

HCP, INC.
Form 10-Q
April 28, 2009
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009.

OR

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

For the transition period from to

Commission file number 1-08895

HCP, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: HCP, INC. - Form 10-Q

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 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 (Do not check if a smaller reporting company)

Smaller Reporting Company

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

As of April 15, 2009, there were 253,974,711 shares of the registrant's \$1.00 par value common stock outstanding.

Table of Contents

HCP, INC.

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Income</u>	4
	<u>Condensed Consolidated Statement of Equity</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	6
	<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4.</u>	<u>Controls and Procedures</u>	37

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	38
<u>Item 1A.</u>	<u>Risk Factors</u>	38
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 5.</u>	<u>Other Information</u>	38
<u>Item 6.</u>	<u>Exhibits</u>	40

Signatures

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Real estate:		
Buildings and improvements	\$ 7,758,432	\$ 7,752,714
Development costs and construction in progress	240,690	224,337
Land	1,550,286	1,550,219
Less accumulated depreciation and amortization	880,881	820,441
Net real estate	8,668,527	8,706,829
Net investment in direct financing leases	648,411	648,234
Loans receivable, net	1,074,874	1,076,392
Investments in and advances to unconsolidated joint ventures	267,350	272,929
Accounts receivable, net of allowance of \$18,508 and \$18,413, respectively	29,046	34,211
Cash and cash equivalents	66,376	57,562
Restricted cash	32,973	35,078
Intangible assets, net	482,329	505,986
Real estate held for sale, net	15,120	19,799
Other assets, net	516,283	492,806
Total assets	\$ 11,801,289	\$ 11,849,826
LIABILITIES AND EQUITY		
Bank line of credit	\$ 235,000	\$ 150,000
Bridge and term loans	520,000	520,000
Senior unsecured notes	3,524,338	3,523,513
Mortgage debt	1,603,838	1,641,734
Other debt	101,047	102,209
Intangible liabilities, net	223,749	232,654
Accounts payable and accrued liabilities	190,100	211,691
Deferred revenue	72,305	60,185
Total liabilities	6,470,377	6,441,986
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 per share	285,173	285,173
Common stock, \$1.00 par value: 750,000,000 shares authorized; 253,975,040 and 253,601,454 shares issued and outstanding, respectively	253,975	253,601
Additional paid-in capital	4,870,942	4,873,727
Cumulative dividends in excess of earnings	(203,359)	(130,068)
Accumulated other comprehensive loss	(77,469)	(81,162)
Total stockholders' equity	5,129,262	5,201,271
Joint venture partners	8,245	12,912
Non-managing member unitholders	193,405	193,657
Total noncontrolling interests	201,650	206,569
Total equity	5,330,912	5,407,840
Total liabilities and equity	\$ 11,801,289	\$ 11,849,826

Edgar Filing: HCP, INC. - Form 10-Q

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	
	2009	2008
Revenues:		
Rental and related revenues	\$ 213,588	\$ 206,905
Tenant recoveries	23,664	21,447
Income from direct financing leases	12,925	14,974
Investment management fee income	1,438	1,467
Total revenues	251,615	244,793
Costs and expenses:		
Depreciation and amortization	80,537	77,632
Operating	47,676	48,221
General and administrative	18,991	20,445
Total costs and expenses	147,204	146,298
Other income (expense):		
Interest and other income, net	24,333	35,322
Interest expense	(76,674)	(96,263)
Total other income (expense)	(52,341)	(60,941)
Income before income taxes and equity income (loss) from unconsolidated joint ventures		
	52,070	37,554
Income taxes	(915)	(2,241)
Equity income (loss) from unconsolidated joint ventures	(462)	1,288
Income from continuing operations	50,693	36,601
Discontinued operations:		
Income before gain on sales of real estate, net of income taxes	659	9,389
Gain on sales of real estate, net of income taxes	1,357	10,138
Total discontinued operations	2,016	19,527
Net income	52,709	56,128
Noncontrolling interests and participating securities share in earnings	(4,141)	(6,266)
Preferred stock dividends	(5,283)	(5,283)
Net income applicable to common shares	\$ 43,285	\$ 44,579
Basic earnings per common share:		
Continuing operations	\$ 0.16	\$ 0.12
Discontinued operations	0.01	0.09
Net income applicable to common shares	\$ 0.17	\$ 0.21
Diluted earnings per common share:		
Continuing operations	\$ 0.16	\$ 0.12
Discontinued operations	0.01	0.09
Net income applicable to common shares	\$ 0.17	\$ 0.21

Edgar Filing: HCP, INC. - Form 10-Q

Weighted average shares used to calculate earnings per common share:

Basic	253,335	216,773
Diluted	253,423	217,391
Dividends declared per common share	\$ 0.460	\$ 0.455

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**HCP, INC.**
CONDENSED CONSOLIDATED STATEMENT OF EQUITY**(In thousands)****(Unaudited)**

	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Interests	Equity
					Capital	In Excess	Comprehensive	Equity		Equity
						Of Earnings	Income (Loss)			
January 1, 2009	11,820	\$ 285,173	253,601	\$ 253,601	\$ 4,873,727	\$ (130,068)	\$ (81,162)	\$ 5,201,271	\$ 206,569	\$ 5,407,840
Comprehensive income:										
Net income						48,883		48,883	3,826	52,709
Change in net unrealized gains (losses) on securities:										
Unrealized gains							3,838	3,838		3,838
Less reclassification adjustment realized in net income							310	310		310
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(90)	(90)		(90)
Less reclassification adjustment realized in net income							130	130		130
Change in Supplemental Executive Retirement Plan obligation							22	22		22
Foreign currency translation adjustment							(517)	(517)		(517)
Total comprehensive income										56,402
Issuance of common stock, net			465	465	446			911	(246)	665
Repurchase of common stock			(91)	(91)	(2,052)			(2,143)		(2,143)
Amortization of deferred compensation					3,546			3,546		3,546
Preferred dividends						(5,283)		(5,283)		(5,283)
Common dividends (\$0.46 per share)						(116,891)		(116,891)		(116,891)
Distributions to noncontrolling interests									(4,127)	(4,127)

Edgar Filing: HCP, INC. - Form 10-Q

Purchase of noncontrolling interests					(4,725)			(4,725)	(4,372)	(9,097)
March 31, 2009	11,820	\$ 285,173	253,975	\$ 253,975	\$ 4,870,942	\$ (203,359)	\$ (77,469)	\$ 5,129,262	\$ 201,650	\$ 5,330,912

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 52,709	\$ 56,128
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	80,537	77,632
Discontinued operations	61	4,726
Amortization of above and below market lease intangibles, net	(2,660)	(2,152)
Stock-based compensation	3,546	3,526
Amortization of debt premiums, discounts and issuance costs, net	2,768	3,039
Straight-line rents	(11,422)	(9,782)
Interest accretion	(6,121)	(6,292)
Deferred rental revenue	6,914	8,605
Equity loss (income) from unconsolidated joint ventures	462	(1,288)
Distributions of earnings from unconsolidated joint ventures	1,468	1,191
Gain on sales of real estate	(1,357)	(10,138)
Marketable securities losses, net	309	113
Derivative losses, net	439	
Changes in:		
Accounts receivable	5,165	12,043
Other assets	(1,050)	10,480
Accounts payable and accrued liabilities	(14,756)	(16,156)
Net cash provided by operating activities	117,012	131,675
Cash flows from investing activities:		
Acquisitions and development of real estate	(20,269)	(42,962)
Lease commissions and tenant and capital improvements	(9,642)	(18,107)
Proceeds from sales of real estate, net	5,764	29,590
Contributions to unconsolidated joint ventures		(472)
Distributions in excess of earnings from unconsolidated joint ventures	1,714	2,316
Principal repayments on loans receivable and direct financing leases	2,485	2,155
Investments in loans receivable	(16)	(602)
Decrease in restricted cash	2,105	6,763