

HCP, INC.
Form 10-Q
October 31, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011.

OR

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

For the transition period from _____ to _____

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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(Do not check if a smaller reporting company)

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

As of October 26, 2011, there were 407,788,174 shares of the registrant s \$1.00 par value common stock outstanding.

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

	September 30, 2011	December 31, 2010
ASSETS		
Real estate:		
Buildings and improvements	\$ 9,010,834	\$ 8,209,806
Development costs and construction in progress	168,828	144,116
Land	1,732,413	1,573,984
Accumulated depreciation and amortization	(1,465,165)	(1,251,142)
Net real estate	9,446,910	8,676,764
Net investment in direct financing leases	6,687,812	609,661
Loans receivable, net	103,473	2,002,866
Investments in and advances to unconsolidated joint ventures	225,979	195,847
Accounts receivable, net of allowance of \$1,426 and \$5,150, respectively	24,786	34,504
Cash and cash equivalents	44,860	1,036,701
Restricted cash	47,851	36,319
Intangible assets, net	389,518	316,375
Other assets, net	468,188	422,886
Total assets	\$ 17,439,377	\$ 13,331,923
LIABILITIES AND EQUITY		
Bank line of credit	\$ 375,000	\$
Senior unsecured notes	5,415,097	3,318,379
Mortgage debt	1,780,040	1,235,779
Other debt	89,325	92,187
Intangible liabilities, net	132,788	148,072
Accounts payable and accrued liabilities	260,346	313,806
Deferred revenue	69,729	77,653
Total liabilities	8,122,325	5,185,876
Commitments and contingencies		
Preferred stock, \$1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of \$25.00 per share	285,173	285,173
Common stock, \$1.00 par value: 750,000,000 shares authorized; 407,779,492 and 370,924,887 shares issued and outstanding, respectively	407,779	370,925
Additional paid-in capital	9,353,785	8,089,982
Cumulative dividends in excess of earnings	(890,477)	(775,476)
Accumulated other comprehensive loss	(28,483)	(13,237)
Total stockholders' equity	9,127,777	7,957,367
Joint venture partners	18,184	14,935
Non-managing member unitholders	171,091	173,745
Total noncontrolling interests	189,275	188,680
Total equity	9,317,052	8,146,047

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Total liabilities and equity	\$	17,439,377	\$	13,331,923
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See accompanying Notes to 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Rental and related revenues	\$ 254,251	\$ 227,679	\$ 768,647	\$ 682,316
Tenant recoveries	23,880	23,326	69,765	67,156
Resident fees and services	11,974	15,277	15,314	15,277
Income from direct financing leases	153,496	13,028	310,553	37,238
Interest income	577	36,582	99,199	108,004
Investment management fee income	494	1,157	1,605	3,755
Total revenues	444,672	317,049	1,265,083	913,746
Costs and expenses:				
Depreciation and amortization	88,556	78,313	270,028	233,948
Interest expense	104,198	71,598	317,903	220,295
Operating	57,672	60,426	151,139	151,929
General and administrative	19,648	19,590	76,472	65,039
Impairments (recoveries)	15,400		15,400	(11,900)
Total costs and expenses	285,474	229,927	830,942	659,311
Other income (expense), net	(772)	6,657	17,058	7,151
Income before income taxes and equity income from and impairments of investments in unconsolidated joint ventures				
	158,426	93,779	451,199	261,586
Income taxes	(5)	(867)	(290)	(1,809)
Equity income from unconsolidated joint ventures	17,050	209	32,798	4,078
Impairments of investments in unconsolidated joint ventures		(71,693)		(71,693)
Income from continuing operations	175,471	21,428	483,707	192,162
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes		758		2,655
Gain on sales of real estate, net of income taxes		3,987		4,052
Total discontinued operations		4,745		6,707
Net income	175,471	26,173	483,707	198,869
Noncontrolling interests share in earnings	(3,276)	(3,518)	(12,660)	(10,077)
Net income attributable to HCP, Inc.	172,195	22,655	471,047	188,792
Preferred stock dividends	(5,282)	(5,282)	(15,848)	(15,848)
Participating securities share in earnings	(546)	(378)	(1,893)	(1,648)
Net income applicable to common shares	\$ 166,367	\$ 16,995	\$ 453,306	\$ 171,296

Basic earnings per common share:

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Continuing operations	\$	0.41	\$	0.04	\$	1.15	\$	0.55
Discontinued operations				0.01				0.02
Net income applicable to common shares	\$	0.41	\$	0.05	\$	1.15	\$	0.57
Diluted earnings per common share:								
Continuing operations	\$	0.41	\$	0.04	\$	1.14	\$	0.55
Discontinued operations				0.01				0.02
Net income applicable to common shares	\$	0.41	\$	0.05	\$	1.14	\$	0.57
Weighted-average shares used to calculate earnings per common share:								
Basic		407,081		309,448		395,258		299,243
Diluted		408,646		311,092		397,013		300,468
Dividends declared per common share	\$	0.48	\$	0.465	\$	1.44	\$	1.395

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder Equity	Total Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
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
Comprehensive income:										
Net income						471,047		471,047	12,660	483,707
Change in net unrealized losses on securities:										
Unrealized losses							(10,152)	(10,152)		(10,152)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(4,092)	(4,092)		(4,092)
Less reclassification adjustment realized in net income							(1,122)	(1,122)		(1,122)
Change in Supplemental Executive Retirement Plan obligation								100	100	100
Foreign currency translation adjustment								20	20	20
Total comprehensive income								455,801	12,660	468,461
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
Sale 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.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Continued)

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Shares	Amount	Paid-In	Dividends	Other	Stockholders'	Noncontrolling	Equity
					Capital	In Excess	Comprehensive	Equity	Interests	
						Of Earnings	Income (Loss)			
January 1, 2010	11,820	\$ 285,173	293,548	\$ 293,548	\$ 5,719,400	\$ (515,450)	\$ (2,134)	\$ 5,780,537	\$ 178,072	\$ 5,958,609
Comprehensive income:										
Net income						188,792		188,792	10,077	198,869
Change in net unrealized gains (losses) on securities:										
Unrealized gains							936	936		936
Less reclassification adjustment realized in net income							(4,680)	(4,680)		(4,680)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(2,368)	(2,368)		(2,368)
Less reclassification adjustment realized in net income							630	630		630
Change in Supplemental Executive Retirement Plan obligation							97	97		97
Foreign currency translation adjustment							93	93		93
Total comprehensive income								183,500	10,077	193,577
Issuance of common stock, net			16,958	16,958	507,698			524,656	(5,072)	519,584
Repurchase of common stock			(149)	(149)	(4,152)			(4,301)		(4,301)
Exercise of stock options			150	150	3,411			3,561		3,561
Amortization of deferred compensation					11,306			11,306		11,306
Preferred dividends						(15,848)		(15,848)		(15,848)
Common dividends (\$1.395 per share)						(418,530)		(418,530)		(418,530)
Distributions to noncontrolling interests									(12,545)	(12,545)
Noncontrolling interests in acquisitions									9,267	9,267
Sale of noncontrolling interests									8,395	8,395
Other									709	709

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September 30, 2010 11,820 \$ 285,173 310,507 \$ 310,507 \$ 6,237,663 \$ (761,036)\$ (7,426)\$ 6,064,881 \$ 188,903 \$ 6,253,784

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 483,707	\$ 198,869
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	270,028	233,948
Discontinued operations		1,442
Amortization of above and below market lease intangibles, net	(3,271)	(5,337)
Stock-based compensation	15,286	11,306
Amortization of debt premiums, discounts and issuance costs, net	22,118	7,238
Straight-line rents	(46,936)	(32,869)
Interest accretion	(65,973)	(46,997)
Deferred rental revenues	(1,284)	(2,245)
Equity income from unconsolidated joint ventures	(32,798)	(4,078)
Distributions of earnings from unconsolidated joint ventures	2,462	5,441
Gain on sales of real estate		(4,052)
Gain upon consolidation of joint venture	(7,769)	
Marketable securities gains, net		(5,642)
Gain upon settlement of loans receivable	(22,812)	
Derivative (gains) losses, net	(1,226)	470
Impairments, net of recoveries	15,400	59,793
Changes in:		
Accounts receivable, net	3,206	1,987
Other assets	28,631	1,181
Accounts payable and accrued liabilities	(71,848)	10,273
Net cash provided by operating activities	586,921	430,728
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 and development of real estate	(170,629)	(228,297)
Leasing costs and tenant and capital improvements	(31,772)	(65,183)
Proceeds from sales of real estate, net		1,963
Purchase of an interest in and contributions to unconsolidated joint ventures	(95,000)	(6,445)
Distributions in excess of earnings from unconsolidated joint ventures	1,936	2,469
Purchases of marketable equity securities	(22,449)	
Proceeds from the sale of marketable securities		72,749
Principal repayments on loans receivable and direct financing leases	303,867	28,494
Investments in loans receivable	(363,337)	(131,492)
Increase in restricted cash	(11,532)	(1,223)
Net cash used in investing activities	(4,551,022)	(326,965)
Cash flows from financing activities:		
Net borrowings under bank line of credit	375,000	318,000
Repayment of term loan		(200,000)
Repayments of mortgage debt	(152,517)	(162,623)
Issuance of senior unsecured notes	2,400,000	
Debt discounts and issuance costs	(43,716)	

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Repayment of senior unsecured notes	(292,265)	(200,000)
Net proceeds from the issuance of common stock and exercise of options	1,302,883	518,844
Dividends paid on common and preferred stock	(586,048)	(434,378)
Sale of noncontrolling interests	14,028	8,395
Purchase of noncontrolling interests	(34,104)	
Distributions to noncontrolling interests	(11,001)	(11,625)
Net cash provided by (used in) financing activities	2,972,260	(163,387)
Net decrease in cash and cash equivalents	(991,841)	(59,624)
Cash and cash equivalents, beginning of period	1,036,701	112,259
Cash and cash equivalents, end of period	\$ 44,860	\$ 52,635

See accompanying Notes to 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 self-administered, Maryland real estate investment trust (REIT) organized 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.

(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 those 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010 included in the Company's Annual Report on Form 10-K 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 in a structure consistent with the Housing and Economic Recovery Act of

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2008 (commonly referred to as RIDEA) 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).

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* (ASU 2011-02). The amendments in this update clarify, among other things, the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The adoption of ASU 2011-02 on July 1, 2011 did not have an impact on its consolidated financial position or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The Company does not expect the adoption of ASU 2011-05 on January 1, 2012 to have an impact on its consolidated financial position or results of operations.

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In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08). The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The Company does not expect the adoption of ASU 2011-08 on