HCP, INC.
Form 10-Q
October 30, 2012
Table of Contents

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 September 30, 2012.

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 October 25, 2012, there were 452,066,005 shares of the registrant s $1.00 par value common stock outstanding.

Table of Contents

HCP, INC.

INDEX

PART I. FINANCIAL INFORMATION

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Real estate:		
Buildings and improvements	$ 9,069,420	$ 8,822,653
Development costs and construction in progress	229,543	190,590
Land	1,724,563	1,723,601
Accumulated depreciation and amortization	(1,662,116)	(1,452,688)
Net real estate	9,361,410	9,284,156
Net investment in direct financing leases	6,843,249	6,727,777
Loans receivable, net	240,929	110,253
Investments in and advances to unconsolidated joint ventures	217,092	224,052
Accounts receivable, net of allowance of $1,498 and $1,341, respectively	31,763	26,681
Cash and cash equivalents	96,476	33,506
Restricted cash	43,428	41,553
Intangible assets, net	382,321	372,390
Assets held for sale, net	91,226	102,649
Other assets, net	771,442	485,458
Total assets	$ 18,079,336	$ 17,408,475
LIABILITIES AND EQUITY		
Bank line of credit	$	$ 454,000
Term loan	221,214	
Senior unsecured notes	5,913,690	5,416,063
Mortgage debt	1,684,514	1,715,039
Liabilities related to assets held for sale, net	5,649	55,897
Other debt	84,580	87,985
Intangible liabilities, net	105,191	117,777
Accounts payable and accrued liabilities	270,843	275,478
Deferred revenue	65,802	65,614
Total liabilities	8,351,483	8,187,853
Commitments and contingencies		
Preferred stock, $1.00 par value: aggregate liquidation preference of $295.5 million as of December 31, 2011		285,173
Common stock, $1.00 par value: 750,000,000 shares authorized; 429,980,165 and 408,629,444 shares issued and outstanding, respectively	429,980	408,629
Additional paid-in capital	10,185,982	9,383,536
Cumulative dividends in excess of earnings	(1,081,317)	(1,024,274)
Accumulated other comprehensive loss	(16,646)	(19,582)
Total stockholders equity	9,517,999	9,033,482
Joint venture partners	14,884	16,971

Non-managing member unitholders		194,970		170,169
Total noncontrolling interests		209,854		187,140
Total equity		9,727,853		9,220,622
Total liabilities and equity	$	18,079,336	$	17,408,475

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues:				
Rental and related revenues	$ 249,409	$ 250,809	$ 736,645	$ 758,322
Tenant recoveries	23,425	23,879	69,656	69,764
Resident fees and services	36,076	11,974	107,824	15,314
Income from direct financing leases	155,834	153,496	465,345	310,553
Interest income	10,278	577	12,313	99,199
Investment management fee income	460	494	1,423	1,605
Total revenues	475,482	441,229	1,393,206	1,254,757
Costs and expenses:				
Interest expense	103,513	103,459	309,875	315,695
Depreciation and amortization	88,686	86,672	259,039	265,742
Operating	72,667	57,662	210,083	151,103
General and administrative	19,443	19,647	54,356	76,471
Impairments	7,878	15,400	7,878	15,400
Total costs and expenses	292,187	282,840	841,231	824,411
Other income (expense), net	770	(772)	2,233	17,056
Income before income taxes and equity income from unconsolidated joint ventures	184,065	157,617	554,208	447,402
Income taxes	598	(5)	1,131	(289)
Equity income from unconsolidated joint ventures	13,396	17,050	42,803	32,798
Income from continuing operations	198,059	174,662	598,142	479,911
Discontinued operations:				
Income (loss) before gain on sales of real estate, net of income taxes	984	809	(416)	3,796
Gain on sales of real estate, net of income taxes			2,856	
Total discontinued operations	984	809	2,440	3,796
Net income	199,043	175,471	600,582	483,707
Noncontrolling interests share in earnings	(2,935)	(3,276)	(9,070)	(12,660)
Net income attributable to HCP, Inc.	196,108	172,195	591,512	471,047
Preferred stock dividends		(5,282)	(17,006)	(15,848)
Participating securities share in earnings	(479)	(546)	(2,154)	(1,893)
Net income applicable to common shares	$ 195,629	$ 166,367	$ 572,352	$ 453,306
Basic earnings per common share:				
Continuing operations	$ 0.45	$ 0.41	$ 1.36	$ 1.14
Discontinued operations	0.01			0.01
Net income applicable to common shares	$ 0.46	$ 0.41	$ 1.36	$ 1.15

Diluted earnings per common share:								
Continuing operations	$	0.45	$	0.41	$	1.36	$	1.13
Discontinued operations								0.01
Net income applicable to common shares	$	0.45	$	0.41	$	1.36	$	1.14
Weighted average shares used to calculate earnings per common share:								
Basic		429,557		407,081		420,049		395,258
Diluted		430,778		408,646		421,404		397,013
Dividends declared per common share	$	0.50	$	0.48	$	1.50	$	1.44

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 199,043	$ 175,471	$ 600,582	$ 483,707
Other comprehensive income (loss):				
Unrealized gains (losses) on securities	5,374	(11,483)	5,716	(10,152)
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized losses	(2,734)	(3,051)	(3,513)	(4,092)
Reclassification adjustment realized in net income	129	96	308	(1,122)
Change in Supplemental Executive Retirement Plan obligation	46	34	136	100
Foreign currency translation adjustment	243	(246)	289	20
Total other comprehensive income (loss)	3,058	(14,650)	2,936	(15,246)
Total comprehensive income	202,101	160,821	603,518	468,461
Total comprehensive income attributable to noncontrolling interests	(2,935)	(3,276)	(9,070)	(12,660)
Total comprehensive income attributable to HCP, Inc.	$ 199,166	$ 157,545	$ 594,448	$ 455,801

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	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						591,512		591,512	9,070	600,582
Other comprehensive income							2,936	2,936		2,936
Preferred stock redemption	(11,820)	(285,173)				(10,327)		(295,500)		(295,500)
Issuance of common stock, net			19,096	19,096	744,412			763,508	(2,438)	761,070
Repurchase of common stock			(196)	(196)	(7,971)			(8,167)		(8,167)
Exercise of stock options			2,451	2,451	49,058			51,509		51,509
Amortization of deferred compensation					16,947			16,947		16,947
Preferred dividends						(6,679)		(6,679)		(6,679)
Common dividends ($1.50 per share)						(631,549)		(631,549)		(631,549)
Distributions to noncontrolling interests									(11,759)	(11,759)
Noncontrolling interests in acquisitions									27,432	27,432
Issuance of noncontrolling interests									826	826
Purchase of noncontrolling interests									(417)	(417)
September 30, 2012		$	429,980	$ 429,980	$ 10,185,982	$ (1,081,317)	$ (16,646)	$ 9,517,999	$ 209,854	$ 9,727,853

	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, 2011	11,820	$ 285,173	370,925	$ 370,925	$ 8,089,982	$ (775,476)	$ (13,237)	$ 7,957,367	$ 188,680	$ 8,146,047
Net income						471,047		471,047	12,660	483,707
							(15,246)	(15,246)		(15,246)

Other comprehensive loss										
Issuance of common stock, net			36,256	36,256	1,254,609			1,290,865	(2,533)	1,288,332
Repurchase of common stock			(135)	(135)	(4,805)			(4,940)		(4,940)
Exercise of stock options			733	733	18,758			19,491		19,491
Amortization of deferred compensation					15,286			15,286		15,286
Preferred dividends						(15,848)		(15,848)		(15,848)
Common dividends ($1.44 per share)						(570,200)		(570,200)		(570,200)
Distributions to noncontrolling interests									(11,001)	(11,001)
Noncontrolling interests in acquisitions									1,500	1,500
Issuance of noncontrolling interests									14,028	14,028
Purchase of noncontrolling interests					(20,045)			(20,045)	(14,059)	(34,104)
September 30, 2011	11,820	$ 285,173	407,779	$ 407,779	$ 9,353,785	$ (890,477)	$ (28,483)	$ 9,127,777	$ 189,275	$ 9,317,052

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 600,582	$ 483,707
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	259,039	265,742
Discontinued operations	7,300	4,286
Amortization of above and below market lease intangibles, net	(1,855)	(3,271)
Amortization of deferred compensation	16,947	15,286
Amortization of deferred financing costs, net	12,415	22,118
Straight-line rents	(33,608)	(46,936)
Loan and direct financing lease interest accretion	(71,923)	(65,973)
Deferred rental revenues	1,101	(1,284)
Equity income from unconsolidated joint ventures	(42,803)	(32,798)
Distributions of earnings from unconsolidated joint ventures	2,775	2,462
Gain on sales of real estate	(2,856)	
Gain upon consolidation of joint venture		(7,769)
Gain upon settlement of loans receivable		(22,812)
Derivative (gains) losses, net	43	(1,226)
Impairments	7,878	15,400
Changes in:		
Accounts receivable, net	(5,082)	3,206
Other assets	(7,303)	28,631
Accounts payable and accrued liabilities	(21,697)	(71,848)
Net cash provided by operating activities	720,953	586,921
Cash flows from investing activities:		
Cash used in the HCR ManorCare Acquisition, net of cash acquired		(4,026,556)
Cash used in the HCP Ventures II purchase, net of cash acquired		(135,550)
Other acquisitions of real estate	(172,380)	(113,462)
Development of real estate	(87,119)	(57,167)
Leasing costs and tenant and capital improvements	(42,817)	(31,772)
Proceeds from sales of real estate, net	7,238	
Purchase of an interest in unconsolidated joint ventures		(95,000)
Distributions in excess of earnings from unconsolidated joint ventures	2,051	1,936
Purchase of marketable securities	(214,859)	(22,449)
Principal repayments on loans receivable	4,660	303,867
Investments in loans receivable	(145,597)	(363,337)
Increase in restricted cash	(1,875)	(11,532)
Net cash used in investing activities	(650,698)	(4,551,022)
Cash flows from financing activities:		
Net borrowings (repayments) under bank line of credit	(454,000)	375,000
Borrowings under term loan	214,789	
Repayments of mortgage debt	(109,569)	(152,517)
Issuance of senior unsecured notes	750,000	2,400,000
Repayment of senior unsecured notes	(250,000)	(292,265)
Deferred financing costs	(18,256)	(43,716)

Preferred stock redemption		(295,500)		
Net proceeds from the issuance of common stock and exercise of options		804,412		1,302,883
Dividends paid on common and preferred stock		(638,228)		(586,048)
Issuance of noncontrolling interests		826		14,028
Purchase of noncontrolling interests				(34,104)
Distributions to noncontrolling interests		(11,759)		(11,001)
Net cash provided by (used in) financing activities		(7,285)		2,972,260
Net increase (decrease) in cash and cash equivalents		62,970		(991,841)
Cash and cash equivalents, beginning of period		33,506		1,036,701
Cash and cash equivalents, end of period	$	96,476	$	44,860

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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) RIDEA, which represents investments in senior housing operations utilizing the structure permitted by the Housing and Economic Recovery Act of 2008.

(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, 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011 included in the Company s Annual Report on Form 10-K, as amended, filed with the U.S. Securities and Exchange Commission (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 income statements (see Note 5). Facility-level revenues from 21 senior housing communities that are in a RIDEA structure are presented in resident fees and services on the condensed consolidated income statements; all facility-level resident fee and service revenue previously reported in rental and related revenues has been reclassified to resident fees and services (see Note 12 for additional information regarding the 21 RIDEA facilities).

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies that are translated into U.S. dollars use exchange rates in effect at the end of the period, and revenues and expenses denominated in foreign currencies that are translated into U.S. dollars use average rates of exchange in effect during the related period. Gains or losses resulting from translation are included in accumulated other comprehensive income, a component of stockholders equity on the condensed consolidated balance sheets. Gains or losses resulting from foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income (expense), net in the condensed consolidated statements of income.

Table of Contents

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (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. ASU 2012-01 is effective for fiscal years beginning after December 15, 2012. The Company does not expect the adoption of ASU 2012-01 on January 1, 2013 to have a material impact on its consolidated financial position or results of operations.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). The amendments in this update provide an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. ASU 2012-02 is effective for fiscal years and interim periods beginning after September 15, 2012. The Company does not expect the adoption of ASU 2012-02 on January 1, 2013 to have an impact on its consolidated financial position or results of operations.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in this update result in additional fair value measurement and disclosure requirements within U.S. GAAP and International Financial Reporting Standards. The amendments update the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 on January 1, 2012 did not have an impact on the Company s consolidated financial position or results of operations.

(3) HCR ManorCare Acquisition

On April 7, 2011, the Company completed its acquisition of substantially all of the real estate assets of HCR ManorCare, Inc. (HCR ManorCare), for a purchase price of $6 billion (HCR ManorCare Acquisition). The purchase price consisted of the following: (i) $4 billion in cash consideration; and (ii) $2 billion representing the fair value of the Company s former HCR ManorCare debt investments that were settled as part of this acquisition. Through this transaction, the Company acquired 334 HCR ManorCare post-acute, skilled nursing and assisted living facilities. The facilities are located in 30 states, with the highest concentrations in Ohio, Pennsylvania, Florida, Illinois and Michigan. A wholly-owned subsidiary of HCR ManorCare operates the assets pursuant to a long-term triple-net master lease agreement supported by a guaranty from HCR ManorCare. Additionally, the Company exercised its option to purchase an ownership interest in HCR ManorCare for $95 million that represented a 9.9% equity interest at closing.

The total purchase price of the HCR ManorCare Acquisition follows (in thousands):

Payment of aggregate cash consideration, net of cash acquired	$	3,801,624
HCP s loan investments in HCR ManorCare s debt settled at fair value(1)		1,990,406
Assumed HCR ManorCare accrued liabilities at fair value(2)		224,932
Total purchase consideration	$	6,016,962
Legal, accounting and other fees and costs(3)	$	26,839

(1) At closing, the Company recognized a gain of approximately $23 million, included in interest income, which represented the fair value of the Company s existing mezzanine and mortgage loan investments in HCR ManorCare in excess of its carrying value on the acquisition date.

(2) In August 2011, the Company paid these amounts to certain taxing authorities or the seller.

(3) Represents estimated fees and costs of $15.5 million (general and administrative) and the write-off of unamortized bridge loan fees of $11.3 million (interest expense) upon its termination that were expensed in 2010 and 2011, respectively. These charges are directly attributable to the transaction and represent non-recurring costs.

The following table summarizes the fair value of the HCR ManorCare assets acquired and liabilities assumed at the April 7, 2011 acquisition date (in thousands):

Assets acquired		
Net investments in direct financing leases	$	6,002,074
Cash and cash equivalents		6,996
Intangible assets, net		14,888
Total assets acquired		6,023,958
Total liabilities assumed		224,932
Net assets acquired	$	5,799,026

Table of Contents

In connection with the HCR ManorCare Acquisition, the Company entered into a credit agreement for a 365-day bridge loan facility (from funding to maturity) in an aggregate amount of up to $3.3 billion, which was terminated in accordance with its terms in March 2011.

The assets and liabilities of the Company s investments related to HCR ManorCare and the related results of operations are included in the condensed consolidated financial statements from the April 7, 2011 acquisition date. From the acquisition date to September 30, 2011, the Company recognized revenues and earnings from its investments related to HCR ManorCare of $270.4 million and $301.5 million, respectively.

See Note 8 for additional information regarding the Company s investment related to HCR ManorCare.

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations assume that the HCR ManorCare Acquisition, including the Company s equity interest in HCR ManorCare, was completed as of January 1, 2011 (in thousands, except per share amounts):

		Nine Months Ended September 30, 2011
Revenues	$	1,351,574
Net income		590,333
Net income applicable to HCP, Inc.		577,673
Basic earnings per common share	$	1.38
Diluted earnings per common share		1.38

(4) Other Real Estate Property Investments

A summary of real estate acquisitions for the nine months ended September 30, 2012 follows (in thousands):

	Consideration			Assets Acquired	
Segment	Cash Paid	Debt and Other Liabilities Assumed	Noncontrolling Interest	Real Estate	Net Intangibles
Medical office	$ 157,556	$ 35,120	$ 27,346(1)	$ 170,443	$ 49,579
Life science	7,964		86	7,580	470
Senior housing	3,860			3,541	319
Hospital	3,000			3,000	
	$ 172,380	$ 35,120	$ 27,432	$ 184,564	$ 50,368

(1) Represents non-managing member limited liability company units.

During the nine months ended September 30, 2012, the Company funded an aggregate of $126 million for construction, tenant and other capital improvement projects, primarily in its life science and medical office segments.

A summary of real estate acquisitions for the nine months ended September 30, 2011 follows (in thousands):

	Consideration			Assets Acquired	
Segment	**Cash Paid**	**Debt Assumed**	**Noncontrolling Interest**	**Real Estate**	**Net Intangibles**
Life science	$ 84,087	$ 57,869	$	$ 133,040	$ 8,916
Medical office	29,743		1,500	26,191	5,052
	$ 113,830	$ 57,869	$ 1,500	$ 159,231	$ 13,968

See discussion of the January 2011 purchase and consolidation of HCP Ventures II in Note 8.

During the nine months ended September 30, 2011, the Company funded an aggregate of $87 million for construction, tenant and other capital improvement projects, primarily in its life science and medical office segments. During the nine months ended September 30, 2011, two of the Company s life science facilities located in South San Francisco were placed in service representing 88,000 square feet.

Table of Contents

(5) Dispositions of Real Estate and Discontinued Operations

During the nine months ended September 30, 2012, the Company sold a medical office building for $7 million.

At September 30, 2012, properties classified as held for sale included two senior housing facilities with an aggregate carrying value of $91.2 million. At September 30, 2011, properties classified as held for sale included five senior housing facilities and a medical office building, with a combined aggregate carrying value of $102.6 million.

The following table summarizes operating income from discontinued operations (dollars in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Rental and related revenues	$ 2,844	$ 3,443	$ 8,816	$ 10,326
Depreciation and amortization expenses	1,453	1,884	7,300	4,286
Operating expenses	4	10	26	36
Other expense, net	403	740	1,906	2,208
Income (loss)	$ 984	$ 809	$ (416)	$ 3,796
Gain on sales of real estate, net of income taxes	$	$	$ 2,856	$
Number of properties included in discontinued operations	2	6	3	6

(6) Net Investment in Direct Financing Leases

On April 7, 2011, the Company completed the acquisition of 334 HCR ManorCare properties subject to a single master lease that the Company classified as a direct financing lease (DFL). See discussion of the HCR ManorCare Acquisition in Note 3.

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

	September 30, 2012	December 31, 2011
Minimum lease payments receivable(1)	$ 25,350,888	$ 25,744,161
Estimated residual values	4,010,514	4,010,514
Less unearned income	(22,518,153)	(23,026,898)
Net investment in direct financing leases	$ 6,843,249	$ 6,727,777

Properties subject to direct financing leases	361	361

(1) The minimum lease payments receivable are primarily attributable to HCR ManorCare ($24.2 billion and $24.5 billion at September 30, 2012 and December 31, 2011, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of $489 million beginning April 1, 2012. The rent increases by 3.5% per year over the next four 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 of the non-HCR ManorCare 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.

(7) Loans Receivable

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

	September 30, 2012			December 31, 2011		
	Real Estate Secured	**Other Secured**	**Total**	**Real Estate Secured**	**Other Secured**	**Total**
Mezzanine	$	$ 183,253	$ 183,253	$	$ 90,148	$ 90,148
Other	74,413		74,413	35,643		35,643
Unamortized discounts, fees and costs	(255)	(3,072)	(3,327)	(1,040)	(1,088)	(2,128)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)
	$ 74,158	$ 166,771	$ 240,929	$ 34,603	$ 75,650	$ 110,253

Table of Contents

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. The Company funded $100 million (the First Tranche) at closing and expects to fund an additional $105 million (the Second Tranche) between March 2013 and August 2013. The Second Tranche will be used to repay debt senior to the Company s loan. The loan is subordinate to $400 million in senior mortgage debt and $137 million in senior mezzanine debt. The loan bears interest at a fixed rate of 12% and 14% per annum for the First and Second Tranche, respectively. The facility will have a total term of up to 63 months from the initial closing.

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, which 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 and recognized a provision for loan loss (impairment) of $4.3 million. 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. In September 2011, the Company determined that the fair value of the collateral assets was no longer in excess of the carrying value of the loan and therefore recognized an additional provision for losses of $15.4 million.

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. In consideration of this distribution, among other things, the Company received cash of $4.9 million (including funds that had been escrowed from past sales of the Guarantors collateral) and the assignment of certain rights to general and limited partnership interests (including the release of claims by such entities). 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.

The Company valued the cash payments and other consideration received through the 2012 Agreement (after reducing the consideration by $0.5 million for related legal expenses) at $6.9 million, which the Company applied to the carrying value of the loan, reducing the balance to $68.8 million as of September 30, 2012 from its balance of $75.7 million as of December 31, 2011. During the nine months ended September 30, 2011, the Company received cash payments from the Borrower of $2.1 million. At September 30, 2012, the Company believes that the fair value of the collateral supporting this loan is in excess of the loan s carrying value.

Subsequent to September 30, 2012, Delphis closed on the sale of one of the primary collateral assets for the loan, and the Company received $9.7 million in sales proceeds, net of an incentive payment provided for in the 2012 Agreement, which net proceeds were applied to reduce the principal balance of the loan to $59.1 million as of October 2012.

HCR ManorCare Loans

In December 2007, the Company made a $900 million investment (at a discount of $100 million) in HCR ManorCare mezzanine loans, which paid interest at a floating rate of one-month London Interbank Offered Rate (LIBOR) plus 4.0%. Also, in August 2009 and January 2011, the Company purchased $720 million (at a discount of $130 million) and $360 million, respectively, in participations in HCR ManorCare first mortgage debt, which paid interest at LIBOR plus 1.25%.

On April 7, 2011, upon closing of the HCR ManorCare Acquisition, the Company s loans to HCR ManorCare were settled, which resulted in additional interest income of $23 million, which represents the excess of the loans fair values above their carrying values at the acquisition date. See Note 3 for additional discussion related to the HCR ManorCare Acquisition.

Genesis HealthCare Loans

In September and October 2010, the Company purchased participations in a senior loan and mezzanine note of Genesis HealthCare (Genesis) with par values of $278 million (at a discount of $28 million) and $50 million (at a discount of $10 million), respectively. The Genesis senior loan paid interest at LIBOR (subject to a floor of 1.5%, increasing to 2.5% by maturity) plus a spread of 4.75%, increasing to 5.75% by maturity. The senior loan was secured by all of Genesis assets. The mezzanine note paid interest at LIBOR plus a spread of 7.50%. In addition to the coupon interest payments, the mezzanine note required the payment of a termination fee, of which the Company s share prior to the early repayment of this loan was $2.3 million.

Table of Contents

On April 1, 2011, the Company received $330.4 million from the early repayment of its loans to Genesis, and recognized additional interest income of $34.8 million, which represents the related unamortized discounts and termination fee.

(8) Investments in and Advances to Unconsolidated Joint Ventures

HCP Ventures II

On January 14, 2011, the Company acquired its partner s 65% interest in HCP Ventures II, a joint venture that owned 25 senior housing facilities, becoming the sole owner of the portfolio.

The purchase consideration of HCP Ventures II follows (in thousands):

Cash paid for HCP Ventures II s partnership interest	$	135,550
Fair value of HCP s 35% interest in HCP Ventures II (carrying value of $65,223 at closing)(1)		72,992
Total consideration	$	208,542
Estimated fees and costs		
Legal, accounting and other fees and costs(2)	$	150
Debt assumption fees(3)		500
Total	$	650

(1) In January 2011, the Company recognized a gain of approximately $8 million, included in other income (expense), net, which represents the fair value of the Company s 35% interest in HCP Ventures II in excess of its carrying value on the acquisition date.

(2) Represents estimated fees and costs that were expensed and included in general and administrative expenses. These charges are directly attributable to the transaction and represent non-recurring costs.

(3) Represents debt assumption fees that were capitalized as deferred financing costs.

In accordance with the accounting guidance applicable to acquisitions of the partner s ownership interests that result in consolidation of previously unconsolidated entities, the Company recorded all of the assets and liabilities of HCP Ventures II at fair value as of the acquisition date. The Company utilized relevant market data and valuation techniques to determine the acquisition date fair value for HCP Ventures II. Relevant market data and valuation techniques included, but were not limited to, market data comparables for capitalization and discount rates, credit spreads, property specific building cost information and cash flow assumptions. The market data comparables utilized in the Company s valuation model were based on information that it believes to be within a reasonable range of the then current market transactions.

The following table summarizes the fair values of the HCP Ventures II assets acquired and liabilities assumed at the January 14, 2011 acquisition date (in thousands):

Assets acquired		
Buildings and improvements	$	683,633
Land		79,580
Cash		2,585
Restricted cash		1,861
Intangible assets		78,293
Total assets acquired	$	845,952
Liabilities assumed		
Mortgage debt	$	635,182
Other liabilities		2,228
Total liabilities assumed		637,410
Net assets acquired	$	208,542

The related assets, liabilities and results of operations of HCP Ventures II are included in the condensed consolidated financial statements from the January 14, 2011 acquisition date.

Table of Contents

Summary of Unconsolidated Joint Venture Information

The Company owns interests in the following entities that are accounted for under the equity method at September 30, 2012 (dollars in thousands):

Entity(1)	Properties/Segment		Investment(2)	Ownership%
HCR ManorCare	post-acute/skilled nursing operations	$	94,358	9.4(3)
HCP Ventures III, LLC	13 medical office		7,774	30
HCP Ventures IV, LLC	54 medical office and 4 hospital		33,071	20
HCP Life Science(4)	4 life science		67,263	50-63
Horizon Bay Hyde Park, LLC	1 senior housing		6,927	72
Suburban Properties, LLC	1 medical office		7,508	67
Advances to unconsolidated joint ventures, net			191	
		$	217,092	
Edgewood Assisted Living Center, LLC	1 senior housing	$	(449)	45
Seminole Shores Living Center, LLC	1 senior housing		(737)	50
		$	(1,186)	

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company s Annual Report on Form 10-K, as amended, filed with the SEC regarding the Company s policy on consolidation.

(2) Represents the carrying value of the Company s investment in the unconsolidated joint venture. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company s Annual Report on Form 10-K, as amended, filed with the SEC regarding the Company s policy for accounting for joint venture interests.

(3) Presented after adjusting the Company s 9.9% ownership rate for the dilution of certain of HCR ManorCare s employee equity awards. See HCR ManorCare Acquisition discussion in Note 3.

(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):

		September 30, 2012		December 31, 2011
Real estate, net	$	3,751,592	$	3,806,187
Goodwill		2,736,400		2,736,400
Other assets, net		3,019,757		3,061,290
Total assets	$	9,507,749	$	9,603,877
Capital lease obligations and other debt	$	6,014,200	$	5,976,500
Mortgage debt		887,956		895,243
Accounts payable		954,622		1,083,581

Other partners capital		1,467,292		1,465,536
HCP s capital(1)		183,679		183,017
Total liabilities and partners capital	$	9,507,749	$	9,603,877

(1) The combined basis difference of the Company s investments in these joint ventures of $32 million, as of September 30, 2012, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease related net intangibles.

	Three Months Ended September 30,				Nine Months Ended September 30,(1)			
		2012		2011		2012		2011(2)
Total revenues	$	1,057,567	$	1,123,742	$	3,196,086	$	2,174,711
Net income (loss)		(8,851)		31,076		8,416		9,198
HCP s share in earnings(3)		13,396		17,050		42,803		32,798
Fees earned by HCP		460		494		1,423		1,605
Distributions received by HCP		1,419		1,271		4,826		4,398

(1) Beginning April 7, 2011, includes the financial information of HCR ManorCare, in which the Company acquired an interest for $95 million that represented a 9.9% equity interest at closing.

(2) Includes the financial information of HCP Ventures II, which was consolidated on January 14, 2011.

(3) 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 $14.9 million and $44.4 million for the three and nine months ended September 30, 2012, respectively, and a reduction of $14.4 million and $27.7 million for the three and nine months ended September 30, 2011. 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.

Table of Contents

(9) Intangibles

At September 30, 2012 and December 31, 2011, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles, were $607.6 million and $571.5 million, respectively. At September 30, 2012 and December 31, 2011, the accumulated amortization of intangible assets was $225.3 million and $199.1 million, respectively.

At September 30, 2012 and December 31, 2011, intangible lease liabilities, comprised of below market lease intangibles and above market ground lease intangible liabilities were $194.0 million and $208.2 million, respectively. At September 30, 2012 and December 31, 2011, the accumulated amortization of intangible liabilities was $88.8 million and $90.4 million, respectively.

(10) Other Assets

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

	September 30, 2012	December 31, 2011
Straight-line rent assets, net of allowance of $32,940 and $34,457, respectively	$ 299,754	$ 266,620
Marketable debt securities(1)	221,018	
Leasing costs, net	93,619	92,288
Deferred financing costs, net	40,782	35,649
Goodwill	50,346	50,346
Marketable equity securities	22,769	17,053
Other(2)	43,154	23,502
Total other assets	$ 771,442	$ 485,458

(1) Represents £136.8 million of Four Seasons senior unsecured notes translated into U.S. dollars as of September 30, 2012 (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 September 30, 2012 and December 31, 2011, the carrying value of interest accrued related to the Delphis loan was zero. See Note 7 for additional information about the Delphis loan and the related impairment.

The marketable equity securities are classified as available-for-sale and had a fair value and adjusted cost basis of $22.8 million and $17.1 million, respectively, at September 30, 2012. At December 31, 2011, the fair value and adjusted cost basis of the marketable equity securities were both $17.1 million.

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 are 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, 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 is financed by a GBP denominated unsecured term loan that is discussed in Note 11. These senior unsecured notes are accounted for as marketable debt securities and classified as held-to-maturity.

(11) Debt

Bank Line of Credit and Term Loan

On March 27, 2012, the Company executed an amendment to its existing $1.5 billion unsecured revolving line of credit facility (the Facility). This amendment reduces the cost to the Company of the Facility (lower borrowing rate and facility fee) and extends the Facility s maturity by one additional year to March 2016. The Facility contains a one-year extension option. Borrowings under this 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 September 30, 2012, the margin on the Facility was 1.075%, and the facility fee was 0.175%. The Company has the right to increase the commitments under the Facility by an aggregate amount of up to $500 million, subject to customary conditions. At September 30, 2012, the Company had had no balance outstanding under this Facility.

Table of Contents

On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million ($221 million at September 30, 2012) 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 and covenants similar to those in the Facility.

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 $8.3 billion at September 30, 2012. At September 30, 2012, the Company was in compliance with each of these restrictions and requirements of the Facility and Term Loan.

Senior Unsecured Notes

At September 30, 2012, the Company had senior unsecured notes outstanding with an aggregate principal balance of $5.9 billion. At September 30, 2012, interest rates on the notes ranged from 1.29% to 7.07% with a weighted average effective interest rate of 5.40% and a weighted average maturity of 6.11 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 September 30, 2012.

On July 23, 2012, the Company issued $300 million of 3.15% senior unsecured notes due in 2022. The notes were priced at 98.888% of the principal amount with an effective yield to maturity of 3.28%; net proceeds from the offering were $294 million.

On June 25, 2012, the Company repaid $250 million of maturing senior unsecured notes, which accrued interest at a rate of 6.45%. 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 99.523% of the principal amount with an effective yield to maturity of 3.83%; net proceeds from the offering were $444 million.

On September 15, 2011, the Company repaid $292 million of maturing senior unsecured notes, which accrued interest at a rate of 4.82%. The senior unsecured notes were repaid with funds available under the Facility.

On January 24, 2011, the Company issued $2.4 billion of senior unsecured notes as follows: (i) $400 million of 2.70% notes due 2014; (ii) $500 million of 3.75% notes due 2016; (iii) $1.2 billion of 5.375% notes due 2021; and (iv) $300 million of 6.75% notes due 2041. The notes had an initial weighted average maturity of 10.3 years and a weighted average yield of 4.83%; net proceeds from the offering were $2.37 billion.

Mortgage Debt

At September 30, 2012, the Company had $1.7 billion in aggregate principal amount of mortgage debt outstanding that is secured by 137 healthcare facilities (including redevelopment properties) with a carrying value of $2.1 billion. At September 30, 2012, interest rates on the mortgage debt ranged from 1.54% to 8.69% with a weighted average effective interest rate of 6.14% and a weighted average maturity of 3.80 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 and 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.

Table of Contents

Other Debt

At September 30, 2012, the Company had $85 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). At September 30, 2012, $28 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $57 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Debt Maturities

The following table summarizes the Company s stated debt maturities and scheduled principal repayments at September 30, 2012 (in thousands):

Year	Term Loan(1)	Senior Unsecured Notes	Mortgage Debt	Total(2)
2012 (Three months)	$	$	$ 8,715	$ 8,715
2013		550,000	320,207	870,207
2014		487,000	184,495	671,495
2015		400,000	304,761	704,761
2016	221,214	900,000	293,175	1,414,389
Thereafter		3,600,000	584,762	4,184,762
	221,214	5,937,000	1,696,115	7,854,329
(Discounts) and premiums, net		(23,310)	(11,601)	(34,911)
	$ 221,214	$ 5,913,690	$ 1,684,514	$ 7,819,418

(1) Represents £137 million translated into U.S. dollars as of September 30, 2012.

(2) Excludes $85 million of other debt that represents the Life Care Bonds that have no scheduled maturities.

(12) Commitments and Contingencies

Legal Proceedings

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

Concentration of Credit Risk

Concentrations of credit risks arise when a number of operators, tenants or obligors related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of risks. Management believes the current portfolio is reasonably diversified across healthcare related real estate and does not contain any other significant concentration of credit risks, except as disclosed herein. The Company does not have significant foreign operations.

The following table provides information regarding the Company s concentration with respect to certain operators; the information provided is presented for the gross assets and revenues that are associated with certain operators as percentages of the respective segment s and total Company s gross assets and revenues:

Segment Concentrations:

	Percentage of Senior Housing Gross Assets		**Percentage of Senior Housing Revenues**		**Percentage of Senior Housing Revenues**	
	September 30,	**December 31,**	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
Operators	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
HCR ManorCare(1)	14%	14%	12%	13%	12%	9%
Brookdale Senior Living(2)	14	14	14	16	14	17
Emeritus Corporation	18	19	20	23	21	25
Sunrise Senior Living(3)	22	22	16	18	16	21

	Percentage of Post-Acute/ Skilled Nursing Gross Assets		**Percentage of Post-Acute/ Skilled Nursing Revenues**		**Percentage of Post-Acute/ Skilled Nursing Revenues**	
	September 30,	**December 31,**	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
Operators	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
HCR ManorCare(1)	89%	94%	87%	93%	91%	80%

Table of Contents

Total Company Concentrations:

	Percentage of Total Company Gross Assets		Percentage of Total Company Revenues Three Months Ended September 30,		Percentage of Total Company Revenues Nine Months Ended September 30,	
Operators	**September 30, 2012**	**December 31, 2011**	**2012**	**2011**	**2012**	**2011**
HCR ManorCare(1)	34%	35%	30%	32%	31%	22%
Brookdale Senior Living(2)	4	5	5	5	5	5
Emeritus Corporation	6	6	7	7	7	7
Sunrise Senior Living(3)	7	7	5	6	5	6

(1) On April 7, 2011, the Company completed the acquisition of HCR ManorCare s real estate assets, which included the settlement of the Company s HCR ManorCare debt investments, see Notes 3 and 7 for additional information.

(2) As of September 30, 2012 and December 31, 2011, Brookdale Senior Living (Brookdale) percentages exclude $685.4 and $682.7 million, respectively, of senior housing assets related to 21 senior housing facilities that Brookdale operates (beginning September 1, 2011) on the Company s behalf under a RIDEA structure. Assuming that these assets were attributable to Brookdale, the percentage of segment and total assets for Brookdale would be 25% and 8%, respectively, as of September 30, 2012. Assuming that these assets were attributable to Brookdale, the percentage of segment and total assets for Brookdale would be 26% and 9%, respectively, as of December 31, 2011. For the three and nine months ended September 30, 2012, Brookdale percentages exclude $36.1 million and $106.8 million, respectively, of senior housing revenues related to these facilities. Assuming that these revenues were attributable to Brookdale, the percentage of segment and total revenues for Brookdale would be 38% and 12% respectively, for both the three months and nine months ended September 30, 2012.

(3) Certain of the Company s properties are leased to tenants who have entered into management contracts with Sunrise to operate the respective property on their behalf. The Company s concentration of gross assets includes properties directly leased to Sunrise and properties that are managed by Sunrise on behalf of third party tenants.

On September 1, 2011, the Company completed a strategic venture with Brookdale that includes the operation of 37 HCP-owned senior living communities previously leased to or operated by Horizon Bay Retirement Living (Horizon Bay). As part of this transaction, Brookdale acquired Horizon Bay and: (i) assumed an existing triple-net lease for nine HCP communities; (ii) entered into a new triple-net lease related to four HCP communities; (iii) assumed Horizon Bay s management of three HCP communities, one of which was developed by HCP; and (iv) entered into management contracts and a joint venture agreement for a 10% interest in the real estate and operations for 21 of the Company s communities that are in a RIDEA structure. Concurrent with these transactions, the Company purchased $22.4 million of Brookdale s common stock in June 2011 (see Note 10 for additional information regarding these marketable equity securities).

Under the provisions of RIDEA, a REIT may lease qualified healthcare properties on an arm s length basis to a taxable REIT subsidiary if the property is operated on behalf of such subsidiary by a person who qualifies as an eligible independent contractor. The three months ended September 30, 2012 include $36.1 million and $24.1 million in revenues and operating expenses, respectively, and the nine months ended September 30, 2012 include $106.8 million and $67.5 million in revenues and operating expenses, respectively, as a result of reflecting the facility-level results for the 21 RIDEA facilities operated by Brookdale beginning September 1, 2011.

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

Credit Enhancement Guarantee

Certain of the Company s senior housing facilities serve as collateral for $119 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of $374 million as of September 30, 2012.

Table of Contents

(13) Equity

Preferred Stock

On April 23, 2012, the Company redeemed all of its outstanding preferred stock consisting of 4,000,000 shares of its 7.25% Series E preferred stock and the 7,820,000 shares of its 7.10% Series F preferred stock. The shares of Series E and Series F preferred stock were redeemed at a price of $25.00 per share, or $295.5 million in aggregate, plus all accrued and unpaid dividends to the redemption date. As a result of the redemption, which was announced on March 22, 2012, the Company incurred a charge of $10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in the Company s consolidated income statements).

On January 26, 2012, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends were paid on March 30, 2012 to stockholders of record as of the close of business on March 15, 2012.

Common Stock

The following table lists the common stock cash dividends declared by the Company in 2012:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
January 26	February 6	$ 0.50	February 22
April 26	May 7	0.50	May 22
July 26	August 6	0.50	August 21
October 25	November 5	0.50	November 20

In June 2012, the Company completed a $376 million offering of 8.97 million shares of common stock at a price of $41.88 per share, which proceeds were primarily used to repay $250 million of maturing senior unsecured notes, which accrued interest at a rate of 6.45%.

In March 2012, the Company completed a $359 million offering of 9.0 million shares of common stock at a price of $39.93 per share, which proceeds were primarily used to redeem all outstanding shares of the Company s preferred stock.

In March 2011, the Company completed a $1.273 billion public offering of 34.5 million shares of common stock at a price of $36.90 per share. The Company received total net proceeds of $1.235 billion, which proceeds were used to fund the HCR ManorCare Acquisition. See Note 3 for additional information on the HCR ManorCare Acquisition.

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

	Nine Months Ended September 30, 2012	2011
Dividend Reinvestment and Stock Purchase Plan	675	1,533
Conversion of DownREIT units(1)	72	30
Exercise of stock options	2,451	733
Vesting of restricted stock units(2)	385	228

(1) Non-managing member LLC units.

(2) Issued under the Company s 2006 Performance Incentive Plan.

Accumulated Other Comprehensive Loss

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

	September 30, 2012	December 31, 2011
Unrealized gains on available for sale securities	$ 5,716	$
Unrealized losses on cash flow hedges, net	(18,917)	(15,712)
Supplemental Executive Retirement Plan minimum liability	(2,658)	(2,794)
Cumulative foreign currency translation adjustment	(787)	(1,076)
Total accumulated other comprehensive loss	$ (16,646)	$ (19,582)

Table of Contents

Noncontrolling Interests

At September 30, 2012, there were 4.4 million DownREIT units outstanding in five LLCs, for which the Company is the managing member. At September 30, 2012, the carrying and fair values of these DownREIT units were $195 million and $285 million, respectively.

(14) Segment Disclosures

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the senior housing, post-acute/skilled nursing, life science and hospital segments, the Company invests or co-invests primarily in single operator or tenant properties, through the acquisition and development of real estate, management of operations and by debt issued by operators in these sectors. Under the medical office segment, the Company invests or co-invests through the acquisition and development of medical office buildings (MOBs) that are leased under gross, modified gross or triple-net leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company s Annual Report on Form 10-K, as amended, filed with the SEC. There were no intersegment sales or transfers during the nine months ended September 30, 2012 and 2011. The Company evaluates performance based upon property net operating income from continuing operations (NOI), adjusted NOI and interest income of the combined investments in each segment.

Non-segment assets consist primarily of real estate held-for-sale and corporate assets including cash, restricted cash, accounts receivable, net, marketable equity securities and deferred financing costs. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company s performance measure. See Note 12 for other information regarding concentrations of credit risk.

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

For the three months ended September 30, 2012:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	$ 114,856	$ 36,076	$ 876	$	$ 151,808	$ 126,060	$ 113,592
Post-acute/skilled	135,508		9,135		144,643	135,354	116,898
Life science	71,194			1	71,195	59,403	56,341
Medical office	85,800			459	86,259	50,852	49,669
Hospital	21,310		267		21,577	20,408	19,950
Total	$ 428,668	$ 36,076	$ 10,278	$ 460	$ 475,482	$ 392,077	$ 356,450

For the three months ended September 30, 2011:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	$ 122,849	$ 11,974	$ 42	$	$ 134,865	$ 125,209	$ 112,755
Post-acute/skilled	132,392		287		132,679	132,148	112,881
Life science	71,093			1	71,094	57,860	52,785
Medical office	80,996			493	81,489	47,650	46,514
Hospital	20,854		248		21,102	19,629	19,065
Total	$ 428,184	$ 11,974	$ 577	$ 494	$ 441,229	$ 382,496	$ 344,000

Table of Contents

For the nine months ended September 30, 2012:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	$ 341,936	$ 107,824	$ 1,686	$	$ 451,446	$ 379,834	$ 342,368
Post-acute/skilled	404,180		9,842		414,022	403,654	346,900
Life science	215,569			3	215,572	177,339	171,179
Medical office	246,661			1,420	248,081	148,030	144,272
Hospital	63,300		785		64,085	60,530	58,996