unrealized gains on securities:				
Unrealized gains (losses)		(961)	1,355	343
Reclassification adjustment realized in net income			(9,131)	
Change in net unrealized gains on cash flow hedges:				
Unrealized gains (losses)	4,025	(1,056)	9,345	(780)
Reclassification adjustment realized in net income	288	90	560	179
Change in Supplemental Executive Retirement Plan obligation	55	45	111	90
Foreign currency translation adjustment	(125)	(155)	53	47
Total other comprehensive income (loss)	4,243	(2,037)	2,293	(121)
Total comprehensive income	220,968	202,938	452,802	401,418
Total comprehensive income attributable to noncontrolling interests	(3,324)	(2,951)	(6,523)	(6,135)
Total comprehensive income attributable to HCP, Inc.	$ 217,644	$ 199,987	$ 446,279	$ 395,283

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 Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Total Noncontrolling Interests	Total Equity
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				443,986		443,986	6,523	450,509
Other comprehensive income					2,293	2,293		2,293
Issuance of common stock, net	1,097	1,097	49,221			50,318	(2,997)	47,321
Repurchase of common stock	(46)	(46)	(2,224)			(2,270)		(2,270)
Exercise of stock options	852	852	15,957			16,809		16,809
Amortization of deferred compensation			11,638			11,638		11,638
Common dividends ($1.05 per share)				(477,453)		(477,453)		(477,453)
Distributions to noncontrolling interests							(7,506)	(7,506)
Issuance of noncontrolling interests							3,141	3,141
June 30, 2013	455,094	$ 455,094	$ 11,254,658	$ (1,100,834)	$ (12,360)	$ 10,596,558	$ 201,701	$ 10,798,259

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Total Noncontrolling Interests	Total Equity
January 1, 2012	11,820	$ 285,173	408,629	$ 408,629	$ 9,383,536	$ (1,024,274)	$ (19,582)	$ 9,033,482	$ 187,140	$ 9,220,622
Net income						395,404		395,404	6,135	401,539
Other comprehensive loss							(121)	(121)		(121)
Preferred stock redemption	(11,820)	(285,173)				(10,327)		(295,500)		(295,500)
Issuance of common stock, net			18,912	18,912	737,145			756,057	(2,273)	753,784
Repurchase of common stock			(189)	(189)	(7,678)			(7,867)		(7,867)
Exercise of stock options			2,050	2,050	35,170			37,220		37,220
Amortization of deferred compensation					11,407			11,407		11,407
Preferred dividends						(6,679)		(6,679)		(6,679)
Common dividends ($1.00						(416,173)		(416,173)		(416,173)

per share)								
Distributions to noncontrolling interests							(7,778)	(7,778)
Issuance of noncontrolling interests							873	873
Purchase of noncontrolling interests							(388)	(388)
June 30, 2012	$ 429,402	$ 429,402	$ 10,159,580	$ (1,062,049)	$ (19,703)	$ 9,507,230	$ 183,709	$ 9,690,939

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 450,509	$ 401,539
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	215,314	170,062
Discontinued operations	170	6,138
Amortization of above and below market lease intangibles, net	(6,068)	(1,322)
Amortization of deferred compensation	11,638	11,407
Amortization of deferred financing costs, net	9,440	8,459
Straight-line rents	(15,955)	(21,787)
Loan and direct financing lease interest accretion	(45,539)	(48,159)
Deferred rental revenues	(965)	1,169
Equity income from unconsolidated joint ventures	(30,386)	(29,407)
Distributions of earnings from unconsolidated joint ventures	1,624	1,878
Gain on sales of real estate	(887)	(2,856)
Marketable securities gain on sales, net	(10,977)	
Foreign currency and derivative (gains) losses, net	780	(52)
Changes in:		
Accounts receivable, net	462	708
Other assets	(12,852)	(8,188)
Accounts payable and accrued liabilities	5,294	(6,038)
Net cash provided by operating activities	571,602	483,551
Cash flows from investing activities:		
Acquisitions of real estate	(60,353)	(10,970)
Development of real estate	(67,983)	(51,890)
Leasing costs and tenant and capital improvements	(19,938)	(27,112)
Proceeds from sales of real estate, net	3,777	7,238
Distributions in excess of earnings from unconsolidated joint ventures	904	1,529
Purchases of marketable debt securities	(16,706)	(214,859)
Proceeds from the sale of marketable securities	28,030	
Principal repayments on loans receivable	19,112	4,508
Investments in loans receivable	(300,673)	(20,757)
Increase in restricted cash	(7,105)	(1,229)
Net cash used in investing activities	(420,935)	(313,542)
Cash flows from financing activities:		
Net borrowings (repayments) under bank line of credit	265,049	(238,985)
Issuance of senior unsecured notes		450,000
Repayments of senior unsecured notes	(150,000)	(250,000)
Repayments of mortgage debt	(40,380)	(42,538)
Deferred financing costs		(10,236)
Preferred stock redemption		(295,500)
Net proceeds from the issuance of common stock and exercise of options	61,860	783,137
Dividends paid on common and preferred stock	(477,453)	(422,852)
Issuance of noncontrolling interests	3,141	873
Distributions to noncontrolling interests	(7,506)	(7,778)

Net cash used in financing activities		(345,289)		(33,879)
Effect of foreign exchange on cash and cash equivalents		63		
Net increase (decrease) in cash and cash equivalents		(194,559)		136,130
Cash and cash equivalents, beginning of period		247,673		33,506
Cash and cash equivalents, end of period	$	53,114	$	169,636

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., an 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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012 included in the Company s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the SEC).

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).

Acquisition Costs

Transaction costs related to acquisitions of businesses, including properties, are expensed as incurred.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). This update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The adoption of ASU 2013-02 on January 1, 2013 did not have a material impact on the Company s consolidated financial position or results of operations.

In July 2012, the FASB issued Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities Refundable Advance Fees* (ASU 2012-01). This update clarifies the situations in which recognition of deferred revenue for refundable advance fees is appropriate. The adoption of ASU 2012-01 on January 1, 2013 did not have a material impact on the Company s consolidated financial position or results of operations.

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(3) Real Estate Property Investments

$1.73 Billion Senior Housing Portfolio Acquisition (the Blackstone JV Acquisition)

During the fourth quarter of 2012 and first quarter of 2013, the Company acquired 133 senior housing communities for $1.73 billion from a joint venture between Emeritus Corporation (Emeritus) and Blackstone Real Estate Partners VI, an affiliate of the Blackstone Group (the Blackstone JV). Located in 29 states, the portfolio encompasses a diversified care mix of 61% assisted living, 25% independent living, 13% memory care and 1% skilled nursing based on units. Based on operating performance at closing, the 133 communities consisted of 99 that were stabilized and 34 that were in lease-up. The transaction closed in two stages: (i) 129 senior housing facilities during the fourth quarter of 2012 for $1.7 billion; and (ii) four senior housing facilities during the first quarter of 2013 for $38 million. The Company paid $1.73 billion in cash consideration and assumed $13 million of mortgage debt to acquire: (i) real estate with a fair value of $1.57 billion, (ii) intangible assets with a fair value of $174 million; and (iii) assumed intangible liabilities with a fair value of $4 million. As of June 30, 2013, the purchase price allocation is preliminary, and the final purchase price allocation will be determined pending the receipt of information necessary to complete the valuation of certain assets and liabilities, which may result in changes from the initial estimates.

Emeritus operates the communities pursuant to a new triple-net master lease for 128 properties (the Master Lease) and five individual leases, all guaranteed by Emeritus (together, the Leases). The Leases provide aggregate contractual rent in the first year of $105.8 million. The contractual rent will increase annually by the greater of the percentage increase in the Consumer Price Index (CPI) or 3.7% on average over the initial five years, and thereafter by the greater of CPI or 3.0% for the remaining initial lease term. At the beginning of the sixth lease year, rent on the 34 lease-up properties will increase to the greater of the percentage increase in CPI or fair market, subject to a floor of 103% and a cap of 130% of the prior year s rent.

The Master Lease properties are grouped into three pools that share comparable characteristics. The Leases have initial terms of 14 to 16 years. Emeritus has two extension options, which, if exercised, will provide for lease terms of 30 to 35 years.

Concurrent with the acquisition in 2012, Emeritus purchased nine communities from the Blackstone JV, for which the Company provided secured debt financing of $52 million with a four-year term. The loan is secured by the underlying real estate and is prepayable at Emeritus option. The interest rate on the loan was initially 6.1% and will gradually increase during its four year term to 6.8%.

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations assume that the Blackstone JV Acquisition was completed as of January 1, 2012 (in thousands, except per share amounts):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012

Revenues	$	486,865	$	968,247
Net income		212,380		416,349
Net income applicable to HCP, Inc.		209,429		410,214
Basic earnings per common share		0.47		0.90
Diluted earnings per common share		0.47		0.90

Other Real Estate Acquisitions

In addition to the Blackstone JV Acquisition (discussed above), during the six months ended June 30, 2013, the Company acquired a senior housing facility for $18 million, exercised its purchase option for a senior housing facility it previously leased for $16 million and acquired 38 acres of land in the post-acute/skilled nursing segment for $408,000.

During the six months ended June 30, 2012, the Company acquired a life science facility for $8 million and 13 acres of land in the hospital segment for $3 million.

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During the six months ended June 30, 2013 and 2012, the Company funded an aggregate of $76 million and $79 million, respectively, for construction, tenant and other capital improvement projects, primarily in its senior housing, life science and medical office segments.

(4) Dispositions of Real Estate and Discontinued Operations

During the six months ended June 30, 2013, the Company sold a senior housing facility for $4 million. During the six months ended June 30, 2012, the Company sold a medical office building for $7 million.

At June 30, 2013, one hospital was classified as held for sale, with a carrying value of $7 million. At December 31, 2012, properties classified as held for sale included a senior housing facility and hospital with a combined aggregate carrying value of $10 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Rental and related revenues	$ 779	$ 4,024	$ 1,620	$ 8,349
Depreciation and amortization expenses	81	3,051	170	6,138
Operating expenses		11		29
Other expense, net	26	887	216	1,857
Income before gain on sales of real estate	$ 672	$ 75	$ 1,234	$ 325
Gain on sales of real estate, net of income taxes	$ 887	$	$ 887	$ 2,856
Number of properties included in discontinued operations	2	5	2	6

(5) Net Investment in Direct Financing Leases

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

	June 30, 2013	December 31, 2012
Minimum lease payments receivable(1)	$ 24,948,287	$ 25,217,520
Estimated residual values	4,010,514	4,010,514
Less unearned income	(22,000,672)	(22,346,641)
Net investment in direct financing leases	$ 6,958,129	$ 6,881,393
Properties subject to direct financing leases	361	361

(1) The minimum lease payments receivable are primarily attributable to HCR ManorCare, Inc. (HCR ManorCare) ($23.8 billion and $24.0 billion at June 30, 2013 and December 31, 2012, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of $506 million beginning April 1, 2013 (prior to April 1, 2013, annual rent was $489 million). The rent increases by 3.5% per year over the next three 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 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.

Certain leases contain provisions that allow the tenants to elect to purchase the properties during or at the end of the lease terms for the aggregate initial investment amount plus adjustments, if any, as defined in the lease agreements. Certain leases also permit the Company to require the tenants to purchase the properties at the end of the lease terms.

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(6) Loans Receivable

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

	June 30, 2013 Real Estate Secured	June 30, 2013 Other Secured	June 30, 2013 Total	December 31, 2012 Real Estate Secured	December 31, 2012 Other Secured	December 31, 2012 Total
Mezzanine	$	$ 428,723	$ 428,723	$	$ 145,150	$ 145,150
Other	161,957		161,957	147,264		147,264
Unamortized discounts, fees and costs		(21,479)	(21,479)		(2,974)	(2,974)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)
	$ 161,957	$ 393,834	$ 555,791	$ 147,264	$ 128,766	$ 276,030

Barchester Loan

On May 2, 2013, the Company acquired £121 million of subordinated debt at a discount for £109 million. The loan is secured by an interest in 160 facilities leased and operated by Barchester Healthcare (Barchester). This loan matures in September 2013 and bears interest on its face value at a floating rate of London Interbank Offered Rate (LIBOR) plus a weighted-average margin of 3.14%. At June 30, 2013, the carrying value of this loan was $165 million. This loan investment was financed by a GBP denominated draw on the Company s revolving line of credit facility that is discussed in Note 10.

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), an affiliate of Formation Capital, as part of the recapitalization of a post-acute/skilled nursing portfolio. At closing, the loan was subordinate to $400 million in senior mortgage debt and $137 million in senior mezzanine debt. The Company funded $100 million (the First Tranche) at closing and funded an additional $102 million (the Second Tranche) in June 2013. The Second Tranche was used to repay the senior mezzanine debt. At June 30, 2013, the loan was subordinate to $444 million of senior mortgage debt. The loan bears interest at a fixed rate of 12% and 14% per annum for the First and Second Tranches, respectively. The facility has a total term of up to 63 months from the initial closing, is prepayable at the borrower s option and is secured by real estate partnership interests. The loan is subject to a prepayment premium if repaid on or before the third anniversary from the initial 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 all of the assets of the Borrower. The Borrower s collateral is comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by the Company or HCP Ventures IV, LLC, an unconsolidated joint venture of the Company. In December 2009, the Company determined that the loan was impaired. Further, in January 2011 the Company placed the loan on cost-recovery status, whereby accrual of interest income was suspended and any payments received from the Borrower are applied to reduce the recorded investment in the loan.

As part of a March 2012 agreement (the 2012 Agreement) between Delphis, certain past and current principals of Delphis and the Cirrus Group, LLC (the Guarantors), and the Company, the Company agreed, among other things, to allow the distribution of $1.5 million to certain of the Guarantors from funds generated from sales of assets that were pledged as additional collateral for this loan. Further, the Company, as part of the 2012 Agreement, agreed to provide financial incentives to the Borrower regarding the liquidation of the primary collateral assets for this loan.

Pursuant to the 2012 Agreement, the Company received the remaining cash ($4.8 million, after reducing this amount by $0.5 million for related legal expenses) and other consideration ($2.1 million) of $6.9 million from the Guarantors. In addition, during 2012 the Company received $38.1 million in net proceeds from the sales of two of the primary collateral assets, which proceeds, together with the cash payments and other consideration, were applied to reduce the carrying value of the loan. The carrying value of the loan was $29.2 million and $30.7 million at June 30, 2013 and December 31, 2012, respectively. During the three and six months ended June 30, 2013, the Company received cash payments from the Borrower of $1.5 million. At June 30, 2013, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value.

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(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 June 30, 2013 (dollars in thousands):

Entity(1)	Properties/Segment	Investment(2)	Ownership%
HCR ManorCare	post-acute/skilled nursing operations	$ 88,018	9.5(3)
HCP Ventures III, LLC	13 medical office	7,335	30
HCP Ventures IV, LLC	54 medical office and 4 hospital	31,049	20
HCP Life Science(4)	4 life science	68,779	50-63
Horizon Bay Hyde Park, LLC	1 senior housing	6,496	72
Suburban Properties, LLC	1 medical office	6,950	67
Advances to unconsolidated joint ventures, net		251	
		$ 208,878	
Edgewood Assisted Living Center, LLC	1 senior housing	$ (387)	45
Seminole Shores Living Center, LLC	1 senior housing	(634)	50
		$ (1,021)	

(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.

(3) Presented after adjusting the Company s 9.9% ownership for the dilution of certain of HCR ManorCare s outstanding employee equity awards.

(4) 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: (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):

	June 30, 2013	December 31, 2012
Real estate, net	$ 3,690,920	$ 3,731,740
Goodwill and other assets, net	5,807,180	5,734,318
Total assets	$ 9,498,100	$ 9,466,058
Capital lease obligations and mortgage debt	$ 6,813,884	$ 6,875,932
Accounts payable	1,047,460	971,095
Other partners capital	1,452,467	1,435,885
HCP s capital(1)	184,289	183,146
Total liabilities and partners capital	$ 9,498,100	$ 9,466,058

(1) The combined basis difference of the Company s investments in these joint ventures of $23 million, as of June 30, 2013, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease related net intangibles.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Total revenues	$ 1,059,412	$ 1,093,873	$ 2,152,863	$ 2,138,519
Net income	10,122	16,124	20,494	17,267
HCP s share in earnings(1)	15,585	15,732	30,386	29,407
Fees earned by HCP	499	470	942	963
Distributions received by HCP	1,157	1,278	2,528	3,407

(1) The Company s joint venture interest in HCR ManorCare is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP s ownership in HCR ManorCare. The Company recorded a reduction of $15 million for both the three months ended June 30, 2013 and 2012. The Company recorded a reduction of $31 million and $30 million for the six months ended June 30, 2013 and 2012, respectively. Further, the Company s share of earnings from HCR ManorCare (equity income) increases for the corresponding reduction of related lease expense recognized at the HCR ManorCare level.

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(8) Intangibles

At both June 30, 2013 and December 31, 2012, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles, were $794 million. At June 30, 2013 and December 31, 2012, the accumulated amortization of intangible assets was $275 million and $241 million, respectively.

At June 30, 2013 and December 31, 2012, intangible lease liabilities, comprised of below market lease intangibles and above market ground lease intangible liabilities were $215 and $199 million, respectively. At June 30, 2013 and December 31, 2012, the accumulated amortization of intangible liabilities was $106 million and $93 million, respectively.

(9) Other Assets

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

		June 30, 2013		December 31, 2012
Straight-line rent assets, net of allowance of $34,147 and $33,521, respectively	$	339,464	$	306,294
Marketable debt securities(1)		225,285		222,809
Leasing costs, net		98,408		93,763
Deferred financing costs, net		39,986		45,490
Goodwill		50,346		50,346
Marketable equity securities				24,829
Other(2)		56,827		44,989
Total other assets	$	810,316	$	788,520

(1) Includes £136.9 million ($208 million and $223 million at June 30, 2013 and December 31, 2012, respectively) of Four Seasons senior unsecured notes translated into U.S. dollars (see below for additional information).

(2) Includes a $5.4 million allowance for losses related to accrued interest receivable on the Delphis loan, which accrued interest is included in other assets. At both June 30, 2013 and December 31, 2012, the carrying value of interest accrued related to the Delphis loan was zero. See Note 6 for additional information about the Delphis loan and the related impairment. At both June 30, 2013 and December 31, 2012, includes a loan receivable of $10 million from HCP Ventures IV, LLC, an unconsolidated joint venture (see Note 7 for additional information) with an interest rate of 12% which matures in May 2014. The loan is secured by HCP s joint venture partner s 80% partnership interest in the joint venture.

During the six months ended June 30, 2013, the Company realized gains from the sale of marketable equity securities of $11 million, which were included in other income, net. At December 31, 2012, the fair value and adjusted cost basis of the marketable equity securities were $24.8 million and $17.1 million, respectively. The marketable equity securities were classified as available-for-sale.

Four Seasons Health Care Senior Unsecured Notes

On June 28, 2012, the Company purchased senior unsecured notes with an aggregate par value of £138.5 million at a discount for £136.8 million ($214.9 million). The notes were issued by Elli Investments Limited, a subsidiary of Terra Firma, a European private equity firm, as part of its financing for the acquisition of Four Seasons Health Care (Four Seasons), an elderly and specialist care provider in the United Kingdom. The notes mature in June 2020 and are non-callable through June 2016. The notes bear interest on their par value at a fixed rate of 12.25% per annum, with an original issue discount resulting in a yield to maturity of 12.5%. This investment was financed by a GBP denominated unsecured term loan that is discussed in Note 10. These senior unsecured notes are accounted for as marketable debt securities and classified as held-to-maturity.

(10) Debt

Bank Line of Credit and Term Loan

The Company s $1.5 billion unsecured revolving line of credit facility (the Facility) matures in March 2016 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends on the Company s debt ratings. The Company pays a facility fee on the entire revolving commitment that depends upon its debt ratings. Based on the Company s debt ratings at June 30, 2013, the margin on the Facility was 1.075%, and the facility fee was 0.175%. The Facility also includes a feature that will allow the Company to increase the borrowing capacity by an aggregate amount of up to $500 million, subject to securing additional commitments from existing lenders or new lending institutions. At June 30, 2013, the Company had $262 million (includes £109 million translated into U.S. dollars) outstanding under the Facility.

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On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million ($208 million at June 30, 2013) four-year unsecured term loan (the Term Loan) that accrues interest at a rate of GBP LIBOR plus 1.20%, based on the Company s current debt ratings. Concurrent with the closing of the Term Loan, the Company entered into a four-year interest rate swap contract that fixes the interest rate of the Term Loan at 1.81%, subject to adjustments based on the Company s debt ratings. The Term Loan 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 formula-determined Minimum Consolidated Tangible Net Worth of $9.2 billion at June 30, 2013. At June 30, 2013, the Company was in compliance with each of these restrictions and requirements of the Facility and Term Loan.

Senior Unsecured Notes

At June 30, 2013, the Company had senior unsecured notes outstanding with an aggregate principal balance of $6.6 billion. At June 30, 2013, interest rates on the notes ranged from 1.24% to 6.98% with a weighted average effective interest rate of 5.10% and a weighted average maturity of six years. Discounts and premiums are amortized to interest expense over the term of the related senior unsecured notes. The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at June 30, 2013.

On February 28, 2013, the Company repaid $150 million of maturing 5.625% senior unsecured notes.

On November 19, 2012, the Company issued $800 million of 2.625% senior unsecured notes due in 2020. The notes were priced at 99.7% of the principal amount with an effective yield to maturity of 2.7%; net proceeds from this offering were $793 million.

On July 23, 2012, the Company issued $300 million of 3.15% senior unsecured notes due in 2022. The notes were priced at 98.9% of the principal amount with an effective yield to maturity of 3.3%; net proceeds from the offering were $294 million.

On June 25, 2012, the Company repaid $250 million of maturing 6.45% senior unsecured notes. The senior unsecured notes were repaid with proceeds from the Company s June 2012 common stock offering.

On January 23, 2012, the Company issued $450 million of 3.75% senior unsecured notes due in 2019. The notes were priced at 99.5% of the principal amount with an effective yield to maturity of 3.8%; net proceeds from the offering were $444 million.

Mortgage Debt

At June 30, 2013, the Company had $1.7 billion in aggregate principal amount of mortgage debt outstanding that is secured by 138 healthcare facilities (including redevelopment properties) with a carrying value of $2.1 billion. At June 30, 2013, interest rates on the mortgage debt ranged from 0.69% to 8.69% with a weighted average effective interest rate of 6.12% and a weighted average maturity of three years.

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

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Other Debt

At June 30, 2013, the Company had $79 million of non-interest bearing life care bonds at two of its continuing care retirement communities and non-interest bearing occupancy fee deposits at two of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds). The Life Care Bonds are refundable to the residents upon the termination of the contract or upon the successful resale of the unit.

Debt Maturities

The following table summarizes the Company s stated debt maturities and scheduled principal repayments at June 30, 2013 (in thousands):