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, 2014.

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	**33-0091377**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1920 Main Street, Suite 1200

Irvine, CA 92614

(Address of principal executive offices)

(949) 407-0700

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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	Smaller Reporting Company o

(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 July 31, 2014, there were 458,820,961 shares of the registrant s $1.00 par value common stock outstanding.

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HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Real estate:		
Buildings and improvements	$ 10,783,296	$ 10,544,110
Development costs and construction in progress	251,400	225,869
Land	1,880,408	1,822,862
Accumulated depreciation and amortization	(2,100,223)	(1,965,592)
Net real estate	10,814,881	10,627,249
Net investment in direct financing leases	7,223,878	7,153,399
Loans receivable, net	375,717	366,001
Investments in and advances to unconsolidated joint ventures	190,730	196,576
Accounts receivable, net of allowance of $3,052 and $1,529, respectively	32,719	27,494
Cash and cash equivalents	54,070	300,556
Restricted cash	34,329	37,229
Intangible assets, net	477,837	489,842
Real estate assets held for sale, net		9,819
Other assets, net	940,008	867,705
Total assets(1)	$ 20,144,169	$ 20,075,870
LIABILITIES AND EQUITY		
Bank line of credit	$ 310,000	$
Term loan	234,352	226,858
Senior unsecured notes	6,826,884	6,963,375
Mortgage debt	1,229,773	1,396,485
Other debt	73,020	74,909
Intangible liabilities, net	90,426	98,810
Accounts payable and accrued liabilities	339,364	318,427
Deferred revenue	67,756	65,872
Total liabilities(2)	9,171,575	9,144,736
Commitments and contingencies		
Common stock, $1.00 par value: 750,000,000 shares authorized; 458,742,070 and 456,960,648 shares issued and outstanding, respectively	458,742	456,961
Additional paid-in capital	11,388,641	11,334,041
Cumulative dividends in excess of earnings	(1,075,583)	(1,053,215)
Accumulated other comprehensive loss	(11,669)	(14,487)
Total stockholders equity	10,760,131	10,723,300
Joint venture partners	23,391	23,729
Non-managing member unitholders	189,072	184,105
Total noncontrolling interests	212,463	207,834
Total equity	10,972,594	10,931,134
Total liabilities and equity	$ 20,144,169	$ 20,075,870

(1) The Company s consolidated total assets at June 30, 2014 and December 31, 2013 each include $1 million of other assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs. See Note 16 to the Condensed Consolidated Financial Statements for additional information.

(2) The Company s consolidated total liabilities at June 30, 2014 and December 31, 2013 each include $9 million of accounts payable and accrued liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. 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, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues:				
Rental and related revenues	$ 288,191	$ 277,769	$ 573,014	$ 559,308
Tenant recoveries	27,110	25,144	52,544	49,346
Resident fees and services	37,939	36,394	75,992	72,139
Income from direct financing leases	165,500	158,286	330,037	315,156
Interest income	16,937	14,147	33,633	26,533
Investment management fee income	444	499	893	942
Total revenues	536,121	512,239	1,066,113	1,023,424
Costs and expenses:				
Interest expense	106,842	108,452	213,480	217,562
Depreciation and amortization	113,133	109,210	220,521	212,389
Operating	78,867	73,887	154,574	146,573
General and administrative	29,062	24,062	50,456	44,717
Total costs and expenses	327,904	315,611	639,031	621,241
Other income, net	709	3,288	2,639	15,400
Income before income taxes and equity income from unconsolidated joint ventures	208,926	199,916	429,721	417,583
Income taxes	(1,339)	(1,604)	(2,785)	(2,519)
Equity income from unconsolidated joint ventures	14,692	15,585	29,220	30,386
Income from continuing operations	222,279	213,897	456,156	445,450
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes		1,941	1,736	4,172
Gain on sales of real estate, net of income taxes		887	28,010	887
Total discontinued operations		2,828	29,746	5,059
Net income	222,279	216,725	485,902	450,509
Noncontrolling interests share in earnings	(3,394)	(3,324)	(7,906)	(6,523)
Net income attributable to HCP, Inc.	218,885	213,401	477,996	443,986
Participating securities share in earnings	(489)	(378)	(1,552)	(856)
Net income applicable to common shares	$ 218,396	$ 213,023	$ 476,444	$ 443,130
Basic earnings per common share:				
Continuing operations	$ 0.48	$ 0.46	$ 0.98	$ 0.96
Discontinued operations		0.01	0.06	0.02
Net income applicable to common shares	$ 0.48	$ 0.47	$ 1.04	$ 0.98
Diluted earnings per common share:				
Continuing operations	$ 0.48	$ 0.46	$ 0.98	$ 0.96
Discontinued operations		0.01	0.06	0.01

Net income applicable to common shares	$	0.48	$	0.47	$	1.04	$	0.97
Weighted average shares used to calculate earnings per common share:								
Basic		458,247		454,618		457,773		454,137
Diluted		458,588		455,431		458,134		455,024
Dividends declared per common share	$	0.545	$	0.525	$	1.09		1.05

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, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$ 222,279	$ 216,725	$ 485,902	$ 450,509
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on securities:				
Unrealized gains (losses)	(7)		(4)	1,355
Reclassification adjustment realized in net income				(9,131)
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses)	3	4,025	(692)	9,345
Reclassification adjustment realized in net income	38	288	643	560
Change in Supplemental Executive Retirement Plan obligation	54	55	108	111
Foreign currency translation adjustment	2,813	(125)	2,763	53
Total other comprehensive income	2,901	4,243	2,818	2,293
Total comprehensive income	225,180	220,968	488,720	452,802
Total comprehensive income attributable to noncontrolling interests	(3,394)	(3,324)	(7,906)	(6,523)
Total comprehensive income attributable to HCP, Inc.	$ 221,786	$ 217,644	$ 480,814	$ 446,279

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, 2014	456,961	$ 456,961	$ 11,334,041	$ (1,053,215)	$ (14,487)	$ 10,723,300	$ 207,834	$ 10,931,134
Net income				477,996		477,996	7,906	485,902
Other comprehensive income					2,818	2,818		2,818
Issuance of common stock, net	1,954	1,954	51,728			53,682	(73)	53,609
Repurchase of common stock	(284)	(284)	(10,802)			(11,086)		(11,086)
Exercise of stock options	111	111	2,681			2,792		2,792
Amortization of deferred compensation			11,006			11,006		11,006
Common dividends ($1.09 per share)				(500,364)		(500,364)		(500,364)
Distributions to noncontrolling interests							(7,967)	(7,967)
Issuance of noncontrolling interests							6,434	6,434
Purchase of noncontrolling interests			(13)			(13)	(1,671)	(1,684)
June 30, 2014	458,742	$ 458,742	$ 11,388,641	$ (1,075,583)	$ (11,669)	$ 10,760,131	$ 212,463	$ 10,972,594

	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)
	852	852	15,957			16,809		16,809

Exercise of stock options								
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

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, 2014		2013
Cash flows from operating activities:			
Net income	485,902	$	450,509
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	220,521		212,389
Discontinued operations			3,095
Amortization of above and below market lease intangibles, net	(343)		(6,068)
Amortization of deferred compensation	11,006		11,638
Amortization of deferred financing costs, net	9,474		9,440
Straight-line rents	(26,455)		(15,955)
Loan and direct financing lease interest accretion	(39,401)		(45,539)
Deferred rental revenues	(515)		(965)
Equity income from unconsolidated joint ventures	(29,220)		(30,386)
Distributions of earnings from unconsolidated joint ventures	2,655		1,624
Gain on sales of real estate	(28,010)		(887)
Marketable securities and other (gains) losses, net	58		(10,197)
Changes in:			
Accounts receivable, net	(5,225)		462
Other assets	(6,136)		(12,852)
Accounts payable and accrued liabilities	13,394		5,294
Net cash provided by operating activities	607,705		571,602
Cash flows from investing activities:			
Acquisitions of real estate	(285,429)		(60,353)
Development of real estate	(72,334)		(67,983)
Leasing costs and tenant and capital improvements	(27,458)		(19,938)
Proceeds from sales of real estate, net	36,897		3,777
Distributions in excess of earnings from unconsolidated joint ventures	1,113		904
Purchases of marketable debt securities			(16,706)
Proceeds from the sales of marketable securities			28,030
Principal repayments on loans receivable	5,547		19,112
Investments in loans receivable and other	(46,434)		(300,673)
(Increase) decrease in restricted cash	2,900		(7,105)
Net cash used in investing activities	(385,198)		(420,935)
Cash flows from financing activities:			
Net borrowings under bank line of credit	310,000		265,049
Issuance of senior unsecured notes	350,000		
Repayments of senior unsecured notes	(487,000)		(150,000)
Repayments of mortgage debt	(169,843)		(40,380)
Deferred financing costs	(9,239)		
Issuance of common stock and exercise of options	56,401		61,860
Repurchase of common stock	(11,086)		
Dividends paid on common stock	(500,364)		(477,453)
Issuance of noncontrolling interests	113		3,141

Distributions to and purchase of noncontrolling interests		(7,980)		(7,506)
Net cash used in financing activities		(468,998)		(345,289)
Effect of foreign exchange on cash and cash equivalents		5		63
Net decrease in cash and cash equivalents		(246,486)		(194,559)
Cash and cash equivalents, beginning of period		300,556		247,673
Cash and cash equivalents, end of period	$	54,070	$	53,114

See accompanying Notes to the Condensed Consolidated Financial Statements.

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HCP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Business

HCP, Inc., a Standard & Poor s (S&P) 500 company, together with its consolidated entities (collectively, HCP or the Company), invests primarily in real estate serving the healthcare industry in the United States (U.S.). The Company is a Maryland corporation and was organized to qualify as a self-administered real estate investment trust (REIT) in 1985. The Company is headquartered in Irvine, 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, joint ventures and 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 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the SEC).

Certain amounts in the Company s condensed consolidated financial statements have been reclassified for prior periods to conform to the current period presentation. For periods through March 31, 2014, operating results for real estate assets sold have been reclassified from continuing to discontinued operations on the condensed consolidated statements of income (see Note 4).

Allowance for Doubtful Accounts

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

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

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

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

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

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08). This update changes the requirements for reporting and the definition of discontinued operations. Based on the current revisions, the disposal of a component of an entity, or a group of components of an entity, is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results when certain defined criteria are met. ASU 2014-08 is effective for fiscal years and interim periods ending after December 15, 2014 and shall be applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. On April 1, 2014, the Company early adopted ASU 2014-08; the adoption of ASU 2014-08 did not have a material impact on the Company s consolidated financial position or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). This update changes the guidance for recognizing revenue. ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years and interim periods ending after December 15, 2016, including interim periods. Early adoption is not permitted. The Company is evaluating the impact of the adoption of ASU 2014-09 on January 1, 2017 to the Company s consolidated financial position or results of operations.

(3) Real Estate Property Investments

On June 6, 2014, the Company acquired a portfolio of 20 care homes for $127 million (£75.8 million) subject to long-term triple-net leases. These facilities are located throughout the United Kingdom (UK) and are leased to Maria Mallaband Care Group. The triple-net leases have initial terms of 15 years, plus two 10-year extension options and provide for initial annual rent of $9.7 million (£5.8 million). The cross-defaulted contractual rents will increase annually based on the Retail Price Index (UK measure of inflation), subject to a floor of 2% and a ceiling of 4.5%.

A summary of real estate acquisitions for the six months ended June 30, 2014 follows (in thousands):

	Consideration			Assets Acquired	
Segment	**Cash Paid**	**Debt and Other Liabilities Assumed**	**Noncontrolling Interest**	**Real Estate**	**Net Intangibles**
Senior housing	$ 215,381(1)	$ 1	$ 6,321(2)	$ 204,758	$ 16,945
Life science	43,500	250		41,281	2,469
Medical office	26,548	272		22,820	4,000
	$ 285,429	$ 523	$ 6,321	$ 268,859	$ 23,414

(1) Includes £75.8 million translated into U.S. dollars.

(2) Includes $5 million of non-managing member limited liability company units.

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During the six months ended June 30, 2013, the Company acquired four senior housing communities from a joint venture between Emeritus Corporation (Emeritus) and Blackstone Real Estate Partners VI for $38 million, 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, 2014 and 2013, the Company funded an aggregate of $101 million and $76 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, 2014, the Company sold two post-acute/skilled nursing facilities for $22 million, a hospital for $17 million and a medical office building (MOB) for $145,000. During the six months ended June 30, 2013, the Company sold a senior housing facility for $4 million.

There were no assets classified as held for sale at June 30, 2014. At December 31, 2013, one hospital and two post-acute/skilled nursing facilities were classified as held for sale, with a carrying value of $10 million.

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Rental and related revenues	$ 4,824	$ 1,810	$ 9,908
Depreciation and amortization expenses	1,557		3,095
Operating expenses	927	54	1,846
Other expenses, net	399	20	795
Income before gain on sales of real estate, net of income taxes	$ 1,941	$ 1,736	$ 4,172
Gain on sales of real estate, net of income taxes	$ 887	$ 28,010	$ 887
Number of properties included in discontinued operations	16	2	16

(5) Net Investment in Direct Financing Leases

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

	June 30, 2014	December 31, 2013
Minimum lease payments receivable	$ 24,517,865	$ 24,808,386
Estimated residual values	4,134,405	4,134,405
Less unearned income	(21,428,392)	(21,789,392)
Net investment in direct financing leases	$ 7,223,878	$ 7,153,399
Properties subject to direct financing leases	364	364

The minimum lease payments receivable are primarily attributable to HCR ManorCare, Inc. (HCR ManorCare) ($23.3 billion and $23.5 billion at June 30, 2014 and December 31, 2013, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of $524 million beginning April 1, 2014 (prior to April 1, 2014, annual rent was $506 million). The rent increases by 3.5% per year over the next two years and by 3% for the remaining portion of the initial lease term. The properties are grouped into four pools, and HCR ManorCare has a 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.

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The following table summarizes the Company s internal ratings for net investment in DFLs at June 30, 2014 (in thousands):

Investment Type	Carrying Amount	Percentage of DFL Portfolio	Performing DFLs	Internal Ratings Watch List DFLs	Workout DFLs
Senior housing	$ 1,488,704	20	$ 1,116,401	$ 372,303	$
Post-acute/skilled nursing	5,611,283	78	5,611,283		
Hospital	123,891	2	123,891		
	$ 7,223,878	100	$ 6,851,575	$ 372,303	$

During the quarter ended September 30, 2013, the Company placed a 14-property senior housing DFL (the DFL Portfolio) on non-accrual status. Based on the Company s determination that the timing of the collection of all rental payments was no longer reasonably assured, rental revenue for the DFL Portfolio is recognized on a cash basis. Furthermore, the Company determined that the DFL Portfolio was not impaired at September 30, 2013, based on its belief that: (i) it was not probable that it will not collect all of the rental payments under the terms of the lease; and (ii) the fair value of the underlying collateral exceeded the DFL Portfolio s $376 million carrying amount. The fair value of the DFL Portfolio was estimated based on a discounted cash flow model, which inputs are considered to be a Level 3 measurement within the fair value hierarchy. Inputs to this valuation model include real estate capitalization rates, industry growth rates and operating margins, some of which influence the Company s expectation of future cash flows from the DFL Portfolio and, accordingly, the fair value of its investment. During the three months ended June 30, 2014 and 2013, the Company recognized DFL income of $5 million and $7 million, respectively, and received cash payments of $6 million in each period, respectively, from the DFL Portfolio. During the six months ended June 30, 2014 and 2013, the Company recognized DFL income of $10 million and $14 million, respectively, and received cash payments of $12 million in each period from the DFL Portfolio. The carrying value of the DFL Portfolio was $372 million and $374 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value.

(6) Loans Receivable

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

	June 30, 2014			December 31, 2013		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	$	$ 233,854	$ 233,854	$	$ 234,455	$ 234,455
Other(1)	157,819		157,819	147,669		147,669
Unamortized discounts, fees and costs		(2,546)	(2,546)		(2,713)	(2,713)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)
	$ 157,819	$ 217,898	$ 375,717	$ 147,669	$ 218,332	$ 366,001

(1) Includes $128 million and $117 million at June 30, 2014 and December 31, 2013, respectively, of construction loans outstanding related to senior housing development projects. At June 30, 2014, the Company had $19.5 million remaining under its commitments to fund development projects.

The following table summarizes the Company s internal ratings for loans receivable at June 30, 2014 (in thousands):

Investment Type	Carrying Amount	Percentage of Loan Portfolio	Performing Loans	Internal Ratings Watch List Loans	Workout Loans
Real estate secured	$ 157,819	42	$ 157,819	$	$
Other secured	217,898	58	200,428		17,470
	$ 375,717	100	$ 358,247	$	$ 17,470

Other Secured Loans

Barchester Loan. On May 2, 2013, the Company acquired £121 million ($188 million) of subordinated debt at a discount for £109 million ($170 million). The loan was secured by an interest in 160 facilities leased and operated by Barchester Healthcare (Barchester). On August 23, 2013, the Company acquired an additional investment in this loan of £9 million ($14 million) at a discount for £5 million ($8 million). This loan accrued interest on its face value at a floating rate of LIBOR plus a weighted-average margin of 3.14%. 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. On September 6, 2013, the Company received £129 million ($202 million) from the par payoff of its Barchester debt investments. As a result, the Company recognized interest income of $24 million primarily representing the debt investment s unamortized discounts. A portion of the proceeds from the Barchester repayment were used to repay the total outstanding amount of the Company s GBP denominated draw on its revolving line of credit facility.

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Tandem Health Care Loan. On July 31, 2012, the Company closed a mezzanine loan facility to lend up to $205 million to Tandem Health Care (Tandem), as part of the recapitalization of a post-acute/skilled nursing portfolio. The Company funded $100 million (the First Tranche) at closing and funded an additional $102 million (the Second Tranche) in June 2013. At June 30, 2014, the loans were subordinate to $442 million of senior mortgage debt. The loans bear interest at fixed rates of 12% and 14% per annum for the First and Second Tranches, respectively. This loan facility has a total term of up to 63 months from the First Tranche closing, is prepayable at the borrower s option and is secured by real estate partnership interests. The loans are subject to prepayment premiums if repaid on or before the third anniversary from the First Tranche closing date.

Delphis Operations, L.P. Loan. The Company holds a secured term loan made to Delphis Operations, L.P. (Delphis or the Borrower) that is collateralized by assets of the Borrower. The Borrower s collateral is comprised primarily of a partnership interest in an operating surgical facility that leases a property owned by the Company. This loan is on cost recovery status. The carrying value of the loan, net of an allowance for loan losses of $13 million, was $17.5 million and $18.1 million at June 30, 2014 and December 31, 2013, respectively. During the three and six months ended June 30, 2014, the Company received cash payments from the Borrower of $0.6 million. At June 30, 2014, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value.

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

	Amount
Balance at January 1, 2014	$ 13,410
Additions	
Balance at June 30, 2014	$ 13,410

(7) Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities that are accounted for under the equity method at June 30, 2014 (dollars in thousands):

Entity(1)	Segment	Investment(2)	Ownership%
HCR ManorCare	post-acute/skilled nursing	$ 80,777	9.4
HCP Ventures III, LLC	medical office	6,944	30
HCP Ventures IV, LLC	medical office and hospital	28,369	20
HCP Life Science(3)	life science	68,329	50-63
Suburban Properties, LLC	medical office	5,952	67
Advances to unconsolidated joint ventures, net		359	
		$ 190,730	
Edgewood Assisted Living Center, LLC	senior housing	$ (384)	
Seminole Shores Living Center, LLC	senior housing	(580)	
		$ (964)	

(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 ventures. Negative balances are recorded in accounts payable and accrued liabilities on the Company s Condensed Consolidated Balance Sheets. Includes a 72% interest in a senior housing partnership that has a zero investment balance.

(3) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships (and the Company s ownership percentage): (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

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Summarized combined financial information for the Company s unconsolidated joint ventures follows (in thousands):

		June 30, 2014		December 31, 2013
Real estate, net	$	3,627,622	$	3,662,450
Goodwill and other assets, net		5,326,719		5,384,553
Total assets	$	8,954,341	$	9,047,003
Capital lease obligations and mortgage debt	$	6,700,301	$	6,768,815
Accounts payable		1,033,229		1,045,260
Other partners capital		1,089,086		1,098,228
HCP s capital(1)		131,725		134,700
Total liabilities and partners capital	$	8,954,341	$	9,047,003

(1) The combined basis difference of the Company s investments in these joint ventures of $58 million, as of June 30, 2014, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease-related net intangibles.

	Three Months Ended June 30,				Six Months Ended June 30,			
		2014		2013		2014		2013
Total revenues	$	1,064,655	$	1,051,012	$	2,137,843	$	2,135,263
Loss from discontinued operations		(4,200)		(3,000)		(5,600)		(5,700)
Net (loss) income		(11,834)		10,122		(3,973)		20,494
HCP s share of earnings(1)		14,692		15,585		29,220		30,386
Fees earned by HCP		444		499		893		942
Distributions received by HCP		566		1,157		3,768		2,528

(1) The Company s joint venture interest in HCR ManorCare is accounted for using the equity method and results in an ongoing elimination of DFL income proportional to HCP s ownership in HCR ManorCare. The elimination of the respective proportional lease expense at the HCR ManorCare level in substance results in $16 million and $15 million of DFL income that is recharacterized to the Company s share of earnings from HCR ManorCare (equity income from unconsolidated joint ventures) for the three months ended June 30, 2014 and 2013, respectively. For both the six months ended June 30, 2014 and 2013, $31 million of DFL income was recharacterized to the Company s share of earnings from HCR ManorCare.

(8) Intangibles

At June 30, 2014 and December 31, 2013, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles, were $796 million and $781 million, respectively. At June 30, 2014 and December 31, 2013, the accumulated amortization of intangible assets was $318 million and $291 million, respectively.

At both June 30, 2014 and December 31, 2013, intangible lease liabilities, comprised of below market lease intangibles and above market ground lease intangibles were $207 million. At June 30, 2014 and December 31, 2013, the accumulated amortization of intangible liabilities was

$117 million and $108 million, respectively.

(9) Other Assets

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

		June 30, 2014		December 31, 2013
Straight-line rent assets, net of allowance of $34,274 and $34,230 respectively	$	392,766	$	368,919
Marketable debt securities, net		251,888		244,089
Leasing costs, net		104,984		104,601
Deferred financing costs, net		45,782		42,106
Goodwill		50,346		50,346
Other(1)		94,242		57,644
Total other assets	$	940,008	$	867,705

(1) 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, 2014 and December 31, 2013, the carrying value of interest accrued related to the Delphis loan was zero. Also includes a loan receivable for $12 million and $10 million at June 30, 2014 and December 31, 2013, respectively, from HCP Ventures IV, LLC, an unconsolidated joint venture (see Note 7 for additional information). The loan bears interest at a fixed rate of 12% per annum and matures in May 2015.

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During the six months ended June 30, 2013, the Company realized gains from the sale of marketable equity securities of $11 million that were included in other income, net.

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 (par value of $237 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 UK. 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

On March 31, 2014, the Company amended its unsecured revolving line of credit facility (the Facility) with a syndicate of banks, which was scheduled to mature in March 2016, increasing the borrowing capacity by $500 million to $2.0 billion. The amended Facility matures on March 31, 2018, with a one-year committed extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon the Company s debt ratings. The Company pays a facility fee on the entire revolving commitment that depends on its debt ratings. Based on the Company s debt ratings at June 30, 2014, the margin on the Facility was 0.925%, and the facility fee was 0.15%. 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, 2014, the Company had $310 million outstanding under the Facility with a weighted average effective interest rate of 1.42%.

On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million ($234 million at June 30, 2014) four-year unsecured term loan (the Term Loan). Based on the Company s debt ratings at June 30, 2014, the Term Loan accrues interest at a rate of GBP LIBOR plus 1.20%. 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% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and Term Loan also require a Minimum Consolidated Tangible Net Worth of $9.5 billion at June 30, 2014. At June 30, 2014, the Company was in compliance with each of these restrictions and requirements of the Facility and Term Loan.

Senior Unsecured Notes

At June 30, 2014, the Company had senior unsecured notes outstanding with an aggregate principal balance of $6.9 billion. At June 30, 2014, interest rates on the notes ranged from 2.79% to 6.99% with a weighted average effective interest rate of 5.06% and a weighted average maturity of six years. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at June 30, 2014.

On February 12, 2014, the Company issued $350 million of 4.20% senior unsecured notes due 2024. The notes were priced at 99.537% of the principal amount with an effective yield-to-maturity of 4.257%; net proceeds from this offering were $346 million.

On February 1, 2014, the Company repaid $400 million of maturing senior unsecured notes, which accrued interest at a rate of 2.7%. The senior unsecured notes were repaid with a portion of the proceeds from the Company s November 2013 bond offering.

On December 16, 2013, the Company repaid $400 million of maturing senior unsecured notes, which accrued interest at a rate of 5.65%. The senior unsecured notes were repaid with a portion of the proceeds from the Company s November 2013 bond offering.

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On November 12, 2013, the Company issued $800 million of 4.25% senior unsecured notes due 2023. The notes were priced at 99.540% of the principal amount with an effective yield to maturity of 4.307%; net proceeds from this offering were $789 million.

On February 28, 2013, the Company repaid $150 million of maturing senior unsecured notes, which accrued interest at a rate of 5.625%.

Mortgage Debt

At June 30, 2014, the Company had $1.2 billion in aggregate principal amount of mortgage debt outstanding secured by 94 healthcare facilities (including redevelopment properties) with a carrying value of $1.5 billion. At June 30, 2014, interest rates on the mortgage debt ranged from 0.44% to 8.69% with a weighted average effective interest rate of 6.20% 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.

Debt Maturities

The following table summarizes the Company s stated debt maturities and scheduled principal repayments at June 30, 2014 (in thousands):

Year	**Bank Line of Credit**	**Term Loan(1)**	**Senior Unsecured Notes**	**Mortgage Debt**	**Total(2)**
2014 (Six months)	$	$	$	$ 11,573	$ 11,573
2015			400,000	308,421	708,421
2016		234,352	900,000	291,736	1,426,088
2017			750,000	550,477	1,300,477
2018	310,000		600,000	6,583	916,583
Thereafter			4,200,000	65,242	4,265,242
	310,000	234,352	6,850,000	1,234,032	8,628,384
Discounts, net			(23,116)	(4,259)	(27,375)
	$ 310,000	$ 234,352	$ 6,826,884	$ 1,229,773	$ 8,601,009

(1) Represents £137 million translated into U.S. dollars.

(2) Excludes $73 million of other debt that represents Life Care Bonds that have no scheduled maturities that are discussed below.

Other Debt

At June 30, 2014, the Company had $73 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 generally refundable to the residents upon the termination of the contract or upon the successful resale of the unit.

(11) 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, results of operations or cash flows. The Company s policy is to expense legal costs as they are incurred.

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Concentration of Credit Risk

Concentrations of credit risks arise when one or more 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. The Company does not have significant foreign operations.

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

The following table lists the Company s senior housing concentrations:

	Percentage of Senior Housing Gross Assets		**Percentage of Senior Housing Revenues Three Months Ended June 30,**		**Percentage of Senior Housing Revenues Six Months Ended June 30,**	
Operators	**June 30, 2014**	**December 31, 2013**	**2014**	**2013**	**2014**	**2013**
HCR ManorCare	11%	11%	10%	10%	10%	10%
Brookdale Senior Living (Brookdale)(1)	46	48	46	46	46	46
Sunrise Senior Living (Sunrise)(2)	17	17	11	13	11	13

The following table lists the Company s post-acute/skilled nursing concentrations:

	Percentage of Post-Acute/ Skilled Nursing Gross Assets		**Percentage of Post-Acute/ Skilled Nursing Revenues Three Months Ended June 30,**		**Percentage of Post-Acute/ Skilled Nursing Revenues Six Months Ended June 30,**	
Operators	**June 30, 2014**	**December 31, 2013**	**2014**	**2013**	**2014**	**2013**
HCR ManorCare	89%	89%	86%	87%	86%	88%

The following table lists the total Company concentrations:

	Percentage of Total Company Assets		**Percentage of Total Company Revenues Three Months Ended June 30,**		**Percentage of Total Company Revenues Six Months Ended June 30,**	
Operators	**June 30, 2014**	**December 31, 2013**	**2014**	**2013**	**2014**	**2013**
HCR ManorCare	32%	32%	28%	29%	28%	28%
Brookdale(1)	19	19	17	17	17	17
Sunrise(2)	7	7	4	5	4	5

(1) On July 31, 2014, Brookdale completed its acquisition of Emeritus Corporation (Emeritus). These percentages of segment revenues, total revenues, segment assets and total assets for all periods presented are prepared on a pro forma basis to reflect the combined concentration for Brookdale and Emeritus, as if the merger had occurred as of the beginning of the periods presented. Additionally, on April 23, 2014, the Company agreed to amend or terminate its Emeritus (pre-merger) leases and enter into two RIDEA joint ventures with Brookdale (see Note 20 for additional information regarding these potential transactions).Percentages do not include senior housing facilities that Brookdale manages (is not a tenant) on behalf of the Company, under a RIDEA structure.

(2) 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.

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HCR ManorCare s summarized condensed consolidated financial information follows (in millions):

	June 30, 2014	December 31, 2013
Real estate and other property, net	$ 2,970.7	$ 2,993.2
Cash and cash equivalents	150.7	141.8
Goodwill, intangible and other assets, net	5,099.9	5,174.9
Total assets	$ 8,221.3	$ 8,309.9
Debt and financing obligations	$ 6,191.7	$ 6,258.5
Accounts payable, accrued liabilities and other	996.4	1,013.4
Total equity	1,033.2	1,038.0
Total liabilities and equity	$ 8,221.3	$ 8,309.9

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues	$ 1,039.1	$ 1,024.3	$ 2,086.7	$ 2,083.8
Operating, general and administrative expense	(914.5)	(864.4)	(1,810.3)	(1,764.0)
Depreciation and amortization expense	(35.3)	(35.7)	(70.9)	(72.4)
Interest expense	(102.2)	(103.9)	(204.7)	(208.1)
Other income (expense), net	1.6	(0.5)	4.5	1.7
(Loss) income from continuing operations before income tax benefit (expense)	(11.3)	19.8	5.3	41.0
Income tax benefit (expense)	4.6	(6.7)	(2.2)	(13.5)
(Loss) income from continuing operations	(6.7)	13.1	3.1	27.5
Loss from discontinued operations, net of taxes	(4.2)	(3.0)	(5.6)	(5.7)
Net (loss) income	$ (10.9)	$ 10.1	$ (2.5)	$ 21.8

Brookdale is subject to the registration and reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale contained or referred to in this Quarterly Report on Form 10-Q has been derived from SEC filings made by Brookdale, as the case may be, or other publicly available information, or was provided to the Company by Brookdale, and the Company has not verified this information through an independent investigation or otherwise. The Company has no reason to believe that this information is inaccurate in any material respect, but the Company cannot assure the reader of its accuracy. The Company is providing this data for informational purposes only, and encourages the reader to obtain Brookdale s publicly available filings, which can be found at the SEC s website at www.sec.gov.

To mitigate the 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 $108 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 $372 million as of June 30, 2014.

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(12) Equity

Common Stock

The following table lists the common stock cash dividends declared by the Company in 2014:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
January 30	February 10	$ 0.545	February 25
May 1	May 12	0.545	May 27
July 31	August 11	0.545	August 26

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Dividend Reinvestment and Stock Purchase Plan	1,386	925
Conversion of DownREIT units(1)	2	85
Exercise of stock options	111	852
Vesting of restricted stock units	567	103

(1) Non-managing member LLC units.

Accumulated Other Comprehensive Loss

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

	June 30, 2014	December 31, 2013
Unrealized losses on available for sale securities	$ (4)	$
Unrealized losses on cash flow hedges, net	(10,846)	(10,797)
Supplemental Executive Retirement Plan minimum liability	(2,802)	(2,910)
Cumulative foreign currency translation adjustment	1,983	(780)
Total accumulated other comprehensive loss	$ (11,669)	$ (14,487)

Noncontrolling Interests

At June 30, 2014, non-managing members held an aggregate of 4 million units in five limited liability companies (DownREITs), for which the Company is the managing member. At June 30, 2014, the carrying and fair values of these DownREIT units were $189 million and $253 million, respectively.

(13) 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 primarily invests, through the acquisition and development of real estate, in single operator or tenant properties and debt issued by operators in these sectors. Under the medical office segment, the Company invests through the acquisition and development of MOBs, 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 herein and in the Company s 2013 Annual Report on Form 10-K filed with the SEC. There were no intersegment sales or transfers during the six months ended June 30, 2014 and 2013. The Company evaluates performance based upon net operating income from continuing operations (NOI), adjusted (cash) NOI and interest income of the investments in each segment.

Non-segment assets consist primarily of corporate assets including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities, deferred financing costs and, if any, real estate held-for-sale. 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 11 for other information regarding concentrations of credit risk.

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

For the three months ended June 30, 2014:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted (Cash) NOI(2)
Senior housing	$ 151,904	$ 37,939	$ 3,430	$	$ 193,273	$ 165,020	$ 153,476
Post-acute/skilled	138,548		13,507		152,055	138,015	122,105
Life science	77,541			1	77,542	62,092	59,339
Medical office	91,541			443	91,984	54,376	53,770
Hospital	21,267				21,267	20,370	20,475
Total	$ 480,801	$ 37,939	$ 16,937	$ 444	$ 536,121	$ 439,873	$ 409,165

For the three months ended June 30, 2013:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted (Cash) NOI(2)
Senior housing	$ 150,261	$ 36,394	$ 2,806	$	$ 189,461	$ 163,319	$ 148,005
Post-acute/skilled	135,255		11,029		146,284	134,623	117,822
Life science	75,227			1	75,228	61,388	58,265
Medical office	89,996			498	90,494	54,883	53,770
Hospital	10,460		312		10,772	9,493	21,304
Total	$ 461,199	$ 36,394	$ 14,147	$ 499	$ 512,239	$ 423,706	$ 399,166

For the six months ended June 30, 2014:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted (Cash) NOI(2)
Senior housing	$ 301,989	$ 75,992	$ 6,714	$	$ 384,695	$ 328,610	$ 303,851
Post-acute/skilled	276,328		26,919		303,247	275,263	240,204
Life science	153,663			2	153,665	124,053	118,168
Medical office	180,803			891	181,694	108,122	106,799
Hospital	42,812				42,812	40,965	41,136
Total	$ 955,595	$ 75,992	$ 33,633	$ 893	$ 1,066,113	$ 877,013	$ 810,158

For the six months ended June 30, 2013:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management	Total Revenues	NOI(2)	Adjusted

				Fee Income			(Cash) NOI(2)
Senior housing	$ 299,157	$ 72,139	$ 5,207	$	$ 376,503	$ 324,438	$ 290,726
Post-acute/ skilled	269,091		21,014		290,105	267,830	231,669
Life science	148,557			2	148,559	121,335	114,605
Medical office	176,827			940	177,767	107,450	105,010
Hospital	30,178		312		30,490	28,323	39,780
Total	$ 923,810	$ 72,139	$ 26,533	$ 942	$ 1,023,424	$ 849,376	$ 781,790

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

(2) NOI is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate. The Company defines NOI as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expenses. NOI excludes interest income, investment management fee income, interest expense, depreciation and amortization, general and administrative expenses, litigation settlement, impairments, impairment recoveries, other income, net, income taxes, equity income from and impairments of investments in unconsolidated joint ventures, and discontinued operations. The Company believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL accretion, amortization of above and below market lease intangibles, and lease termination fees. Adjusted NOI is sometimes referred to as cash NOI. The Company uses NOI and adjusted NOI to make decisions about resource allocations and to assess and compare property level performance. The Company believes that net income is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income as defined by GAAP because it does not reflect the aforementioned excluded items. Further, the Company s definition of NOI may not be comparable to the definition used by other REITs or real estate companies, as those companies may use different methodologies for calculating NOI.

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The following is a reconciliation of reported net income to NOI and adjusted NOI (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 222,279	$ 216,725	$ 485,902	$ 450,509
Interest income	(16,937)	(14,147)	(33,633)	(26,533)
Investment management fee income	(444)	(499)	(893)	(942)
Interest expense	106,842	108,452	213,480	217,562
Depreciation and amortization	113,133	109,210	220,521	212,389
General and administrative	29,062	24,062	50,456	44,717
Other income, net	(709)	(3,288)	(2,639)	(15,400)
Income taxes	1,339	1,604	2,785	2,519
Equity income from unconsolidated joint ventures	(14,692)	(15,585)	(29,220)	(30,386)
Total discontinued operations		(2,828)	(29,746)	(5,059)
NOI	439,873	423,706	877,013	849,376
Straight-line rents	(12,487)	2,838	(26,455)	(15,955)
DFL accretion	(17,813)	(21,394)	(39,235)	(45,564)
Amortization of above and below market lease intangibles, net	(175)	(5,990)	(343)	(6,068)