HCP, INC.
Form 10-K
February 11, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission file number 1-08895

HCP, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**33-0091377** (I.R.S. Employer Identification No.)
3760 Kilroy Airport Way, Suite 300 **Long Beach, California** (Address of principal executive offices)	**90806** (Zip Code)

Registrant's telephone number, including area code **(562) 733-5100**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Common Stock	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý 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 for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act.) Yes o No ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $18.2 billion.

As of January 31, 2014 there were 457,169,700 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

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PART I

All references in this report to "HCP," the "Company," "we," "us" or "our" mean HCP, Inc. together with its consolidated subsidiaries. Unless the context suggests otherwise, references to "HCP, Inc." mean the parent company without its subsidiaries.

ITEM 1. Business

Business Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States. We are a Maryland corporation organized in 1985 to qualify as a self-administered real estate investment trust ("REIT"). We are headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. We acquire, develop, lease, manage and dispose of healthcare real estate, and provide financing to healthcare providers. Our 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. We make investments in our 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."

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the following:

- Compelling demographics driving the demand for healthcare services;
- Specialized nature of healthcare real estate investing; and
- Ongoing consolidation of a fragmented healthcare real estate sector.

Our website address is *www.hcpi.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the United States ("U.S.") Securities and Exchange Commission ("SEC").

Healthcare Industry

Healthcare is the single largest industry in the U.S. based on Gross Domestic Product ("GDP"). According to the National Health Expenditures report by the Centers for Medicare and Medicaid Services ("CMS"): (i) national health expenditures are projected to grow 6.1% in 2014 and 5.8% in 2015; (ii) the average compounded annual growth rate for national health expenditures, over the projection period of 2015 through 2022, is anticipated to be 6.2%; and (iii) the healthcare industry is projected to represent 18.3% of U.S. GDP in 2014.

Senior citizens are the largest consumers of healthcare services. According to CMS, on a per capita basis, the 75-year and older segment of the population spends 76% more on healthcare than the 65 to 74-year-old segment and over 200% more than the population average.

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U.S. Population Over 65 Years Old

Source: U.S. Census Bureau, the Statistical Abstract of the United States.

Business Strategy

Our primary goal is to increase stockholder value through profitable growth, which allows us to maintain or increase dividends per share to our stockholders. Our investment strategy to achieve this goal is based on three principles: (i) opportunistic investing, (ii) portfolio diversification and (iii) conservative financing.

Opportunistic Investing

We make investment decisions that are expected to drive profitable growth and create stockholder value. We position ourselves to create and take advantage of opportunities that will allow us to meet our goals and investment criteria.

Portfolio Diversification

We believe in maintaining a portfolio of healthcare investments diversified by segment, geography, operator, tenant and investment product. We monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment product or geographic location, the number of properties that may be leased to a single operator or tenant, or loans that may be made to a single borrower. With investments in multiple segments and investment products, we can focus on opportunities with the most attractive risk/reward profile for the portfolio as a whole. We may structure transactions as master leases, require operator or tenant insurance and indemnifications, obtain credit enhancements in the form of guarantees, letters of credit or security deposits, and take other measures to mitigate risk.

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Conservative Financing

We believe a conservative balance sheet is important to our ability to execute our opportunistic investing approach. We maintain a conservative balance sheet by actively managing our debt-to-equity levels and maintaining multiple sources of liquidity, such as our revolving line of credit facility (the "Facility"), access to capital markets and secured debt lenders, relationships with current and prospective institutional joint venture partners, and our ability to divest of assets. Our debt obligations are primarily fixed rate with staggered maturities, which reduces the impact of rising interest rates on our operations.

We finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may utilize the Facility or arrange for other short-term borrowings from banks or other sources. We arrange for longer-term financing by offering equity and debt securities, placing mortgage debt and obtaining capital from institutional lenders.

We specifically incorporate by reference into this section the information set forth in Item 7, "2013 Transaction Overview," of this report.

Competition

Investing in real estate serving the healthcare industry is highly competitive. We face competition from other REITs, investment companies, pension funds, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Income from our facilities is dependent on the ability of our operators and tenants to compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. Private, federal and state payment programs, as well as the effect of laws and regulations, may also have a significant influence on the profitability of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see "Risk Factors" in Item 1A.

Healthcare Segments

Senior housing. At December 31, 2013, we had interests in 444 senior housing facilities, 20 of which are in a RIDEA structure. Excluding RIDEA properties, all of our senior housing facilities are triple-net leased to single tenants. Senior housing facilities include assisted living facilities ("ALFs"), independent living facilities ("ILFs") and continuing care retirement communities ("CCRCs"), which cater to different segments of the elderly population based upon their personal needs. Services provided by our operators or tenants in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Our senior housing property types are further described below:

Assisted Living Facilities. ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with activities of daily living ("ADL"), such as bathing, eating and dressing, yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop

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access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may offer higher levels of personal assistance for residents requiring memory care as a result of Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. At December 31, 2013, we had interests in 366 ALFs.

Independent Living Facilities. ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with ADL. However, in some of our facilities, residents have the option to contract for these services. At December 31, 2013, we had interests in 64 ILFs.

Continuing Care Retirement Communities. CCRCs provide housing and health-related services under long-term contracts. This alternative is appealing to residents as it eliminates the need for relocating when health and medical needs change, thus allowing residents to "age in place." Some CCRCs require a substantial entry or buy-in fee, and most also charge monthly maintenance fees in exchange for a living unit, meals and some health services. CCRCs typically require the individual to be in relatively good health and independent upon entry. At December 31, 2013, we had interests in 14 CCRCs.

Our senior housing segment accounted for approximately 36%, 33% and 30% of total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. The following table provides information about our senior housing operator concentration for the year ended December 31, 2013:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
HCR ManorCare, Inc. ("HCR ManorCare")	10	28(1)
Emeritus Corporation ("Emeritus")	35	13
Sunrise Senior Living Inc. ("Sunrise")(2)	13	5
Brookdale Senior Living, Inc. ("Brookdale")	12	4

(1) Percentage of total revenues includes revenues earned from both senior housing and post-acute/skilled nursing facilities leased to HCR ManorCare.

(2) These concentrations include properties that are leased to tenants who have entered into management contracts with Sunrise to operate the respective property on their behalf.

Post-acute/skilled nursing. At December 31, 2013, we had interests in 302 post-acute/skilled nursing facilities ("SNFs"). SNFs offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and complex treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy, as well as sales of pharmaceutical products and other services. Certain SNFs provide some of the foregoing services on an out-patient basis. Post-acute/skilled nursing services provided by our operators and tenants in these facilities are primarily paid for by private sources or through the Medicare and Medicaid programs. All of our SNFs are triple-net leased to single tenants.

Our post-acute/skilled nursing segment accounted for approximately 29% of total revenues for each of the years ended December 31, 2013, 2012 and 2011. During the year ended December 31, 2013, HCR ManorCare, as our tenant/operator, contributed 83% of our post-acute/skilled nursing segment revenues.

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Life science. At December 31, 2013, we had interests in 115 life science properties, including four facilities owned by our Investment Management Platform. These properties contain laboratory and office space primarily for biotechnology, medical device and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties contain similar characteristics to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating, and air conditioning ("HVAC") systems. The facilities generally have specialty equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives. Life science properties are primarily configured in business park or campus settings and include multiple buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants. Our properties are located in well-established geographical markets known for scientific research, including San Francisco, San Diego and Salt Lake City. At December 31, 2013, 96% of our life science properties were triple-net leased (based on leased square feet).

Our life science segment accounted for approximately 14%, 15% and 17% of total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. The following table provides information about our life science tenant concentration for the year ended December 31, 2013:

Tenants	**Percentage of Segment Revenues**	**Percentage of Total Revenues**
Amgen, Inc.	18	3
Genentech, Inc.	18	3

Medical office. At December 31, 2013, we had interests in 272 medical office buildings ("MOBs"), including 66 facilities owned by our Investment Management Platform. These facilities typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain "vaults" or other specialized construction. Our MOBs are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices), with approximately 77% of our MOBs, based on square feet, located on hospital campuses and 94% are affiliated with hospital systems. At December 31, 2013, 47% of our medical office buildings were triple-net leased (based on leased square feet).

Our medical office segment accounted for approximately 17%, 18% and 19% of total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. During the year ended December 31, 2013, HCA, Inc. ("HCA"), as our tenant, contributed 14% of our medical office segment revenues.

Hospital. At December 31, 2013, we had interests in 20 hospitals, including four facilities owned by our Investment Management Platform. Services provided by our operators and tenants in these facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations or "HMOs"), or through the Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. Our hospitals are generally leased to single tenants or operators under triple-net lease structures.

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Our hospital segment accounted for approximately 4%, 5% and 5% of total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. The following table provides information about our hospital tenant/operator concentration for the year ended December 31, 2013:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
HCA[(1)]	17	3
Tenet Healthcare Corporation	32	1

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and hospital segments.

Investment Products

Properties under lease. We primarily generate revenue from properties under long-term leases. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for a substantial recovery of property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. However, some of our MOB and life science facility rents are structured under gross or modified gross leases. Accordingly, for such gross or modified gross leases, we incur the property operating expenses.

Our ability to grow income from leased properties depends, in part, on our ability to (i) increase rental income and other earned income by increasing rental rates and occupancy levels, (ii) maximize tenant recoveries and (iii) control non-recoverable operating expenses. Most of our leases include contractual annual base rent escalation clauses that are either predetermined fixed increases or are a function of an inflation index, which may include minimum and/or maximum percentage increases.

Debt investments. Our mezzanine loans are generally secured by a pledge of ownership interests of an entity or entities, which directly or indirectly own properties, and are subordinate to other debt, including mortgages and other mezzanine loans. Our mortgage and construction loans are typically made to healthcare providers, and healthcare real estate generally secures these loans.

Developments and redevelopments. We generally commit to development projects that are at least 50% pre-leased or when we believe that market conditions will support speculative construction. We work closely with our local real estate service providers, including brokerage, property management, project management and construction management companies to assist us in evaluating development proposals and completing developments. Our development and redevelopment investments are primarily in our life science and medical office segments. Redevelopments are properties that require significant capital expenditures (generally more than 25% of acquisition cost or existing basis) to renovate, achieve stabilization or to change the primary use of the property.

Investment management. We co-invest in real estate properties with institutional investors through joint ventures structured as partnerships or limited liability companies. We target institutional investors with long-term investment horizons who seek to benefit from our expertise in healthcare real estate. Predominantly, we retain noncontrolling interests in the joint ventures ranging from 20% to 30% and serve as the managing member. These ventures generally allow us to earn acquisition and asset management fees, and have the potential for promoted interests or incentive distributions based on performance of the joint venture.

Our Investment Management Platform represents the following unconsolidated joint ventures: (i) HCP Ventures III, LLC, and HCP Ventures IV, LLC, which consists of MOB portfolios, and (ii) the HCP Life Science ventures. For a more detailed description of these unconsolidated joint ventures, see Note 8 to the Consolidated Financial Statements.

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Operating properties ("RIDEA"). We may enter into contracts with healthcare operators to manage communities that are placed in a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as "RIDEA"). Under the provisions of RIDEA, a REIT may lease "qualified healthcare properties" on an arm's length basis to a taxable REIT subsidiary ("TRS") if the property is operated on behalf of such subsidiary by a person who qualifies as an "eligible independent contractor." We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points and to drive growth by: (i) transitioning the asset to a new operator that can bring scale, operating efficiencies, and/or ancillary services; or (ii) investing capital to reposition the asset.

Portfolio Summary

At December 31, 2013, we managed $21.7 billion of investments in our Owned Portfolio and Investment Management Platform. At December 31, 2013, we also owned $517 million of assets under development, redevelopment, and land held for future development.

Owned Portfolio

As of December 31, 2013, our leases, operating properties and debt investments in our Owned Portfolio consisted of the following (square feet and dollars in thousands):

			Investment(3)				
Segment	Number of Properties(1)	Capacity(2)	Properties(1)	Debt	Total Investment	NOI(4)	Interest Income(5)
Senior housing	444	45,582 Units	$ 7,654,129	$ 164,663	$ 7,818,792	$ 653,191	$ 11,621
Post-acute/skilled	302	38,566 Beds	5,755,824	427,356	6,183,180	539,320	73,595
Life science	111	7,080 Sq. ft.	3,439,319		3,439,319	239,923	
Medical office	206	14,094 Sq. ft.	2,663,101		2,663,101	212,958	
Hospital	16	2,221 Beds	592,360	18,071	610,431	68,198	943
Total	1,079		$ 20,104,733	$ 610,090	$ 20,714,823	$ 1,713,590	$ 86,159

(1) Represents 1,059 properties under lease with an investment value of $19.3 billion and 20 operating properties under a RIDEA structure with an investment value of $768 million.

(2) Senior housing facilities are measured in available units (e.g., studio, one or two bedroom units). Life science facilities and medical office buildings are measured in square feet. SNFs and hospitals are measured in available bed count.

(3) Property investment represents: (i) the carrying amount of real estate and intangibles, after adding back accumulated depreciation and amortization; and (ii) the carrying amount of direct financing leases. Debt investment represents the carrying amount of mezzanine, mortgage and other secured loan investments.

(4) Net Operating Income from Continuing Operations ("NOI") is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate properties. For the reconciliation of NOI to net income for 2013, refer to Note 14 to the Consolidated Financial Statements.

(5) Interest income represents interest earned from our debt investments.

See Note 14 to the Consolidated Financial Statements for additional information on our business segments.

Developments and Redevelopments

At December 31, 2013, in addition to our investments in leased properties and debt investments, we had an aggregate investment of $517 million in assets under development, redevelopment, and land held for future development, primarily in our life science and medical office segments.

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Investment Management Platform

As of December 31, 2013, our Investment Management Platform consisted of the following properties under lease (square feet and dollars in thousands):

Segment	Number of Properties	Capacity	HCP's Ownership Interest	Joint Venture Investment[1]	Total Revenues	Total Operating Expenses
Medical office	66	3,389 Sq. ft.	20 - 30%	$ 739,493	$ 71,755	$ 31,250
Life science	4	278 Sq. ft.	50 - 63%	145,410	10,867	1,889
Hospital	4	149 Beds	20%	77,610	7,550	986
Total	74			$ 962,513	$ 90,172	$ 34,125

(1) Represents the joint ventures' carrying amount of real estate and intangibles, after adding back accumulated depreciation and amortization.

Employees of HCP

At December 31, 2013, we had 154 full-time employees, none of whom are subject to a collective bargaining agreement.

Government Regulation, Licensing and Enforcement

Overview

Our tenants and operators are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide-ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations and reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under "Risk Factors" in Item 1A.

Based on information primarily provided by our tenants and operators, excluding our medical office segment, at December 31, 2013 we estimate that approximately 17% and 14% of the annualized base rental payments received from our tenants and operators were dependent on Medicare and Medicaid reimbursement, respectively.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

Fraud and Abuse Enforcement

There are various extremely complex federal and state laws and regulations governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and

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fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring *qui tam* or "whistleblower" actions. Many of our operators and tenants are subject to these laws, and may become the subject of governmental enforcement actions if they fail to comply with applicable laws.

Reimbursement

Sources of revenue for many of our tenants and operators include, among others, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as the federal government and many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators.

Healthcare Licensure and Certificate of Need

Certain healthcare facilities in our portfolio are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants' and operators' abilities to expand or change their businesses.

Life Science Facilities

While certain of our life science tenants include some well-established companies, other such tenants are less established and, in some cases, may not yet have a product approved by the Food and Drug Administration, or other regulatory authorities, for commercial sale. Creating a new pharmaceutical product or medical device requires substantial investments of time and money, in part because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance.

Senior Housing Entrance Fee Communities

Certain of our senior housing facilities are operated as entrance fee communities. Generally, an entrance fee is an upfront fee or consideration paid by a resident, a portion of which may be refundable, in exchange for some form of long-term benefit. Some of the entrance fee communities are subject to significant state regulatory oversight, including, for example, oversight of each facility's financial condition, establishment and monitoring of reserve requirements and other financial restrictions, the right of residents to cancel their contracts within a specified period of time, lien rights in favor of the residents, restrictions on change of ownership and similar matters.

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Americans with Disabilities Act (the "ADA")

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our properties and make modifications as appropriate in this respect.

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed or impair the value of the property and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our earnings. For a description of the risks associated with environmental matters, see "Risk Factors" in Item 1A of this report.

ITEM 1A. Risk Factors

The section below discusses the most significant risk factors that may materially adversely affect our business, results of operations and financial condition.

As set forth below, we believe that the risks facing our company generally fall into the following categories:

- Risks related to our business; and
- Risks related to tax matters, including REIT-related risks.

Risks Related to Our Business

Volatility, disruption or uncertainty in the financial markets may impair our ability to raise capital, obtain new financing or refinance existing obligations and fund real estate and development activities.

The global financial markets have experienced pervasive and fundamental disruptions. While these conditions have stabilized since the first quarter of 2009 and the capital markets continue to show signs of improvement, the strength and sustainability of an economic recovery is uncertain. Additional levels of market disruption, volatility or uncertainty could materially adversely impact our ability to raise capital, obtain new financing or refinance our existing obligations as they mature and fund real estate and development activities.

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Market volatility could also lead to significant uncertainty in the valuation of our investments and those of our joint ventures, which may result in a substantial decrease in the value of our properties and those of our joint ventures. As a result, we may not be able to recover the carrying amount of such investments and the associated goodwill, if any, which may require us to recognize impairment charges in earnings.

We rely on external sources of capital to fund future capital needs, and limitations on our access to such capital could have a materially adverse effect on our ability to meet commitments as they become due or make future investments necessary to grow our business.

We may not be able to fund all future capital needs from cash retained from operations. If we are unable to obtain enough internal capital, we may need to rely on external sources of capital (including debt and equity financing) to fulfill our capital requirements. If we cannot access these external sources of capital, we may not be able to make the investments needed to grow our business and to meet our obligations and commitments as they mature. Our access to capital depends upon a number of factors, some of which we have little or no control over, including but not limited to:

- general availability of credit and market conditions, including rising interest rates and increased borrowing cost;
- the market price of the shares of our equity securities and the credit ratings of our debt and preferred securities;
- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- the financial integrity of our lenders, which might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability of the market value of our properties;
- the financial performance and general market perception of our operators, tenants and borrowers;
- changes in the credit ratings on U.S. government debt securities or default or delay in payment by the United States of its obligations; and
- issues facing the healthcare industry, including, but not limited to, healthcare reform and changes in government reimbursement policies.

If our access to capital is limited by these factors or other factors, it could have a material adverse impact on our ability to fund operations, refinance our debt obligations, fund dividend payments, acquire properties and development activities.

Adverse changes in our credit ratings could impair our ability to obtain additional debt and equity financing on favorable terms, if at all, and negatively impact the market price of our securities, including our common stock.

The credit ratings of our senior unsecured debt are based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analyses of us. Our credit ratings can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. There can be no assurance that we will be able to maintain our current credit ratings, and in the event that our current credit ratings deteriorate, we would likely incur higher borrowing costs and it may be more difficult or expensive to obtain

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additional financing or refinance existing obligations and commitments. Also, a downgrade in our credit ratings would trigger additional costs or other potentially negative consequences under our current and future credit facilities and debt instruments.

Our level of indebtedness may increase and materially adversely affect our future operations.

Our outstanding indebtedness as of December 31, 2013 was approximately $8.7 billion. We may incur additional indebtedness in the future, including in connection with the development or acquisition of assets, which may be substantial. Any significant additional indebtedness could negatively affect the credit ratings of our debt and require us to dedicate a substantial portion of our cash flow to interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital expenditures and acquisitions, or carry out other aspects of our business strategy. Increased indebtedness can also limit our ability to adjust rapidly to changing market conditions, make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

Covenants related to our indebtedness limit our operational flexibility, and breaches of these covenants could materially adversely affect our business, results of operations and financial condition.

Our unsecured credit facilities, unsecured debt securities and secured debt and other indebtedness that we may incur in the future, require or will require us to comply with a number of customary financial and other covenants, such as maintaining certain levels of debt service coverage and leverage ratio, tangible net worth requirements and maintaining REIT status. Our continued ability to incur additional debt and to conduct business in general is subject to compliance with these financial and other covenants, which limit our operational flexibility. For example, mortgages on our properties contain customary covenants such as those that limit or restrict our ability, without the consent of the lender, to further encumber or sell the applicable properties, or to replace the applicable tenant or operator. Breaches of certain covenants may result in defaults under the mortgages on our properties and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee. Additionally, defaults under the leases or operating agreements related to mortgaged properties, including defaults associated with the bankruptcy of the applicable tenant or operator, may result in a default under the underlying mortgage and cross-defaults under certain of our other indebtedness. Covenants that limit our operational flexibility as well as defaults under our debt instruments could materially adversely affect our business, results of operations and financial condition.

An increase in interest rates could increase interest cost on new debt, and could materially adversely impact our ability to refinance existing debt, sell assets and limit our acquisition, investment and development activities.

If interest rates increase, so could our interest costs for any new debt. This increased cost could make the financing of any acquisition and development activity more costly. Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, primarily interest rate swap agreements. However, no amount of hedging activity can fully insulate us from the risks associated with changes in interest rates. Swap agreements involve risk, including that counterparties may fail to honor their

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obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes, that the amount of income we earn from hedging transactions may be limited by federal tax provisions governing REITs, and that these arrangements may cause us to pay higher interest rates on our debt obligations than would otherwise be the case. Failure to hedge effectively against interest rate risk, if we choose to engage in such activities, could adversely affect our results of operations and financial condition.

We may be adversely affected by fluctuations in currency exchange rates.

We continue to pursue growth opportunities in international markets where the U.S. dollar is not the denominated currency. The ownership of investments located outside of the United States subjects us to risk from fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant change in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our financial position, debt covenant ratios, results of operations and cash flow.

We may attempt to manage the impact of foreign currency exchange rate changes through the use of derivative contracts or other methods. For example, we have a £137 million GBP investment ($227 million at December 31, 2013) and maintain a £137 million unsecured GBP term loan as a natural hedge. Additionally, we executed a currency swap contract to hedge the risk related to a portion of the forecasted interest receipts on this investment. However, no amount of hedging activity can fully insulate us from the risks associated with changes in foreign currency exchange rates, and the failure to hedge effectively against foreign currency exchange rate risk, if we choose to engage in such activities, could materially adversely affect our results of operations and financial condition.

We depend on a limited number of operators and tenants that account for a large percentage of our revenues.

During the year ended December 31, 2013, approximately 50% of our revenues were generated by our leasing or financial arrangements with the following four companies: HCR ManorCare (28%); Emeritus (13%); Sunrise (5%); and Brookdale (4%). The failure, inability or unwillingness of these operators or tenants to meet their obligations to us could materially reduce our cash flow as well as our results of operations, which could in turn reduce the amount of dividends we pay, cause our stock price to decline and have other material adverse effects on our business, results of operations and financial condition.

In addition, any failure by these operators or tenants to effectively conduct their operations or to maintain and improve our properties could adversely affect their business reputation and their ability to attract and retain patients and residents in our properties, which could have a material adverse effect on our business, results of operations and financial condition. These operators and tenants generally have also agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, and we cannot provide any assurance that they will have sufficient assets, income, access to financing and insurance coverage to enable it to satisfy its indemnification obligations.

Economic and other conditions that negatively affect geographic areas to which a greater percentage of our revenue is attributed could materially adversely affect our business, results of operations and financial condition.

For the year ended December 31, 2013, approximately 41% of our revenue was derived from properties located in California (21%), Texas (11%) and Florida (9%). As a result, we are subject to increased exposure to adverse conditions affecting these regions, including downturns in the local

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economies or changes in local real estate conditions, increased competition or decreased demand, and changes in state-specific legislation, which could adversely affect our business and results of operations.

The bankruptcy, insolvency or financial deterioration of one or more of our major operators or tenants may materially adversely affect our business, results of operations and financial condition.

We lease our properties directly to operators in most cases, and in certain other cases, we lease to third-party tenants who enter into long-term management agreements with operators to manage the properties. Although our leases, financing arrangements and other agreements with our tenants and operators generally provide us the right under specified circumstances to terminate a lease, evict an operator or tenant, or demand immediate repayment of certain obligations to us, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or at the least, delay our ability to pursue such remedies. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing. A debtor has the right to assume, or to assume and assign to a third party, or to reject its unexpired contracts in a bankruptcy proceeding. If a debtor were to reject its leases with us, our claim against the debtor for unpaid and future rents would be limited by the statutory cap set forth in the U.S. Bankruptcy Code, which may be substantially less than the remaining rent actually owed under the lease. In addition, the inability of our tenants or operators to make payments or comply with certain other lease obligations may affect our compliance with certain covenants contained in our debt securities, credit facilities and the mortgages on the properties leased or managed by such tenants and operators. In addition, under certain conditions, defaults under the underlying mortgages may result in cross-default under our other indebtedness. Although we believe that we would be able to secure amendments under the applicable agreements in those circumstances, the bankruptcy of an applicable operator or tenant may potentially result in less favorable borrowing terms than currently available, delays in the availability of funding or other material adverse consequences. In addition, many of our facilities are leased to healthcare providers who provide long-term custodial care to the elderly; evicting such operators for failure to pay rent while the facility is occupied may be a difficult and slow process and may not be successful.

Our operators and tenants may not procure the necessary insurance to adequately insure against losses.

Our leases generally require our tenants and operators to secure and maintain comprehensive liability and property insurance that covers us, as well as the tenants and operators. Certain losses may not be adequately insured by our tenants and operators. Should an uninsured loss or a loss in excess of insured limits occur, we could incur liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We continually review the insurance maintained by our tenants and operators and believe the coverage provided to be customary for similarly situated companies in our industry. However, we cannot provide any assurances that we will continue to require the same level of insurance coverage of our tenants and operators, or that such insurance will be available at a reasonable cost in the future. Also, we cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Our operators and tenants are faced with litigation and may experience rising liability and insurance costs.

In some states, advocacy groups have been created to monitor the quality of care at healthcare facilities and these groups have brought litigation against the operators and tenants of such facilities. Also, in several instances, private litigation by patients has succeeded in winning large damage awards for alleged abuses. The effect of this litigation and other potential litigation may materially increase the costs incurred by our operators and tenants for monitoring and reporting quality of care compliance. In

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addition, their cost of liability and medical malpractice insurance can be significant and may increase or even not be available at a reasonable cost so long as the present healthcare litigation environment continues. Cost increases could cause our operators to be unable to make their lease or mortgage payments or fail to purchase the appropriate liability and malpractice insurance, potentially decreasing our revenues and increasing our collection and litigation costs. In addition, as a result of our ownership of healthcare facilities, we may be named as a defendant in lawsuits allegedly arising from the actions of our operators or tenants, for which claims such operators and tenants have agreed to indemnify, defend and hold us harmless from and against, but which may require unanticipated expenditures on our part.

Operators and tenants that fail to comply with the requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may cease to operate or be unable to meet their financial and other contractual obligations to us.

Certain of our operators and tenants are affected by an extremely complex set of federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. See "Item 1 Business Government Regulation, Licensing and Enforcement" above. For example, to the extent that any of our operators or tenants receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to:

- statutory and regulatory changes;
- retroactive rate adjustments;
- recovery of program overpayments or set-offs;
- administrative rulings;
- policy interpretations;
- payment or other delays by fiscal intermediaries or carriers;
- government funding restrictions (at a program level or with respect to specific facilities); and
- interruption or delays in payments due to any ongoing governmental investigations and audits at such property.

In recent years, governmental payors have frozen or reduced payments to healthcare providers due to budgetary pressures. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our operators' and tenants' costs of doing business and on the amount of reimbursement by government and other third-party payors. The failure of any of our operators or tenants to comply with these laws, requirements and regulations could materially adversely affect their ability to meet their financial and contractual obligations to us.

Legislation to address federal government operations and Administration decisions affecting the Centers for Medicare and Medicaid Services could have a material adverse effect on our operators' liquidity, financial condition or results of operations.

Enactment of the Consolidated Appropriations Act of 2014 and Congressional consideration of legislation pertaining to the federal debt ceiling, the Affordable Care Act, tax reform, and entitlement programs, including reimbursement rates for physicians, could have a material adverse effect on our operators' liquidity, financial condition or results of operations. In particular, funding for entitlement programs such as Medicare and Medicaid may result in increased costs and fees for programs such as

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Medicare Advantage Plans and reductions in reimbursements to providers; Congressional action related to the federal debt ceiling may have an impact on credit markets; tax reform may impact corporate and individual tax rates as well as impact retirement plans. Additionally, amendments to the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"), implementation of the Affordable Care Act by the Administration, and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans. Such changes could have a material adverse effect on our operators' liquidity, financial condition or results of operations, which could adversely affect their ability to satisfy their obligations to us and could have a material adverse effect on us.

Operators and tenants that fail to comply with federal, state and local licensure, certification and inspection laws and regulations may cease to operate or be unable to meet their financial and other contractual obligations to us.

Certain of our operators and tenants are subject to extensive federal, state, local and industry-related licensure, certification and inspection laws, regulations and standards. Our operators' or tenants' failure to comply with any of these laws, regulations or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility and/or the incurrence of considerable costs arising from an investigation or regulatory action. For example, certain of our properties may require a license, registration and/or certificate of need to operate. Failure of any operator or tenant to obtain a license, registration or certificate of need, or loss of a required license, registration or certificate of need, would prevent a facility from operating in the manner intended by such operator or tenant. Additionally, failure of our operators and tenants to generally comply with applicable laws and regulations may have an adverse effect on facilities owned by or mortgaged to us, and therefore may materially adversely impact us. See "Item 1 Business Government Regulation, Licensing and Enforcement Healthcare Licensure and Certificate of Need" above.

Increased competition, as well as an inability to grow revenues as originally forecast, has resulted and may further result in lower net revenues for some of our operators and tenants and may affect their ability to meet their financial and other contractual obligations to us.

The healthcare industry is highly competitive and can become more competitive in the future. The occupancy levels at, and rental income from, our facilities is dependent on our ability and the ability of our operators and tenants to maintain and increase such levels and income and to compete with entities that have substantial capital resources. These entities compete with other operators and tenants on a number of different levels, including the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location and the size and demographics of the population in the surrounding area. Private, federal and state payment programs and the effect of laws and regulations may also have a significant influence on the profitability of the properties and their tenants. Our operators and tenants also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. Such competition, which is due, in part, to historical over-development in some segments in which we invest, has caused the occupancy rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing facilities were able to obtain for their services to decrease. We cannot be certain that the operators and tenants of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our operators and tenants. Thus, our operators and tenants may encounter increased competition in the future that could

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limit their ability to maintain or attract residents or expand their businesses which could materially adversely affect their ability to meet their financial and other contractual obligations to us, potentially decreasing our revenues, impairing our assets, and increasing our collection and dispute costs.

Our tenants in the life science industry face high levels of regulation, expense and uncertainty.

Life science tenants, particularly those involved in developing and marketing pharmaceutical products, are subject to certain unique risks, as follows:

- some of our tenants require significant outlays of funds for the research, development and clinical testing of their products and technologies. If private investors, the government or other sources of funding are unavailable to support such activities, a tenant's business may be adversely affected or fail;

- the research, development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals which may be costly or difficult to obtain;

- even after a life science tenant gains regulatory approval and market acceptance, the product may still present significant regulatory and liability risks, including, among others, the possible later discovery of safety concerns, competition from new products, and ultimately the expiration of patent protection for the product;

- our tenants with marketable products may be adversely affected by healthcare reform and the reimbursement policies of government or private healthcare payors; and

- our tenants may be unable to adequately protect their intellectual property under patent, copyright or trade secret laws.

We cannot assure you that our life science tenants will be successful in their businesses. If our tenants' businesses are adversely affected, they may have difficulty making payments to us, which could materially adversely affect our business, results of operations and financial condition.

We may be unable to successfully foreclose on the collateral securing our real estate-related loans, and even if we are successful in our foreclosure efforts, we may be unable to successfully operate, occupy or reposition the underlying real estate, which may adversely affect our ability to recover our investments.

If an operator or tenant defaults under one of our mortgages or mezzanine loans, we may have to foreclose on the loan or protect our interest by acquiring title to the collateral and thereafter making substantial improvements or repairs in order to maximize the property's investment potential. In some cases, as noted above, the collateral consists of the equity interests in an entity that directly or indirectly owns the applicable real property or interests in operating facilities and, accordingly, we may not have full recourse to assets of that entity. Operators, tenants or borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Foreclosure-related costs, high loan-to-value ratios or declines in the value of the facility may prevent us from realizing an amount equal to our mortgage or mezzanine loan upon foreclosure, and we may be required to record a valuation allowance for such losses. Even if we are able to successfully foreclose on the collateral securing our real estate-related loans, we may inherit properties for which we may be unable to expeditiously seek tenants or operators, if at all, or equity interests that we are unable to immediately resell due to limitations under the securities laws, either of which would adversely affect our ability to fully recover our investment.

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Required regulatory approvals can delay or prohibit transfers of our healthcare facilities.

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals under certificate of need laws and Medicare and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability, require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, or spend substantial time and funds to adapt the facility to other uses, all of which may materially adversely affect our business, results of operations, and financial condition.

Competition may make it difficult to identify and purchase, or develop, suitable healthcare facilities to grow our investment portfolio.

We face significant competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected.

We may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other operators and tenants.

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific. A new or replacement operator or tenant may require different features in a property, depending on that operator's or tenant's particular business. If a current operator or tenant is unable to pay rent and/or vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another operator or tenant. Also, if the property needs to be renovated to accommodate multiple operators or tenants, we may incur substantial expenditures before we are able to re-lease the space. These expenditures or renovations may materially adversely affect our business, results of operations and financial condition.

We face additional risks associated with property development that can render a project less profitable or not profitable at all and, under certain circumstances, prevent completion of development activities once undertaken.

Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;

- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;

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- construction and/or permanent financing may not be available on favorable terms or at all;
- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war, which can result in increases in construction costs and debt service expenses or provide tenants or operators with the right to terminate pre-construction leases; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our use of joint ventures may limit our flexibility with jointly owned investments.

We have and may continue in the future to develop and/or acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to risks that may not be present with other methods of ownership, including:

- we could experience an impasse on certain decisions because we do not have sole decision-making authority, which could require us to expend additional resources on resolving such impasses or potential disputes, including litigation or arbitration;
- our joint venture partners could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments;
- our ability to transfer our interest in a joint venture to a third party may be restricted;
- our joint venture partners might become bankrupt, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner, which may require us to infuse our own capital into the venture on behalf of the partner despite other competing uses for such capital; and
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

From time to time, we acquire other companies and if we are unable to successfully integrate these operations, our business, results of operations and financial condition may be materially adversely affected.

Acquisitions require the integration of companies that have previously operated independently. Successful integration of the operations of these companies depends primarily on our ability to consolidate operations, systems, procedures, properties and personnel and to eliminate redundancies and costs. We may encounter difficulties in these integrations. Potential difficulties associated with acquisitions include the loss of key employees, the disruption of our ongoing business or that of the acquired entity, possible inconsistencies in standards, controls, procedures and policies and the assumption of unexpected liabilities, including:

- liabilities relating to the clean-up or remediation of undisclosed environmental conditions;

unasserted claims of vendors or other persons dealing with the seller;

liabilities, claims and litigation, whether or not incurred in the ordinary course of business, relating to periods prior to our acquisition;

claims for indemnification by general partners, directors, officers and others indemnified by the seller; and liabilities for taxes relating to periods prior to our acquisition.

In addition, the acquired companies and their properties may fail to perform as expected, including in respect of estimated cost savings. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring properties up to standards established for their intended use. If we have difficulties with any of these areas, or if we later discover additional liabilities or experience unforeseen costs relating to our acquired companies, we might not achieve the economic benefits we expect from our acquisitions, and this may materially adversely affect our business, results of operations and financial condition.

From time to time we have made, and in the future we may seek to make, one or more material acquisitions, which may involve the expenditure of significant funds.

We regularly review potential transactions in order to maximize stockholder value and believe that currently there are available a number of acquisition opportunities that would be complementary to our business, given the recent industry consolidation trend. In connection with our review of such transactions, we regularly engage in discussions with potential acquisition candidates, some of which are material. Any future acquisitions could require the issuance of securities, the incurrence of debt, assumption of contingent liabilities or incurrence of significant expenditures, any of which could materially adversely impact our business, financial condition or results of operations. In addition, the financing required for such acquisitions may not be available on commercially favorable terms or at all.

Loss of our key personnel could temporarily disrupt our operations and adversely affect us.

We are dependent on the efforts of our executive officers, and competition for these individuals is intense. Although our chief executive officer, chief financial officer, chief investment officer and general counsel have employment agreements with us, we cannot assure you that they will remain employed with us. The loss or limited availability of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have a material adverse effect on our business, results of operations and financial condition and the value of our common stock.

Unfavorable resolution of litigation matters and disputes, could have a material adverse effect on our financial condition.

From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits allegedly arising out of our actions or the actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. An unfavorable resolution of litigation may have a material adverse effect on our business, results of operations and financial condition. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, litigation. In addition, litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

We may experience uninsured or underinsured losses, which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expense.

We maintain comprehensive insurance coverage on our properties with terms, conditions, limits and deductibles that we believe are adequate and appropriate given the relative risk and costs of such coverage, and we continually review the insurance maintained by us. However, a large number of our properties are located in areas exposed to earthquake, windstorm, flood and other natural disasters and may be subject to other losses. In particular, our life science portfolio is concentrated in areas known to be subject to earthquake activity. While we purchase insurance for earthquake, windstorm, flood and other natural disasters that we believe is adequate in light of current industry practice and analyses prepared by outside consultants, there is no assurance that such insurance will fully cover such losses. These losses can decrease our anticipated revenues from a property and result in the loss of all or a portion of the capital we have invested in a property. Following these events, we may remain obligated for any mortgage debt or other financial obligations related to the property. The insurance market for such exposures can be very volatile and we may be unable to purchase the limits and terms we desire on a commercially reasonable basis in the future. In addition, there are certain exposures where insurance is not purchased as we do not believe it is economically feasible to do so or where there is no viable insurance market.

Environmental compliance costs and liabilities associated with our real estate related investments may materially impair the value of those investments.

Under various federal, state and local laws, ordinances and regulations, as a current or previous owner of real estate, we may be required to investigate and clean up certain hazardous or toxic substances or petroleum released at a property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by the third parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. Although we (i) currently carry environmental insurance on our properties in an amount and subject to deductibles that we believe are commercially reasonable, and (ii) generally require our operators and tenants to undertake to indemnify us for environmental liabilities they cause, such liabilities could exceed the amount of our insurance, the financial ability of the tenant or operator to indemnify us or the value of the contaminated property. The presence of contamination or the failure to remediate contamination may materially adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral. As the owner of a site, we may also be held liable to third parties for damages and injuries resulting from environmental contamination emanating from the site. Although we are generally indemnified by the current operators or tenants of our properties for contamination caused by them, these indemnities may not adequately cover all environmental costs. We may also experience environmental liabilities arising from conditions not known to us.

The impact of the comprehensive healthcare regulation enacted in 2010 on us and operators and tenants cannot accurately be predicted.

Legislative proposals are introduced or proposed in Congress and in some state legislatures each year that would affect major changes in the healthcare system, either nationally or at the state level. Notably, in March 2010, President Obama signed into law the Affordable Care Act. The passage of the Affordable Care Act has resulted in comprehensive reform legislation that is expanding healthcare coverage to millions of currently uninsured people beginning in 2014 and that provides for significant changes to the U.S. healthcare system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various healthcare providers, including long-term acute care hospitals and skilled nursing facilities, as well as certain other changes to Medicare payment methodologies. This comprehensive healthcare legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended. We cannot accurately predict whether any pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our operators and tenants and, thus, our business. Similarly, while we can anticipate that some of the rulemaking that will be promulgated by regulatory authorities

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will affect our operators and tenants and the manner in which they are reimbursed by the federal healthcare programs, we cannot accurately predict today the impact of those regulations on our operators and tenants and thus on our business.

The Supreme Court's decision upholding the constitutionality of the individual mandate while striking down the provisions linking federal funding of state Medicaid programs with a federally mandated expansion of those programs has not reduced the uncertain impact that the law will have on healthcare delivery systems over the next decade. We can expect that the federal authorities will continue to implement the law, but, because of the Supreme Court's mixed ruling, the implementation will take longer than originally expected, with a commensurate increase in the period of uncertainty regarding the law's full long-term financial impact on the delivery of and payment for healthcare.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain provisions of Maryland law and our charter relating to business combinations.

The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding voting stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons.

In addition to the restrictions on business combinations contained in the Maryland Business Combination Act, our charter also contains restrictions on business combinations. Our charter requires that, except in certain circumstances, "business combinations," including a merger or consolidation, and certain asset transfers and issuances of securities, with a "related person," including a beneficial owner of 10% or more of our outstanding voting stock, be approved by the affirmative vote of the holders of at least 90% of our outstanding voting stock.

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The restrictions on business combinations provided under Maryland law and contained in our charter may delay, defer or prevent a change of control or other transaction even if such transaction involves a premium price for our common stock or our stockholders believe that such transaction is otherwise in their best interests.

Risk Related to Tax, including REIT-Related risks

Loss of our tax status as a REIT would substantially reduce our available funds and would have material adverse consequences for us and the value of our common stock.

Qualification as a REIT involves the application of numerous highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code"), for which there are only limited judicial and administrative interpretations, as well as the determination of various factual matters and circumstances not entirely within our control. We intend to continue to operate in a manner that enables us to qualify as a REIT. However, our qualification and taxation as a REIT depend upon our ability to meet, through actual annual operating results, asset diversification, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to our stockholders aggregating annually at least 90% of our REIT taxable income, excluding net capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. Accordingly, there is no assurance that we have operated or will continue to operate in a manner so as to qualify or remain qualified as a REIT.

If we lose our REIT status, we will face serious tax consequences that will substantially reduce the funds available to make payments of principal and interest on the debt securities we issue and to make distributions to stockholders. If we fail to qualify as a REIT:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income;
- we will be subject to corporate-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates;
- we could be subject to increased state and local income taxes; and
- unless we are entitled to relief under relevant statutory provisions, we will be disqualified from taxation as a REIT for the four taxable years following the year during which we fail to qualify as a REIT.

As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could materially adversely affect the value of our common stock.

We could have potential deferred and contingent tax liabilities from corporate acquisitions that could limit, delay or impede future sales of our properties.

If, during the ten-year period beginning on the date we acquire certain companies, we recognize gain on the disposition of any property acquired, then, to the extent of the excess of (i) the fair market value of such property as of the acquisition date over (ii) our adjusted income tax basis in such property as of that date, we will be required to pay a corporate-level federal income tax on this gain at the highest regular corporate rate. There can be no assurance that these triggering dispositions will not occur, and these requirements could limit, delay or impede future sales of our properties.

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In addition, the IRS may assert liabilities against us for corporate income taxes for taxable years prior to the time that we acquire certain companies, in which case we will owe these taxes plus interest and penalties, if any.

There are uncertainties relating to the calculation of non-REIT tax earnings and profits ("E&P") in certain acquisitions, which may require us to distribute E&P.

In order to remain qualified as a REIT, we are required to distribute to our stockholders all of the accumulated non-REIT E&P of certain companies that we acquire, prior to the close of the first taxable year in which the acquisition occurs. Failure to make such E&P distributions would result in our disqualification as a REIT. The determination of the amount to be distributed in such E&P distributions is a complex factual and legal determination. We may have less than complete information at the time we undertake our analysis, or we may interpret the applicable law differently from the IRS. We currently believe that we have satisfied the requirements relating to such E&P distributions. There are, however, substantial uncertainties relating to the determination of E&P, including the possibility that the IRS could successfully assert that the taxable income of the companies acquired should be increased, which would increase our non-REIT E&P. Moreover, an audit of the acquired company following our acquisition could result in an increase in accumulated non-REIT E&P, which could require us to pay an additional taxable distribution to our then-existing stockholders, if we qualify under rules for curing this type of default, or could result in our disqualification as a REIT.

Thus, we might fail to satisfy the requirement that we distribute all of our non-REIT E&P by the close of the first taxable year in which the acquisition occurs. Moreover, although there are procedures available to cure a failure to distribute all of our E&P, we cannot now determine whether we will be able to take advantage of these procedures or the economic impact on us of doing so.

Our charter contains ownership limits with respect to our common stock and other classes of capital stock.

Our charter contains restrictions on the ownership and transfer of our common stock and preferred stock that are intended to assist us in preserving our qualification as a REIT. Under our charter, subject to certain exceptions, no person or entity may own, actually or constructively, more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or any class or series of our preferred stock.

Additionally, our charter has a 9.9% ownership limitation on the direct or indirect ownership of our voting shares, which may include common stock or other classes of capital stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from either ownership limit. The ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We are organized to invest in income-producing healthcare-related facilities. In evaluating potential investments, we consider a multitude of factors, including:

- Location, construction quality, age, condition and design of the property;
- Geographic area, proximity to other healthcare facilities, type of property and demographic profile;
- Whether the expected risk-adjusted return exceeds our cost of capital;

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Whether the rent or operating income provides a competitive market return to our investors;

Duration, rental rates, operator and tenant quality and other attributes of in-place leases, including master lease structures;

Current and anticipated cash flow and its adequacy to meet our operational needs;

Availability of security such as letters of credit, security deposits and guarantees;

Potential for capital appreciation;

Expertise and reputation of the operator or tenant;

Occupancy and demand for similar healthcare facilities in the same or nearby communities;

The mix of revenues generated at healthcare facilities between privately-paid and government reimbursed;

Availability of qualified operators or property managers and whether we can manage the property;

Potential alternative uses of the facilities;

The regulatory and reimbursement environment in which the properties operate;

Tax laws related to REITs;

Prospects for liquidity through financing or refinancing; and

Our access to and cost of capital.

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The following summarizes our property and direct financing lease ("DFL") investments as of and for the year ended December 31, 2013 (square feet and dollars in thousands).

Facility Location	Number of Facilities	Capacity	Gross Asset Value[(1)]	Rental Revenues[(2)]	Operating Expenses
Senior housing real estate:		*(Units)*			
California	34	3,670	$ 632,647	$ 69,314	$ 1,977
Texas	34	4,266	535,010	58,116	
Florida	28	3,570	473,799	45,414	
Oregon	31	2,430	356,955	30,030	276
Virginia	11	1,419	285,770	22,888	51
Washington	20	1,433	235,838	19,075	1
Colorado	7	1,069	212,622	20,069	
Illinois	11	999	194,419	17,582	
New Jersey	8	802	176,332	12,832	62
Georgia	19	1,108	162,435	12,624	3
Other (31 States)	128	12,271	1,821,104	176,335	1,041
	331	33,037	5,086,931	484,279	3,411
Senior housing RIDEA:					
Other (6 States)	20	4,618	701,478	145,938	91,879
Senior housing DFLs[(3)]:					
Maryland	13	1,089	252,037	20,603	2
New Jersey	8	676	189,252	14,784	121
Illinois	10	938	176,654	14,440	
Florida	14	1,203	160,446	13,195	63
Pennsylvania	10	725	145,997	12,365	
Ohio	11	961	141,031	11,100	25
Other (12 States)	27	2,335	414,767	32,090	102
	93	7,927	1,480,184	118,577	313
Total senior housing	444	45,582	$ 7,268,593	$ 748,794	$ 95,603
Post-acute/skilled nursing real estate:		*(Beds)*			
Virginia	9	932	$ 58,377	$ 6,853	$
Indiana[(4)]	8	873	46,964	8,326	
Ohio	6	577	30,863	4,952	11
Nevada	2	303	16,363	3,050	
Colorado	2	216	13,800	1,800	
Other (6 States)	7	717	25,314	4,201	2,002
	34	3,618	191,681	29,182	2,013
Post-acute/skilled nursing DFLs[(3)]:					
Pennsylvania	43	6,916	1,235,099	116,981	
Illinois	26	3,244	716,196	65,492	
Ohio	44	5,005	653,493	60,958	133
Michigan	27	3,159	590,477	53,193	
Florida	27	3,491	557,271	51,683	10

Other (24 States)	101	13,133		1,796,788		164,316		329
	268	34,948		5,549,324		512,623		472
Total post-acute/skilled nursing	302	38,566	$	5,741,005	$	541,805	$	2,485

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Facility Location	Number of Facilities	Capacity	Gross Asset Value[1]	Rental Revenues[2]	Operating Expenses
Life science:		*(Sq. Ft.)*			
California	100	6,326	$ 3,071,261	$ 279,378	$ 54,005
Utah	10	669	114,480	15,658	1,924
Other (2 States)[4]	1	85	38,720	1,843	1,027
Total life science	111	7,080	$ 3,224,461	$ 296,879	$ 56,956
Medical office:		*(Sq. Ft.)*			
Texas	48	4,280	$ 686,752	$ 98,876	$ 44,851
California	15	871	224,462	26,301	12,349
Utah	28	1,292	194,044	26,780	7,842
Colorado	16	1,080	191,322	27,897	11,351
Washington	6	651	156,622	28,798	10,664
Tennessee	16	1,373	148,759	26,371	11,307
Other (21 States and Mexico)[4]	77	4,547	807,710	117,311	41,012
Total medical office	206	14,094	$ 2,409,671	$ 352,334	$ 139,376
Hospital:		*(Beds)*			
Texas	4	906	$ 230,019	$ 17,027	$ 3,683
California	2	111	143,500	18,654	
Louisiana	2	79	31,616	2,699	121
Other (5 States)	5	369	57,125	10,677	
	13	1,465	$ 462,260	$ 49,057	$ 3,804
Hospital DFLs[3]:					
Other (3 States)	3	756	123,891	23,003	58
Total hospital	16	2,221	$ 586,151	$ 72,060	$ 3,862
Total properties	1,079		$ 19,229,881	$ 2,011,872	$ 298,282

(1)

Represents gross real estate and the carrying value of DFLs. Gross real estate represents the carrying amount of real estate after adding back accumulated depreciation and amortization.

(2)
Rental revenues represent the combined amount of rental and related revenues, tenant recoveries, resident fees and services and income from direct financing leases.

(3)
Represents leased properties that are classified as DFLs.

(4)
Includes properties with a portion that has been taken out of redevelopment and placed into service.

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The following table summarizes occupancy and average annual rent trends for our owned portfolio for the years ended December 31, (square feet in thousands):

	2013	2012	2011	2010	2009
Senior housing[(1)]:					
Average annual rent per unit[(2)]	$ 13,174	$ 13,140	$ 14,431	$ 12,675	$ 11,936
Average capacity (units)[(3)]	45,400	36,694	30,167	24,356	24,112
Post-acute/skilled nursing[(1)]:					
Average annual rent per bed[(2)]	$ 12,218	$ 11,802	$ 12,669	$ 7,118	$ 7,063
Average capacity (beds)[(3)]	38,464	38,459	26,167	3,675	3,644
Life science:					
Average occupancy percentage	92%	90%	90%	89%	91%
Average annual rent per square foot[(2)]	$ 44	$ 45	$ 44	$ 44	$ 43
Average occupied square feet[(3)]	6,480	6,250	6,076	5,740	5,554
Medical office:					
Average occupancy percentage	91%	91%	91%	91%	91%
Average annual rent per square foot[(2)]	$ 27	$ 27	$ 27	$ 26	$ 26
Average occupied square feet[(3)]	12,767	12,147	11,721	11,437	11,431
Hospital[(1)]*:*					
Average annual rent per bed[(2)]	$ 38,437	$ 37,679	$ 36,974	$ 36,273	$ 32,984
Average capacity (beds)[(3)]	2,175	2,087	2,084	2,064	2,041

(1) Senior housing includes average units of 4,620, 4,626 and 1,545 for the years ended December 31, 2013, 2012 and 2011, respectively, that are in a RIDEA structure in which resident occupancy impacts our annual revenue. The average resident occupancy for these units was 88%, 86% and 86% for the years ended December 31, 2013, 2012 and 2011, respectively. All other senior housing, post-acute/skilled nursing and hospital facilities are generally triple-net leased to single tenants, which were substantially 100% leased.

(2) Average annual rent is presented as a ratio of revenues comprised of rental and related revenues, tenant recoveries and income from direct financing leases divided by the average capacity or average occupied square feet of the facilities and annualized for mergers and acquisitions for the year in which they occurred. Average annual rent for leased properties (including DFLs) excludes termination fees and non-cash revenue adjustments (i.e., straight-line rents, amortization of above and below market lease intangibles and DFL interest accretion). Average annual rent for properties operated under a RIDEA structure is calculated based on NOI divided by the average capacity of the facilities.

(3) Capacity for senior housing facilities is measured in available units (e.g., studio, one or two bedroom units). Capacity for post-acute/skilled nursing and hospitals is measured in available bed count. Capacity for life science facilities and MOBs is measured in square feet. Average capacity for senior housing, post-acute/skilled nursing and hospitals is as reported by the respective tenants or operators for the twelve month period and one quarter in arrears from the periods presented.

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Development Properties

The following table sets forth the properties owned by us in our life science, medical office and hospital segments as of December 31, 2013 that are currently under development or redevelopment (dollars and square feet in thousands):

Name of Project	Location	Estimated Completion Date(1)	Estimated Rentable Sq. Ft.	Investment To Date	Estimated Total Investment
Life science:					
Durham Research Lab(2)	Durham, NC	1Q 2014	28	$ 14,236	$ 17,072
Ridgeview	Poway, CA	2Q 2014	115	14,457	22,937
Carmichael II(2)	Durham, NC	4Q 2014	77	9,447	29,733
1030 Massachusetts Avenue(2)	Cambridge, MA	1Q 2015	53	26,041	29,013
Medical office:					
Alaska(2)	Anchorage, AK	1Q 2014	32	8,046	9,561
Folsom	Sacramento, CA	1Q 2014	92	37,005	39,251
Bayfront(2)	St. Petersburg, FL	4Q 2014	135	12,493	21,850
Delta Point(2)	Las Vegas, NV	4Q 2014	60	18,111	23,111
Post-acute/skilled nursing:					
Anderson II	Anderson, IN	1Q 2014	N/A	7,185	9,090
				$ 147,021	$ 201,618

(1) For development projects, management's estimate of the date the core and shell structure improvements are expected to be completed. For redevelopment projects, management's estimate of the time in which major construction activity in relation to the scope of the project has been substantially completed. There are no assurances that any of these projects will be completed on schedule or within estimated amounts.

(2) Represents a portion of the facility.

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Tenant Lease Expirations

The following table shows tenant lease expirations, including those related to DFLs, for the next 10 years and thereafter at our leased properties, assuming that none of the tenants exercise any of their renewal options (dollars and square feet in thousands). See "Tenant Purchase Options" section of Note 12 to the Consolidated Financial Statements for additional information on leases subject to purchase options.

		Expiration Year										
Segment	**Total**	**2014[(1)]**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
Senior housing[(2)]:												
Properties	424		1	14	8	37	10	43	16	3	8	284
Base rent[(3)]	$ 551,615	$	$ 214	$ 16,838	$ 10,574	$ 79,050	$ 14,884	$ 68,823	$ 18,224	$ 3,221	$ 22,991	$ 316,796
% of segment base rent	100			3	2	14	3	12	3	1	4	58
Post-acute/skilled:												
Properties	302		1	1		2	21	5		4		268
Base rent[(3)]	$ 473,686	$	$ 462	$ 330	$	$ 1,139	$ 18,415	$ 5,513	$	$ 3,179	$	$ 444,648
% of segment base rent	100						4	1		1		94
Life science:												
Square feet	6,545	420	714	382	852	613	259	974	557	280	769	725
Base rent[(3)]	$ 241,193	$ 9,489	$ 24,352	$ 9,872	$ 28,901	$ 28,182	$ 7,916	$ 44,928	$ 31,633	$ 8,618	$ 32,969	$ 14,333
% of segment base rent	100	4	10	4	12	12	3	19	13	3	14	6
Medical office:												
Square feet	12,921	2,516	1,654	1,547	1,626	1,667	903	1,113	436	553	335	571
Base rent[(3)]	$ 288,780	$ 56,917	$ 38,014	$ 34,238	$ 37,165	$ 35,904	$ 19,701	$ 23,172	$ 10,442	$ 12,831	$ 7,159	$ 13,237
% of segment base rent	100	20	13	12	13	12	7	8	4	4	2	5
Hospital:												
Properties	17				3		5	1	1	2		5
Base rent[(3)]	$ 66,842	$	$	$	$ 10,153	$	$ 7,194	$ 5,471	$ 1,118	$ 8,906	$	$ 34,000
% of segment base rent	100				15		11	8	2	13		51
Total:												
Base rent[(3)]	$ 1,622,116	$ 66,406	$ 63,042	$ 61,278	$ 86,793	$ 144,275	$ 68,110	$ 147,907	$ 61,417	$ 36,755	$ 63,119	$ 823,014
% of total base rent	100	4	4	4	5	9	4	9	4	2	4	51

(1) Includes month-to-month leases.

(2) Excludes RIDEA facilities with annualized NOI of $53.3 million.

(3) The most recent month's (or subsequent month's if acquired in the most recent month) base rent including additional rent floors and cash income from direct financing leases annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of above and below market lease intangibles, DFL interest accretion and deferred revenues).

The following is a graphical presentation of our total tenant lease expirations (as presented above) for the next 10 years and thereafter at our leased properties, assuming that none of the tenants exercise any of their renewal options (dollars in millions):

We specifically incorporate by reference into this section the information set forth in Schedule III: Real Estate and Accumulated Depreciation, included in this report.

ITEM 3. Legal Proceedings

We are involved from time-to-time in legal proceedings that arise in the ordinary course of our business, including, but not limited to commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such existing legal proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

See litigation matter under the heading "Legal Proceedings" of Note 12 to the Consolidated Financial Statements for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

ITEM 4. Mine Safety Disclosures

None.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange. Set forth below for the fiscal quarters indicated are the reported high and low sales prices per share of our common stock on the New York Stock Exchange.

	2013		2012		2011	
	High	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	$ 49.91	$ 45.22	$ 42.75	$ 38.72	$ 38.29	$ 35.81
Second Quarter	56.06	41.50	44.15	37.81	40.75	35.00
Third Quarter	47.45	38.93	47.75	43.59	38.23	28.76
Fourth Quarter	43.29	35.50	46.15	43.31	41.98	32.66

At January 31, 2014, we had approximately 10,516 stockholders of record and there were approximately 235,324 beneficial holders of our common stock.

Dividends (Distributions)

It has been our policy to declare quarterly dividends to common stockholders so as to comply with applicable provisions of the Code governing REITs. The cash dividends per share paid on common stock are set forth below:

	2013	**2012**	**2011**
First Quarter	$ 0.525	$ 0.50	$ 0.48
Second Quarter	0.525	0.50	0.48
Third Quarter	0.525	0.50	0.48
Fourth Quarter	0.525	0.50	0.48
Total	$ 2.10	$ 2.00	$ 1.92

Distributions with respect to our common stock can be characterized for federal income tax purposes as taxable ordinary dividends, capital gain dividends, nondividend distributions or a combination thereof. Following is the characterization of our annual common stock distributions per share:

	Year Ended December 31,		
	2013	**2012**	**2011**
Ordinary dividends	$ 1.8127	$ 1.4618	$ 0.9259
Capital gain dividends	0.1516	0.0495	0.2448
Nondividend distributions	0.1357	0.4887	0.7493
	$ 2.1000	$ 2.0000	$ 1.9200

On January 30, 2014, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.545 per share. The annualized distribution rate per share for 2014 increased 3.8% to $2.18, compared to $2.10 for 2013. The common stock dividend will be paid on February 25, 2014 to stockholders of record as of the close of business on February 10, 2014.

Distributions with respect to our preferred stock can be characterized for federal income tax purposes as taxable ordinary dividends, capital gain dividends, nondividend distributions or a

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combination thereof. We redeemed all of our outstanding preferred stock on April 23, 2012. Following is the characterization of our annual preferred stock distributions per share:

	Series E		Series F	
	December 31,			
	2012	2011	2012	2011
Ordinary dividends	$ 0.4383	$ 1.4335	$ 0.4292	$ 1.4038
Capital gain dividends	0.0148	0.3790	0.0145	0.3712
	$ 0.4531	$ 1.8125	$ 0.4437	$ 1.7750

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during the quarter ended December 31, 2013.

ISSUER PURCHASES OF EQUITY SECURITIES

Period Covered	Total Number Of Shares Purchased[(1)]	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares That May Yet Be Purchased Under The Plans Or Programs
October 1-31, 2013	184,375	$ 41.77		
November 1-30, 2013	106	41.71		
December 1-31, 2013	6,247	36.60		
Total	190,728	41.60		

(1) Represents restricted shares withheld under our 2006 Performance Incentive Plan, as amended and restated (the "2006 Incentive Plan"), to offset tax withholding obligations that occur upon vesting of restricted shares. Our 2006 Incentive Plan provides that the value of the shares withheld shall be the closing price of our common stock on the date the relevant transaction occurs.

Stock Price Performance Graph

The graph below compares the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), from January 1, 2009 to December 31, 2013. Total cumulative return is based on a $100 investment in HCP common stock and in each of the indices on January 1, 2009 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

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COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

AMONG S&P 500, EQUITY REITS AND HCP, Inc.

RATE OF RETURN TREND COMPARISON

JANUARY 1, 2009 DECEMBER 31, 2013

(JANUARY 1, 2009 = 100)

Stock Price Performance Graph Total Return

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ITEM 6. Selected Financial Data

Set forth below is our selected financial data as of and for each of the years in the five year period ended December 31, 2013 (dollars in thousands, except per share data):

	Year Ended December 31,(1)(2)				
	2013	2012	2011(3)	2010	2009(3)
Income statement data:					
Total revenues	$ 2,099,878	$ 1,879,970	$ 1,694,418	$ 1,224,717	$ 1,118,513
Income from continuing operations	910,633	801,190	536,130	303,869	87,378
Net income applicable to common shares	969,103	812,289	515,302	307,498	109,069
Income from continuing operations applicable to common shares:					
Basic earnings per common share	1.97	1.80	1.25	0.87	0.18
Diluted earnings per common share	1.97	1.80	1.25	0.87	0.18
Net income applicable to common shares:					
Basic earnings per common share	2.13	1.90	1.29	1.01	0.40
Diluted earnings per common share	2.13	1.90	1.29	1.00	0.40
Balance sheet data:					
Total assets	20,075,870	19,915,555	17,408,475	13,331,923	12,209,735
Debt obligations(4)	8,661,627	8,695,549	7,731,137	4,656,241	5,667,417
Total equity	10,931,134	10,753,777	9,220,622	8,146,047	5,958,609
Other data:					
Dividends paid	956,685	865,306	787,689	590,735	517,072
Dividends paid per common share	2.10	2.00	1.92	1.86	1.84

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(1) Reclassification, presentation and certain computational changes have been made for the results of properties sold or held-for-sale reclassified to discontinued operations.

(2) The following are acquisitions that had a meaningful impact on our financial position and results of operations in the years in which they closed and thereafter:

- During the fourth quarter of 2012, we acquired 129 senior housing communities, from a joint venture between Emeritus Corporation and Blackstone Real Estate Partners VI, an affiliate of Blackstone (the "Blackstone JV").

- On April 7, 2011, we completed our acquisition of substantially all of the real estate assets of HCR ManorCare, which includes the settlement of our HCR ManorCare debt investments discussed below.

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

(3) On November 9, 2011, we entered into an agreement with Ventas, Inc. ("Ventas") to settle all remaining claims relating to Ventas's litigation against HCP arising out of Ventas's 2007 acquisition of Sunrise Senior Living REIT. We paid $125 million to Ventas, which was recorded as litigation settlement expense for the year ended December 31, 2011. On September 4, 2009, a jury returned a verdict in favor of Ventas in an action brought against us. The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the year ended December 31, 2009.

(4) Includes bank line of credit, bridge and term loans, senior unsecured notes, mortgage and other secured debt, and other debt.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Language Regarding Forward-Looking Statements

Statements in this Annual Report on Form 10-K that are not historical factual statements are "forward-looking statements." We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. Forward-looking statements include, among other things, statements regarding our and our officers' intent, belief or expectations as identified by the use of words such as "may," "will," "project," "expect," "believe," "intend," "anticipate," "seek," "forecast," "plan," "estimate," "could," "would," "should" and other comparable and derivative terms or the negatives thereof. In addition, we, through our officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, while forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth in Part I, Item 1A., "Risk Factors" in this report, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

(a) Changes in global, national and local economic conditions, including a prolonged period of weak economic growth;

(b) Volatility or uncertainty in the capital markets, including changes in the availability and cost of capital (impacted by changes in interest rates and the value of our common stock); which may adversely impact our ability to consummate transactions or reduce the earnings from potential transactions;

(c) Our ability to manage our indebtedness level and changes in the terms of such indebtedness;

(d) The effect on healthcare providers of recently enacted and pending Congressional legislation addressing entitlement programs and related services, including Medicare and Medicaid, which may, result in future reductions in reimbursements;

(e) The ability of our operators, tenants and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us and our ability to recover investments made, if applicable, in their operations;

(f) The financial weakness of some operators and tenants, including potential bankruptcies and downturns in their businesses, which results in uncertainties regarding our ability to continue to realize the full benefit of such operators' and/or tenants' leases;

(g) Changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations of our operators, tenants and borrowers;

(h) The potential impact of future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;

(i) Competition for tenants and borrowers, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

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(j) Our ability to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or we exercise our right to replace an existing operator or tenant upon default;

(k) Availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;

(l) The financial, legal, regulatory and reputational difficulties of significant operators of our properties;

(m) The risk that we may not be able to achieve the benefits of investments within expected time-frames or at all, or within expected cost projections;

(n) The ability to obtain financing necessary to consummate acquisitions on favorable terms;

(o) The risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our joint venture partners' financial condition and continued cooperation; and

(p) Changes in the credit ratings on U.S. government debt securities or default or delay in payment by the U.S. of its obligations.

Except as required by law, we undertake no, and hereby disclaim any, obligation to update any forward-looking statements, whether as a result of new information, changed circumstances or otherwise.

The information set forth in this Item 7 is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations. We will discuss and provide our analysis in the following order:

- Executive Summary
- 2013 Transaction Overview
- Dividends
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Financial Measure Funds from Operations
- Off-Balance Sheet Arrangements

Contractual Obligations

Inflation

Recent Accounting Pronouncements

Executive Summary

We are a self-administered REIT that, together with our unconsolidated joint ventures, invests primarily in real estate serving the healthcare industry in the U.S. We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At December 31, 2013, our portfolio of investments, including properties owned by our Investment Management Platform, consisted of interests in 1,153 facilities.

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Our business strategy is based on three principles: (i) opportunistic investing, (ii) portfolio diversification and (iii) conservative financing. We actively redeploy capital from investments with lower return potential or shorter investment horizons into assets representing longer term investments with attractive risk-adjusted return potential. We make investments where the expected risk-adjusted return exceeds our cost of capital and strive to capitalize on our operator, tenant and other business relationships to grow our business.

Our strategy contemplates acquiring and developing properties on terms that are favorable to us. Generally, we prefer larger, more complex private transactions that leverage our management team's experience and our infrastructure. We follow a disciplined approach to enhancing the value of our existing portfolio, including ongoing evaluation of potential disposition of properties that no longer fit our strategy.

We primarily generate revenue by leasing healthcare properties under long-term leases with fixed and/or inflation indexed escalators. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for substantial recovery of operating expenses; however, some of our medical office and life science leases are structured as gross or modified gross leases. Operating expenses are generally related to MOBs and life science leased properties and senior housing properties managed by eligible independent contractors on our behalf ("RIDEA properties"). Accordingly, for such MOBs, life science facilities and RIDEA properties, we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities, employee costs for resident care and insurance. Our growth for these assets depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions. At December 31, 2013, the contractual maturities in our portfolio of leased assets were 17% through 2017 (measured in dollars of expiring base rents).

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as to fund future acquisitions and development through the issuance of additional securities or secured debt. Access to external capital on favorable terms is critical to the success of our strategy.

2013 Transaction Overview

Investment Transactions

During the year ended December 31, 2013, we made investments of $598 million, which included the following:

- On May 2, 2013, we acquired £121 million ($188 million) of Barchester Healthcare ("Barchester") debt investments at a discount for £109 million ($170 million). On August 23, 2013, we acquired an additional investment in this loan of £9 million ($14 million) at a discount for £5 million ($8 million). On September 6, 2013, we received £129 million ($202 million) from the par payoff of our Barchester debt investments; resulting in interest income of $24 million primarily from the unamortized discounts.

- On June 25, 2013, we funded the $102 million second tranche of our 2012 mezzanine loan facility to Tandem Health Care, an affiliate of Formation Capital, as part of the recapitalization of a post-acute/skilled nursing portfolio. The funds from the second tranche were used to repay debt senior to our loan. The loan bears interest at a fixed rate of 12% and 14% per annum for the first and second transactions, respectively. The facility will have a total term of up to 63 months from the initial closing in July 2012. The mezzanine loan facility is subordinate to $443 million of senior mortgage debt.

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In March 2013, we acquired the four remaining senior housing facilities from our previously announced 2012 Blackstone JV Acquisition for $38 million.

We funded $249 million to acquire a senior housing facility and marketable debt securities, and to fund construction and other capital projects, primarily in our life science, medical office and senior housing segments.

During the year ended December 31, 2013, we sold 12 properties for $96 million. In addition, in September 2013, we exchanged a 62-bed hospital located in Greenfield, Wisconsin for a 60-bed hospital located in Webster, Texas.

Financing Activities

During the year ended December 31, 2013, we repaid $810 million of aggregate senior unsecured and mortgage debt notes with a weighted average interest rate of 5.7%.

On November 12, 2013, we issued $800 million of 4.25% senior unsecured notes due in 2023. The notes were priced at 99.54% of the principal amount with an effective yield-to-maturity of 4.307%; net proceeds from this offering were $789 million.

Dividends

Quarterly dividends paid during 2013 aggregated $2.10 per share, which represents a 5% increase from 2012. On January 30, 2014, our Board of Directors declared a quarterly cash dividend of $0.545 per common share. The annualized distribution rate per share for 2014 increased 3.8% to $2.18, compared to $2.10 for 2013. The dividend will be paid on February 25, 2014 to stockholders of record as of the close of business on February 10, 2014.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. For a more detailed discussion of our significant accounting policies, see Note 2 to the Consolidated Financial Statements. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, Inc., our wholly owned subsidiaries and joint ventures that we control, through voting rights or other means. We consolidate investments in variable interest entities ("VIEs") when we are the primary beneficiary of the VIE. A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic

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performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE.

We make judgments with respect to our level of influence or control of an entity and whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, our ability to direct the activities that most significantly impact the entity's economic performance, our form of ownership interest, our representation on the entity's governing body, the size and seniority of our investment, our ability and the rights of other investors to participate in policy making decisions, replace the manager and/or liquidate the entity, if applicable. Our ability to correctly assess our influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. When we perform a primary beneficiary analysis at a date other than at inception of the variable interest entity, our assumptions may be different and may result in the identification of a different primary beneficiary.

If we determine that we are the primary beneficiary of a VIE, our consolidated financial statements would include the operating results of the VIE (either tenant or borrower) rather than the results of the variable interest in the VIE. We would require the VIE to provide us timely financial information and would review the internal control of the VIE to determine if we could rely on the financial information they provide. If the VIE has deficiencies in its internal control over financial reporting, or does not provide us with timely financial information, this may adversely impact the quality and/or timing of our financial reporting and our internal control over financial reporting.

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, we assess the terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the future minimum lease payments (excluding executory costs) are equal to 90% or more of the excess estimated fair value (over retained tax credits) of the leased building. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predicable and collectible, the lease arrangement is generally accounted for as a direct financing lease. If the assumptions utilized in the above classification assessments were different, our lease classification for accounting purposes may have been different; thus the timing and amount of our revenue recognized would have been impacted, which may be material to our consolidated financial statements.

We recognize rental revenue for operating leases on a straight-line basis over the lease term when collectibility is reasonably assured and the tenant has taken possession or controls the physical use of a leased asset. For assets acquired subject to leases, we recognize revenue upon acquisition of the asset provided the tenant has taken possession or control of the physical use of the leased asset. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. The determination of ownership of the tenant improvements is subject to significant judgment. If our assessment of the owner of the tenant improvements for accounting purposes were different, the timing and amount of our revenue recognized would be impacted.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when

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actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. The recognition of additional rents requires us to make estimates of amounts owed and to a certain extent are dependent on the accuracy of the facility results reported to us. Our estimates may differ from actual results, which could be material to our consolidated financial statements.

We maintain an allowance for doubtful accounts, including an allowance for operating lease straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. We monitor the liquidity and creditworthiness of our tenants and operators on a continuous basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, our assessment is based on income recoverable over the term of the lease. We exercise judgment in establishing allowances and consider payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to our consolidated financial statements.

We use the direct finance method of accounting to record income from DFLs. For leases accounted for as DFLs, future minimum lease payments are recorded as a receivable. For leases accounted for as DFLs, the net investment in the DFL represents receivables for the sum of minimum lease payments receivable and the estimated residual values of the leased properties, less the unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured. Investments in DFLs are presented net of unamortized unearned income. The determination of estimated useful lives and residual values are subject to significant judgment. If these assessments for accounting purposes were to change, the timing and amount of our revenue recognized would be impacted.

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. We recognize interest income on loans, including the amortization of discounts and premiums, using the interest method applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums, discounts and related costs are recognized as yield adjustments over the term of the related loans.

Loans and DFLs are placed on non-accrual status at such time as management determines that collectibility of contractual amounts is not reasonably assured. While on non-accrual status, loans and DFLs are either accounted for on a cash basis, in which income is recognized only upon receipt of cash, or on a cost-recovery basis, were cash receipts reduce the carrying value of the loan or DFL, based on management's judgment of collectibility.

Allowances are established for loans and DFLs based upon an estimate of probable losses on an individual basis if they are determined to be impaired. Loans and DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due on a timely basis in accordance with the contractual terms of the loan or lease. Determining the adequacy of the allowance is complex and requires significant judgment by us about the effect of matters that are inherently uncertain. The allowance is based upon our assessment of the borrower's or lessee's overall financial condition, resources and 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, as appropriate, the present value of the expected future cash flows discounted at the loan's or DFL's effective interest rate, the fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors. While our assumptions are based in part upon historical data, our estimates may differ from actual results, which could be material to our consolidated financial statements.

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Real Estate

We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the relative fair value of each component. The most significant components of our allocations are typically the allocation of fair value to the buildings as-if-vacant, land and in-place leases. In the case of the fair value of buildings and the allocation of value to land and other intangibles, our estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in-place leases, we make our best estimates based on our evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. Our assumptions affect the amount of future revenue that we will recognize over the remaining lease term for the acquired in-place leases.

A variety of costs are incurred in the development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy and cease capitalization of costs upon the completion of the related tenant improvements.

Impairment of Long-Lived Assets and Goodwill

We assess the carrying value of our real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying amount of the real estate assets may not be recoverable. Recoverability of real estate assets is measured by comparison of the carrying amount of the real estate assets to the respective estimated future undiscounted cash flows. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. In order to review our real estate assets for recoverability, we consider market conditions, as well as our intent with respect to holding or disposing of the asset. If our analysis indicates that the carrying value of the real estate assets is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the real estate asset.

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Potential impairment indicators and qualitative factors include a significant decline in real estate valuations, restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the value of our market capitalization. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we apply the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compares the fair value of a reporting unit with its carrying amount, including goodwill and, if necessary, (ii) compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment, if any. We estimate the fair value of the assets and liabilities in the reporting unit through various valuation techniques, including applying capitalization rates to segment net operating income, quoted market values and third-party appraisals, as necessary. The fair value of the reporting unit may also include an allocation of an enterprise value premium that we estimate a third party would be willing to pay for the company.

The determination of the fair value of real estate assets and goodwill involves significant judgment. This judgment is based on our analysis and estimates of fair value of real estate assets and reporting units, future operating results and resulting cash flows of each real estate asset whose carrying amount may not be recoverable. Our ability to accurately predict future operating results, resulting cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

Investments in Unconsolidated Joint Ventures

Investments in entities which we do not consolidate but have the ability to exercise significant influence over operating and financial policies are reported under the equity method of accounting. Under the equity method of accounting, our share of the investee's earnings or losses is included in our consolidated results of operations.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale or contribution of the interests to the joint venture. We evaluate our equity method investments for impairment indicators based upon a comparison of the fair value of the equity method investment to our carrying value. If we determine there is a decline in the fair value of our investment in an unconsolidated joint venture below its carrying value and it is other-than-temporary, an impairment is recorded. The determination of the fair value and as to whether a deficiency in fair value is "other-than-temporary" of investments in unconsolidated joint ventures involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends, severity and duration of the fair value deficiency, and other relevant factors. Capitalization rates, discount rates and credit spreads utilized in our valuation models are based upon rates that we believe to be within a reasonable range of current market rates for the respective investments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

Income Taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements. Our determinations are based on interpretation of tax laws, and our conclusions may have an impact on the income tax expense recognized. Adjustments to income tax expense may be required as a result of: (i) audits conducted by federal, state and local tax authorities, (ii) our ability to qualify as a REIT, (iii) recognition of built-in gain associated with prior tax-free acquisitions of C corporations, and (iv) changes in tax laws. Adjustments required in any given period are included within the income tax provision.

Results of Operations

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the senior housing, life science, post-acute/skilled nursing and hospital segments, we invest or co-invest primarily in single operator or tenant properties, through the acquisition and development of real estate, management of operations ("RIDEA") and by debt issued by operators in these sectors. Under the medical office segment, we invest or co-invest through the acquisition and development of MOBs that are leased under gross, modified gross or triple-net leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Consolidated Financial Statements).

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We use net operating income from continuing operations ("NOI") and adjusted NOI to assess and compare property level performance, including our same property portfolio ("SPP"), and to make decisions about resource allocations and to assess and compare property level performance. We believe these measures provide investors relevant and useful information because they reflect only income and operating expense items that are incurred at the property level and present them on an unleveraged basis. We believe 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 since NOI excludes certain components from net income. Further, NOI may not be comparable to that of other REITs or real estate companies, as they may use different methodologies for calculating NOI. See Note 14 to the Consolidated Financial Statements for additional segment information and the relevant reconciliations from net income to NOI and adjusted NOI.

Operating expenses are generally related to MOB and life science leased properties and senior housing properties managed by eligible independent contractors on our behalf (RIDEA properties). We generally recover all or a portion of MOB and life science expenses from the tenants (tenant recoveries). The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses.

Our evaluation of results of operations by each business segment includes an analysis of our SPP and our total property portfolio. SPP information allows us to evaluate the performance of our leased property portfolio under a consistent population by eliminating changes in the composition of our portfolio of properties. We identify our SPP as stabilized properties that remained in operations and were consistently reported as leased properties or RIDEA properties for the duration of the year-over-year comparison periods presented. Accordingly, it takes a stabilized property a minimum of 12 months in operations under a consistent reporting structure to be included in our SPP. Newly acquired operating assets are generally considered stabilized at the earlier of lease-up (typically when the tenant(s) controls the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly completed developments and redevelopments, are considered stabilized at the earlier of lease-up or 24 months from the date the property is placed in service. SPP NOI excludes certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis.

Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

During the fourth quarter of 2012 and first quarter of 2013, we acquired a portfolio of 133 senior housing communities from the Blackstone JV (see additional information in Note 4 to the Consolidated Financial Statements). The transaction closed in two stages: (i) 129 senior housing facilities during the fourth quarter of 2012 for $1.7 billion; and (ii) four senior housing facilities during the first quarter of 2013 for $38 million. The results of operations from the acquisitions are reflected in our consolidated financial statements from those respective dates.

Segment NOI and Adjusted NOI

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 909 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2012 and that remained in operations under a consistent reporting structure through December 31, 2013. Our consolidated total property portfolio represents 1,079 and 1,071 properties at December 31, 2013 and 2012, respectively, and excludes properties classified as discontinued operations.

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Senior Housing

Results are as of and for the year ended December 31, 2013 and 2012 (dollars in thousands except per unit data):

	SPP			Total Portfolio		
	2013	2012[(2)]	Change	2013	2012[(2)]	Change
Rental revenues[(1)]	$ 465,254	$ 459,058	$ 6,196	$ 602,506	$ 481,559	$ 120,947
Resident fees and services	146,288	139,073	7,215	146,288	139,073	7,215
Total revenues	$ 611,542	$ 598,131	$ 13,411	$ 748,794	$ 620,632	$ 128,162
Operating expenses	(92,674)	(88,575)	(4,099)	(95,603)	(91,423)	(4,180)
NOI	$ 518,868	$ 509,556	$ 9,312	$ 653,191	$ 529,209	$ 123,982
Straight-line rents	(15,413)	(25,662)	10,249	(43,268)	(30,406)	(12,862)
DFL accretion	(14,750)	(18,812)	4,062	(14,750)	(18,812)	4,062
Amortization of above and below market lease intangibles, net	(1,196)	(1,432)	236	(681)	(1,320)	639
Adjusted NOI	$ 487,509	$ 463,650	$ 23,859	$ 594,492	$ 478,671	$ 115,821
Adjusted NOI % change			5.1%			
Property count	310	310		444	439	
Average capacity (units)[(3)]	35,038	35,034		45,400	36,694	
Average annual rent per unit[(4)]	$ 13,932	$ 13,252		$ 13,174	$ 13,140	

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

(2) From our past presentation of SPP for the year ended December 31, 2012, we removed two senior housing properties from SPP that were sold or classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the twelve-month period and a quarter in arrears from the periods presented.

(4) Average annual rent per unit for operating properties under a RIDEA structure is based on NOI.

SPP NOI and Adjusted NOI. SPP NOI increased primarily as a result of rent increases related to new leases or leases recognized on a cash basis and increased NOI from RIDEA properties. SPP adjusted NOI improved primarily as a result of annual rent increases including increases from properties that were previously transitioned from Sunrise to other operators and increased NOI from RIDEA properties.

Total Portfolio NOI and Adjusted NOI. In addition to the impact of our SPP, our total portfolio NOI and adjusted NOI primarily increased as a result of our Blackstone JV Acquisition.

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Post-Acute/Skilled Nursing

Results are as of and for the year ended December 31, 2013 and 2012 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2013	**2012[2]**	**Change**	**2013**	**2012[2]**	**Change**
Rental revenues[1]	$ 541,805	$ 530,037	$ 11,768	$ 541,805	$ 530,037	$ 11,768
Operating expenses	(485)	(475)	(10)	(2,485)	(475)	(2,010)
NOI	$ 541,320	$ 529,562	$ 11,758	$ 539,320	$ 529,562	$ 9,758
Straight-line rents	(553)	(724)	171	(553)	(724)	171
DFL accretion	(71,305)	(75,428)	4,123	(71,305)	(75,428)	4,123
Amortization of above and below market lease intangibles, net	46	46		46	46	
Adjusted NOI	$ 469,508	$ 453,456	$ 16,052	$ 467,508	$ 453,456	$ 14,052
Adjusted NOI % change			3.5%			
Property count	302	302		302	302	
Average capacity (beds)[3]	38,464	38,459		38,464	38,459	
Average annual rent per bed	$ 12,218	$ 11,802		$ 12,218	$ 11,802	

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

(2) From our past presentation of SPP for the year ended December 31, 2012, we removed 10 post-acute/skilled nursing properties from SPP that were sold or classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the twelve-month period and a quarter in arrears from the periods presented.

NOI and Adjusted NOI. SPP and total portfolio NOI and adjusted NOI primarily increased as a result of annual rent increases.

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Life Science

Results are as of and for the year ended December 31, 2013 and 2012 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**
Rental and related revenues	$ 240,777	$ 240,145	$ 632	$ 251,919	$ 246,811	$ 5,108
Tenant recoveries	42,975	42,164	811	44,960	42,853	2,107
Total revenues	$ 283,752	$ 282,309	$ 1,443	$ 296,879	$ 289,664	$ 7,215
Operating expenses	(49,636)	(47,914)	(1,722)	(56,956)	(53,173)	(3,783)
NOI	$ 234,116	$ 234,395	$ (279)	$ 239,923	$ 236,491	$ 3,432
Straight-line rents	(11,604)	(8,590)	(3,014)	(11,347)	(9,730)	(1,617)
Amortization of above and below market lease intangibles, net	112	462	(350)	93	411	(318)
Lease termination fees	(194)	(175)	(19)	(194)	(175)	(19)
Adjusted NOI	$ 222,430	$ 226,092	$ (3,662)	$ 228,475	$ 226,997	$ 1,478
Adjusted NOI % change			(1.6)%			
Property count	102	102		111	109	
Average occupancy	93.0%	91.4%		91.8%	89.6%	
Average occupied square feet	6,219	6,108		6,480	6,250	
Average annual rent per occupied sq. ft.	$ 44	$ 45		$ 44	$ 45	

SPP NOI and Adjusted NOI. SPP NOI decreased primarily as a result of mark-to-market rent reductions on renewed leases. SPP adjusted NOI decreased primarily as a result of a $4 million rent payment received in February 2012 in connection with a lease amendment and mark-to-market rent reductions, partially offset by annual rent escalations.

Total Portfolio NOI and Adjusted NOI. In addition to the impact of our SPP, our total portfolio NOI increased primarily as a result of rents on recent development projects placed in service during 2013 and 2012.

During the year ended December 31, 2013, 545,000 square feet of new and renewal leases commenced at an average annual base rent of $27.43 per square foot compared to 392,000 square feet of expiring and terminated leases with an average annual base rent of $32.83 per square foot.

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Medical Office

Results are as of and for the year ended December 31, 2013 and 2012 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2013	2012[(1)]	Change	2013	2012[(1)]	Change
Rental and related revenues	$ 265,176	$ 263,726	$ 1,450	$ 299,102	$ 283,561	$ 15,541
Tenant recoveries	46,719	46,615	104	53,232	49,447	3,785
Total revenues	$ 311,895	$ 310,341	$ 1,554	$ 352,334	$ 333,008	$ 19,326
Operating expenses	(118,643)	(117,901)	(742)	(139,376)	(132,132)	(7,244)
NOI	$ 193,252	$ 192,440	$ 812	$ 212,958	$ 200,876	$ 12,082
Straight-line rents	(1,472)	(4,381)	2,909	(3,161)	(5,258)	2,097
Amortization of above and below market lease intangibles, net	510	290	220	1,037	457	580
Lease termination fees	(23)	(314)	291	(23)	(314)	291
Adjusted NOI	$ 192,267	$ 188,035	$ 4,232	$ 210,811	$ 195,761	$ 15,050
Adjusted NOI % change			2.3%			
Property count	181	181		206	206	
Average occupancy	91.6%	91.3%		90.7%	91.2%	
Average occupied square feet	11,395	11,351		12,767	12,147	
Average annual rent per occupied sq. ft.	$ 27	$ 27		$ 27	$ 27	

(1) From our past presentation of SPP for the year ended December 31, 2012, we removed two MOBs that were placed into redevelopment in 2013, which no longer meet our criteria for SPP as of the date they were placed into redevelopment.

Total Portfolio NOI and Adjusted NOI. Total portfolio NOI and adjusted NOI increased primarily as a result of the impact of our MOB acquisitions during 2012.

During the year ended December 31, 2013, 2.1 million square feet of new and renewal leases commenced at an average annual base rent of $21.54 per square foot compared to 2.2 million square feet of expiring and terminated leases with an average annual base rent of $22.06 per square foot.

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Hospital

Results are as of and for the year ended December 31, 2013 and 2012 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2013	2012[2]	Change	2013	2012[2]	Change
Rental revenues[1]	$ 64,249	$ 74,815	$ (10,566)	$ 69,603	$ 77,872	$ (8,269)
Tenant recoveries	2,457	2,326	131	2,457	2,326	131
Total revenues	$ 66,706	$ 77,141	$ (10,435)	$ 72,060	$ 80,198	$ (8,138)
Operating expenses	(3,812)	(3,506)	(306)	(3,862)	(3,513)	(349)
NOI	$ 62,894	$ 73,635	$ (10,741)	$ 68,198	$ 76,685	$ (8,487)
Straight-line rents	19,238	(554)	19,792	18,378	(1,134)	19,512
Amortization of above and below market lease intangibles, net	(6,725)	(347)	(6,378)	(6,824)	(447)	(6,377)
Adjusted NOI	$ 75,407	$ 72,734	$ 2,673	$ 79,752	$ 75,104	$ 4,648
Adjusted NOI % change			3.7%			
Property count	14	14		16	15	
Average capacity (beds)[3]	2,132	2,056		2,175	2,087	
Average annual rent per bed	$ 37,151	$ 37,091		$ 38,437	$ 37,679	

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

(2) From our past presentation of SPP for the year ended December 31, 2012, we removed two hospitals from SPP that were sold or classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the twelve month period and a quarter in arrears from the periods presented. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

SPP and Total Portfolio NOI and Adjusted NOI. SPP and total portfolio NOI primarily decreased due to a net $12 million correction of an error that reduced previously recognized straight-line rents and to increasing amortization of below market lease intangibles related to our Medical City Dallas hospital. SPP and total portfolio adjusted NOI increased due to annual rent increases, a new lease on our Plano hospital and rents on our Fresno hospital that was placed in service in January 2013.

Other Income and Expense Items

Interest income. Interest income increased $62 million to $86 million for the year ended December 31, 2013. The increase was primarily the result of interest income from the repayment of our Barchester loan in September 2013 (acquired earlier in 2013 at a discount), additional interest income earned from the second tranche of our mezzanine loan facility to Tandem Health Care in June 2013 and interest earned from our

Four Seasons senior unsecured notes purchased in 2012 (see Notes 10 and 7, respectively, to the Consolidated Financial Statements for additional information).

Interest expense. For the year ended December 31, 2013, interest expense increased $19 million to $435 million. The increase was primarily the result of increases in the average outstanding indebtedness during 2013 compared to 2012 and a decrease of capitalized interest in 2013 related to assets that were under development in our life science and medical office segments and were placed in service during 2013 and 2012. These increases were partially offset by a decrease in interest rates.

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Our exposure to expense fluctuations related to our variable rate indebtedness is mitigated by our interest rate swap contracts. For a more detailed discussion of our interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A.

The table below sets forth information with respect to our debt, excluding premiums and discounts (dollars in thousands):

	As of December 31,(1)	
	2013	2012
Balance:		
Fixed rate	$ 8,581,889	$ 8,606,075
Variable rate	33,955	40,385
Total	$ 8,615,844	$ 8,646,460
Percent of total debt:		
Fixed rate	99.6%	99.5%
Variable rate	0.4	0.5
Total	100%	100%
Weighted average interest rate at end of period:		
Fixed rate	5.10%	5.23%
Variable rate	1.13%	1.49%
Total weighted average rate	5.08%	5.22%

(1) Excludes $75 million and $82 million at December 31, 2013 and 2012, respectively, of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities, which have no scheduled maturities. At December 31, 2013, $72 million of variable-rate mortgages and £137 million ($227 million) term loan are presented as fixed-rate debt as the interest payments under such debt have been swapped (pay fixed and receive float). At December 31, 2012, $86 million of variable-rate mortgages and £137 million ($223 million) term loan are presented as fixed-rate debt as the interest payments under such debt have been swapped (pay fixed and receive float); the interest rates for swapped debt are presented at the swapped rates.

Depreciation and amortization expense. Depreciation and amortization expenses increased $70 million to $423 million for the year ended December 31, 2013. The increase was primarily the result of the impact of our senior housing facility and MOB acquisitions during 2012.

General and administrative expenses. General and administrative expenses increased $30 million to $109 million for the year ended December 31, 2013. The year ended December 31, 2013 included $27.2 million of severance-related charges resulting from the termination of our former Chairman, Chief Executive Officer and President (see Note 16 to the Consolidated Financial Statements for additional information). The year ended December 31, 2012 included $7 million related to an insurance recovery for previously incurred legal expenses.

Impairments. During the year ended December 31, 2013, we recognized impairments of $1 million, included in discontinued operations, as a result of the reclassification of two MOBs to held for sale (see Note 17 to the Consolidated Financial Statements for additional information). During the year ended December 31, 2012, we recognized an impairment of $8 million as a result of the planned disposition of a life science land parcel (see Note 17 to the Consolidated Financial Statements for additional information).

Other income, net. For the year ended December 31, 2013, other income, net increased $15 million to $18 million. The increase was primarily the result of gains from the sale of marketable equity securities during 2013 of $11 million.

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Income taxes. For the year ended December 31, 2013, income taxes increased by $7 million to $6 million. The increase in income taxes was primarily due to the increase in taxable income of our TRS entities during the year ended December 31, 2013.

Equity income from unconsolidated joint ventures. For the year ended December 31, 2013, equity income from unconsolidated joint ventures increased $10 million to $64 million. The increase was primarily the result of: (i) a one-time distribution received from a senior housing development joint venture that exceeded our investment balance and (ii) the improved operating performance from our HCR ManorCare equity investment.

Discontinued operations. Income from discontinued operations for the year ended December 31, 2013 was $74 million, compared to $46 million for the comparable period in 2012. The increase is primarily due to an increase in gains on real estate dispositions of $38 million, partially offset by a decline in operating income from discontinued operations of $8 million and impairment charges in discontinued operations of $1 million.

Preferred stock dividends. On March 22, 2012, we announced the redemption of all outstanding shares of preferred stock. On April 23, 2012, we redeemed all outstanding shares of our preferred stock and paid all accrued and unpaid dividends to the redemption date. During the year ended December 31, 2012, we incurred a redemption charge of $10 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in our consolidated income statements).

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

During the fourth quarter of 2012, we acquired 129 senior housing communities from the Blackstone JV (see additional information in Note 4 to the Consolidated Financial Statements). The results of operations from the acquisitions are reflected in our consolidated financial statements from those respective dates.

On April 7, 2011, we completed our acquisition of substantially all of HCR ManorCare's real estate assets; additionally, we purchased a noncontrolling equity interest in the operations of HCR ManorCare. On January 14, 2011, we acquired our partner's 65% interest in HCP Ventures II that resulted in the consolidation of HCP Ventures II. On September 1, 2011, we entered into management contracts with Brookdale with respect to 21 senior living communities (these 21 communities were acquired in January 2011 as part of our purchase of HCP Ventures II). For the communities that are in a RIDEA structure, the respective resident level revenues and related operating expenses are reported in our consolidated financial statements. See additional information regarding the HCR ManorCare Acquisition, HCP Ventures II purchase and the Brookdale RIDEA transaction in Notes 3, 8 and 12, respectively, to the Consolidated Financial Statements. The results of operations from our HCR ManorCare, HCP Ventures II and properties managed under a RIDEA structure are reflected in our financial statements from those respective dates.

Segment NOI and Adjusted NOI

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 551 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2011 and that remained in operations under a consistent reporting structure through December 31, 2012. Our consolidated total property portfolio represents 1,071 and 917 properties at December 31, 2012 and 2011, respectively, and excludes properties classified as discontinued operations.

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Senior Housing

Results are as of and for the year ended December 31, 2012 and 2011 (dollars in thousands except per unit data):

	SPP			Total Portfolio		
	2012	2011[2]	Change	2012	2011[2]	Change
Rental revenues[1]	$ 379,636	$ 377,784	$ 1,852	$ 481,559	$ 469,251	$ 12,308
Resident fees and services	1,054	3,542	(2,488)	139,073	49,091	89,982
Total revenues	$ 380,690	$ 381,326	$ (636)	$ 620,632	$ 518,342	$ 102,290
Operating expenses	(613)	(1,052)	439	(91,423)	(33,372)	(58,051)
NOI	$ 380,077	$ 380,274	$ (197)	$ 529,209	$ 484,970	$ 44,239
Straight-line rents	(24,731)	(34,556)	9,825	(30,406)	(34,889)	4,483
DFL accretion	(6,863)	(9,052)	2,189	(18,812)	(17,918)	(894)
Amortization of above and below market lease intangibles, net	(1,569)	(1,569)		(1,320)	(1,466)	146
Lease termination fees					1,350	(1,350)
Adjusted NOI	$ 346,914	$ 335,097	$ 11,817	$ 478,671	$ 432,047	$ 46,624
Adjusted NOI % change			3.5%			
Property count	220	220		439	310	
Average capacity (units)[3]	25,091	24,988		36,694	30,167	
Average annual rent per unit[4]	$ 13,850	$ 13,452		$ 13,140	$ 14,431	

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

(2) From our past presentation of SPP for the year ended December 31, 2011, we removed four senior housing properties from SPP that were sold or classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the twelve month period and a quarter in arrears from the periods presented.

(4) Total portfolio average annual rent per unit for operating properties under a RIDEA structure is based on NOI.

SPP Adjusted NOI. SPP adjusted NOI improved primarily as a result of annual rent escalations and an increase in rental revenues from properties that were previously transitioned from Sunrise to other operators, partially offset by a decrease in additional rents.

Total Portfolio NOI and Adjusted NOI. Including the impact of our SPP, our total portfolio NOI and adjusted NOI for the year ended December 31, 2012 primarily increased as a result of 66 senior housing leased properties classified as DFLs that were acquired on April 7, 2011 from HCR ManorCare and 127 senior housing communities acquired on October 31, 2012 and two senior housing communities acquired on December 4, 2012 from the Blackstone JV (see Notes 3, 4 and 6 to the Consolidated Financial Statements for additional information regarding the HCR ManorCare Acquisition, the Blackstone JV acquisition and Net Investments in DFLs, respectively).

Additionally, HCP Ventures II was consolidated on January 14, 2011 (see Note 8 to the Consolidated Financial Statements for additional information), resulting in us recognizing rental and related revenues for the 25 leased properties commencing on that date. On September 1, 2011, for 21 of these 25 properties, we entered into management contracts in a structure permitted by RIDEA (see Note 12 to the Consolidated Financial Statements for additional information), resulting in the termination of the properties' leases. For these properties that are in a RIDEA structure, the resident-level revenues and related operating expenses are reported in our consolidated financial statements beginning on that date.

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Post-Acute/Skilled Nursing

Results are as of and for the year ended December 31, 2012 and 2011 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2012	**2011[(2)]**	**Change**	**2012**	**2011[(2)]**	**Change**
Rental revenues[(1)]	$ 28,182	$ 27,825	$ 357	$ 530,037	$ 388,633	$ 141,404
Operating expenses	(14)	(14)		(475)	(419)	(56)
NOI	$ 28,168	$ 27,811	$ 357	$ 529,562	$ 388,214	$ 141,348
Straight-line rents	(724)	(1,025)	301	(724)	(1,025)	301
DFL accretion				(75,428)	(56,089)	(19,339)
Amortization of above and below market lease intangibles, net				46	34	12
Adjusted NOI	$ 27,444	$ 26,786	$ 658	$ 453,456	$ 331,134	$ 122,322
Adjusted NOI % change			2.5%			
Property count	34	34		302	302	
Average capacity (beds)[(3)]	3,634	3,664		38,459	26,167	
Average annual rent per bed	$ 7,557	$ 7,314		$ 11,802	$ 12,669	

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

(2) From our past presentation of SPP for the year ended December 31, 2011, we removed 11 post-acute/skilled nursing properties from SPP that were sold or classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the twelve month period and a quarter in arrears from the periods presented.

SPP NOI and Adjusted NOI. SPP NOI and adjusted NOI increased year-over-year primarily as a result of rent escalations.

Total Portfolio NOI and Adjusted NOI. Including the impact of our SPP, our total portfolio NOI and adjusted NOI for the year ended December 31, 2012 primarily increased as a result of 268 post-acute/skilled nursing leased properties classified as DFLs that were acquired on April 7, 2011 from HCR ManorCare (see Notes 3 and 6 to the Consolidated Financial Statements for additional information regarding the HCR ManorCare Acquisition and Net Investments in DFLs, respectively, and discussion regarding our share in the earnings of our interest in HCR ManorCare below under the caption "Equity income from unconsolidated joint ventures").

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Life Science

Results are as of and for the year ended December 31, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2012	2011	Change	2012	2011	Change
Rental and related revenues	$ 243,469	$ 244,401	$ (932)	$ 246,811	$ 245,942	$ 869
Tenant recoveries	42,164	41,882	282	42,853	42,209	644
Total revenues	$ 285,633	$ 286,283	$ (650)	$ 289,664	$ 288,151	$ 1,513
Operating expenses	(47,913)	(49,123)	1,210	(53,173)	(52,796)	(377)
NOI	$ 237,720	$ 237,160	$ 560	$ 236,491	$ 235,355	$ 1,136
Straight-line rents	(8,590)	(14,685)	6,095	(9,730)	(14,971)	5,241
Amortization of above and below market lease intangibles, net	462	(1,066)	1,528	411	(1,123)	1,534
Lease termination fees	(175)	(7,011)	6,836	(175)	(7,011)	6,836
Adjusted NOI	$ 229,417	$ 214,398	$ 15,019	$ 226,997	$ 212,250	$ 14,747
Adjusted NOI % change			7.0%			
Property count	101	101		109	104	
Average occupancy	91.4%	90.5%		89.6%	89.6%	
Average occupied square feet	6,108	6,050		6,250	6,076	
Average annual rent per occupied sq. ft.	$ 45	$ 44		$ 45	$ 44	

SPP and Total Portfolio NOI and Adjusted NOI. NOI increased primarily as a result of lease expansions and extensions and a decline in non-reimbursable operating expenses, partially offset by a decline in lease termination fees. Adjusted NOI increased primarily as a result of a $4 million rent payment in connection with a February 2012 amendment to a lease, annual rent escalations, lease expansions and extensions, and a decline in non-reimbursable operating expenses.

During the year ended December 31, 2012, 978,000 square feet of new and renewal leases commenced at an average annual base rent of $21.71 per square foot compared to 776,000 square feet of expiring and terminated leases with an average annual base rent of $24.23 per square foot. During the year ended December 31, 2012, we acquired 77,000 square feet with an average annual base rent of $9.79 per square foot.

Medical Office

Results are as of and for the year ended December 31, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2012	2011(1)	Change	2012	2011(1)	Change
Rental and related revenues	$ 269,230	$ 264,108	$ 5,122	$ 283,561	$ 270,619	$ 12,942
Tenant recoveries	45,478	46,183	(705)	49,447	47,749	1,698
Total revenues	$ 314,708	$ 310,291	$ 4,417	$ 333,008	$ 318,368	$ 14,640
Operating expenses	(119,316)	(118,776)	(540)	(132,132)	(127,784)	(4,348)
NOI	$ 195,392	$ 191,515	$ 3,877	$ 200,876	$ 190,584	$ 10,292
Straight-line rents	(4,206)	(5,615)	1,409	(5,258)	(5,834)	576
Amortization of above and below market lease intangibles, net	358	384	(26)	457	(130)	587
Lease termination fees	(314)		(314)	(314)	(212)	(102)
Adjusted NOI	$ 191,230	$ 186,284	$ 4,946	$ 195,761	$ 184,408	$ 11,353
Adjusted NOI % change			2.7%			
Property count	182	182		206	186	
Average occupancy	91.3%	90.8%		91.2%	90.9%	
Average occupied square feet	11,494	11,411		12,147	11,721	
Average annual rent per occupied sq. ft.	$ 27	$ 27		$ 27	$ 27	

(1) From our past presentation of SPP for the year ended December 31, 2011, we removed (i) three MOBs that were sold or classified as held for sale; and (ii) three MOBs that were placed into redevelopment in 2012, which no longer meet our criteria for SPP as of the date they were placed into redevelopment.

SPP NOI and Adjusted NOI. SPP NOI and adjusted NOI increased year-over-year primarily as a result of rent escalations and an increase in medical office occupancy.

Total Portfolio NOI and Adjusted NOI. Including the impact of our SPP, our total portfolio NOI and adjusted NOI increased primarily as a result of the additive effect of our MOB acquisitions during 2012.

During the year ended December 31, 2012, 2.2 million square feet of new and renewal leases commenced at an average annual base rent of $21.94 per square foot compared to 2.1 million square feet of expiring and terminated leases with an average annual base rent of $22.43 per square foot. During the year ended December 31, 2012, we acquired 1.1 million square feet with an average annual base rent of $22.19 per square foot.

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Hospital

Results are as of and for the year ended December 31, 2012 and 2011 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2012	**2011(1)**	**Change**	**2012**	**2011(1)**	**Change**
Rental and related revenues	$ 74,815	$ 73,534	$ 1,281	$ 77,872	$ 76,691	$ 1,181
Tenant recoveries	2,326	2,297	29	2,326	2,296	30
Total revenues	$ 77,141	$ 75,831	$ 1,310	$ 80,198	$ 78,987	$ 1,211
Operating expenses	(3,506)	(4,328)	822	(3,513)	(4,330)	817
NOI	$ 73,635	$ 71,503	$ 2,132	$ 76,685	$ 74,657	$ 2,028
Straight-line rents	(554)	(882)	328	(1,134)	(1,503)	369
Amortization of above and below market lease intangibles, net	(347)	(347)		(447)	(447)	
Adjusted NOI	$ 72,734	$ 70,274	$ 2,460	$ 75,104	$ 72,707	$ 2,397
Adjusted NOI % change			3.5%			
Property count	14	14		15	15	
Average capacity (beds)(2)	2,056	2,053		2,087	2,084	
Average annual rent per bed	$ 37,091	$ 36,347		$ 37,679	$ 36,974	

(1) From our past presentation of SPP for the year ended December 31, 2011, we removed two hospital properties from SPP that were sold or classified as held for sale.

(2) Represents average capacity as reported by the respective tenants or operators for the twelve month period and a quarter in arrears from the periods presented. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

SPP and Total Portfolio NOI and Adjusted NOI. NOI and adjusted NOI increased for the year ended December 31, 2012 primarily as a result of rent escalations and the new leases that commenced in 2012 for two of our hospitals.

Other Income and Expense Items

Interest income. Interest income decreased $75 million to $25 million for the year ended December 31, 2012. The decrease was primarily the result of the following: (i) a decrease of $54 million in income earned from and due to the settlement of our HCR ManorCare debt investments in 2011 and (ii) a decrease of $43 million in income earned from and as a result of prepayment premiums and unamortized discounts recognized in April 2011 upon the early repayment of our loans to Genesis HealthCare. The decreases in interest income were partially offset by $19 million of interest earned from our loan and senior unsecured notes investments in 2012 (see Notes 7 and 10, respectively, to the Consolidated Financial Statements for additional information).

Interest expense. For the year ended December 31, 2012, interest expense increased $717,000 to $416 million. The increase was primarily due to an increase of $13 million resulting from our senior unsecured notes offerings, net of related maturities of certain senior unsecured notes during 2011 and 2012. The increase was offset by the $11 million write-off of unamortized loan fees related to a terminated bridge loan commitment in 2011 and a decrease resulting from the payoff of certain mortgage debt during 2011.

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Our exposure to expense fluctuations related to our variable rate indebtedness is substantially mitigated by our interest r ate swap contracts. For a more detailed discussion of our interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A.

The table below sets forth information with respect to our debt, excluding premiums and discounts (dollars in thousands):

	As of December 31,(1)	
	2012	**2011**
Balance:		
Fixed rate	$ 8,606,075	$ 7,166,349
Variable rate	40,385	502,919
Total	$ 8,646,460	$ 7,669,268
Percent of total debt:		
Fixed rate	99.5%	93.4%
Variable rate	0.5	6.6
Total	100%	100%
Weighted average interest rate at end of period:		
Fixed rate	5.23%	5.83%
Variable rate	1.49%	2.19%
Total weighted average rate	5.22%	5.59%

(1) Excludes $82 million and $88 million at December 31, 2012 and 2011, respectively, of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities, which have no scheduled maturities. At December 31, 2012, $86 million of variable-rate mortgages and £137 million ($223 million) term loan are presented as fixed-rate debt as the interest payments under such debt have been swapped (pay fixed and receive float). At December 31, 2011, $88 million of variable-rate mortgages are presented as fixed-rate debt as the interest payments under such debt have been swapped (pay fixed and receive float); the interest rates for swapped debt are presented at the swapped rates.

Depreciation and amortization expense. Depreciation and amortization expenses increased $8 million to $354 million for the year ended December 31, 2012. The increase was primarily the result of additive effects of our acquisitions during 2011 and 2012.

General and administrative expenses. General and administrative expenses decreased $17 million to $79 million for the year ended December 31, 2012. The decrease was primarily due to an insurance recovery of $7 million during 2012 for previously incurred legal expenses and a decrease of $8 million in acquisition costs incurred during 2012 compared to similar costs incurred during 2011.

Litigation settlement and provision. On November 9, 2011, we entered into an agreement with Ventas to settle all remaining claims relating to Ventas's litigation against us arising out of Ventas's 2007 acquisition of Sunrise Senior Living REIT. As part of the settlement, we paid $125 million to Ventas, which resulted in a charge for the same amount (see the information set forth under the heading "Legal Proceedings" of Note 12 to the Consolidated Financial Statements). No similar charges were recognized during the year ended December 31, 2012.

Impairments. During the year ended December 31, 2012, we recognized an impairment of $8 million as a result of the disposition of a life science land parcel (see Note 17 to the Consolidated Financial Statements for additional information). During the year ended December 31, 2011, we recognized an impairment of $15 million related to a senior secured term loan as a result of concluding that the carrying value of the loan was in excess of the fair value of the related collateral supporting the loan (see Note 7 to the Consolidated Financial Statements for additional information).

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Other income, net. For the year ended December 31, 2012, other income, net decreased $10 million to $3 million. The decrease was primarily the result of a gain of $8 million resulting from our acquisition of our partner's 65% interest in and consolidation of HCP Ventures II in January 2011 (see Note 8 to the Consolidated Financial Statements for additional information) and $6 million received in connection with a litigation settlement in June 2011 that represents proceeds owed to us from a prior sale of assets. No similar gain upon consolidation was recognized or settlements were received during the year ended December 31, 2012. The decreases were partially offset by a $5 million charge during the year ended December 31, 2011 for an other-than-temporary impairment of marketable equity securities.

Income taxes. For the year ended December 31, 2012, income taxes decreased $3 million to a benefit of $2 million. The decrease in income taxes was primarily due to the tax benefit resulting from declines in taxable income of our TRS entities during the year ended December 31, 2012.

Equity income from unconsolidated joint ventures. Equity income from unconsolidated joint ventures is primarily the result of our equity interest in HCR ManorCare. The October 2011 CMS reduction of skilled nursing reimbursements under Resource Utilization Group-Version 4 ("RUGs-IV"), together with changes in requirements for the delivery of group therapy services, reduced HCR ManorCare's revenues and increased its therapy costs in 2012. HCR ManorCare partially mitigated these adverse impacts through a cost reduction program. Further, HCR ManorCare experienced increased exposure to general and professional liability claims resulting in higher charges in 2012, which, together with the circumstances discussed above, reduced our share in the earnings from our equity interest in HCR ManorCare.

During the year ended December 31, 2012, equity income from unconsolidated joint ventures increased $8 million to $54 million. This increase primarily was the result of the full-year share of earnings from our interest in HCR ManorCare, Inc. compared to a partial-year in 2011 (see Notes 3 and 8 to the Consolidated Financial Statements for additional information). Our share of earnings from HCR ManorCare (equity income) increases for the corresponding reduction of related lease expense recognized at the HCR ManorCare level.

Discontinued operations. Income from discontinued operations for the year ended December 31, 2012 was $46 million, compared to $18 million for the comparable period in 2011. The increase is primarily due to an increase in gains on real estate dispositions of $28 million, partially offset by a decline in operating income from discontinued operations of $1 million. During the year ended December 31, 2012, we sold real estate investments for $151 million, compared to $19 million for the year ended December 31, 2011.

Liquidity and Capital Resources

Our principal liquidity needs are to: (i) fund recurring operating expenses, (ii) meet debt service requirements, including $487 million of senior unsecured notes and $180 million of mortgage debt principal payments and maturities in 2014, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make dividend distributions. We anticipate that cash flow from continuing operations over the next 12 months will be adequate to fund our business operations, debt service payments, recurring capital expenditures and cash dividends to stockholders. Capital requirements relating to maturing indebtedness, acquisitions, development and redevelopment activities may require funding from borrowings and/or equity and debt offerings.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as our ability to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly

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impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our debt ratings. We also pay a facility fee on the entire revolving commitment that depends upon our debt ratings. As of January 31, 2014, we had a credit rating of BBB+ from Fitch, Baa1 from Moody's and BBB+ from S&P on our senior unsecured debt securities.

Net cash provided by operating activities was $1.1 billion and $1.0 billion for the year ended December 31, 2013 and 2012, respectively. The increase in operating cash flows is primarily the result of the following: (i) the impact of our investments in 2012 and 2013, (ii) assets placed in service during 2012 and 2013 and (iii) rent escalations and resets in 2012 and 2013, which increases were partially offset by increased debt interest payments. Our cash flows from operations are dependent upon the occupancy level of multi-tenant buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses and other factors.

The following are significant investing and financing activities for the year ended December 31, 2013:

- made investments of $223 million (loans, development and acquisition of real estate), net of loan repayments of $263 million and real estate sales of $96 million;
- paid dividends on common stock of $957 million, which were generally funded by cash provided by our operating activities;
- repaid $852 million of mortgages and senior unsecured notes; and
- raised $800 million in senior unsecured notes.

Debt

Bank line of credit and Term Loan. Our $1.5 billion unsecured revolving line of credit facility matures in March 2016 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon our debt ratings. We pay a facility fee on the entire revolving commitment that depends on our debt ratings. Based on our debt ratings at January 31, 2014, the margin on the Facility was 1.075%, and the facility fee was 0.175%. The Facility also includes a feature that will allow us 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 December 31, 2013, we had no balance outstanding under this Facility.

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million ($227 million at December 31, 2013) four-year unsecured term loan (the "Term Loan") that accrues interest at a rate of GBP LIBOR plus 1.20%, based on our current debt ratings. Concurrent with the closing of the Term Loan, we entered into a four-year interest rate swap contract that fixes the rate of the Term Loan at 1.81%, subject to adjustments based on our debt ratings. The Term Loan contains a one-year committed extension option. The Term Loan was used to finance the purchase of our GBP denominated senior unsecured notes (see Note 10 to the Consolidated Financial Statements for additional information).

The Facility and Term Loan contain certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60%, (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times and (v) require a formula-determined Minimum Consolidated Tangible Net Worth of $9.2 billion at December 31, 2013. At December 31, 2013, we were in compliance with each of these restrictions and requirements of the Facility and Term Loan.

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Our Facility also contains cross-default provisions to other indebtedness of ours, including in some instances, certain mortgages on our properties. Certain mortgages contain default provisions relating to defaults under the leases or operating agreements on the applicable properties by our operators or tenants, including default provisions relating to the bankruptcy filings of such operator or tenant. Although we believe that we would be able to secure amendments under the applicable agreements if a default as described above occurs, such a default may result in significantly less favorable borrowing terms than currently available, material delays in the availability of funding or other material adverse consequences.

Senior unsecured notes. At December 31, 2013, we had senior unsecured notes outstanding with an aggregate principal balance of $7.0 billion. Interest rates on the notes ranged from 1.21% to 6.98% with a weighted average effective interest rate of 4.97% and a weighted average maturity of six years at December 31, 2013. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. At December 31, 2013, we believe we were in compliance with these covenants.

Mortgage debt. At December 31, 2013, we had $1.4 billion in aggregate principal amount of mortgage debt outstanding that is secured by 126 healthcare facilities (including redevelopment properties) with a carrying value of $1.8 billion. Interest rates on the mortgage debt ranged from 0.69% to 8.69% with a weighted average effective interest rate of 6.19% and a weighted average maturity of three years at December 31, 2013.

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

Other debt. At December 31, 2013, we had $75 million of non-interest bearing life care bonds at two of our continuing care retirement communities and non-interest bearing occupancy fee deposits at two of our 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.

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Debt Maturities

The following table summarizes our stated debt maturities and scheduled principal repayments at December 31, 2013 (in thousands):

Year	Term Loan[1]	Senior Unsecured Notes	Mortgage	Total[2]
2014	$	$ 487,000	$ 179,525	$ 666,525
2015		400,000	308,421	708,421
2016	226,858	900,000	291,738	1,418,596
2017		750,000	550,477	1,300,477
2018		600,000	6,583	606,583
Thereafter		3,850,000	65,242	3,915,242
	226,858	6,987,000	1,401,986	8,615,844
Discounts, net		(23,625)	(5,501)	(29,126)
	$ 226,858	$ 6,963,375	$ 1,396,485	$ 8,586,718

(1) Represents £137 million translated into U.S. dollars as of December 31, 2013.

(2) Excludes $75 million of other debt that represents Life Care Bonds that have no scheduled maturities.

Derivative Financial Instruments. We use derivative instruments to mitigate the effects of interest rate and foreign exchange fluctuations on specific forecasted transactions as well as recognized financial obligations or assets. We do not use derivative instruments for speculative or trading purposes.

The following table summarizes our outstanding interest-rate and foreign currency swap contracts as of December 31, 2013 (dollars and GBP in thousands):

Date Entered	Maturity Date	Hedge Designation	Fixed Rate/Buy Amount	Floating/Exchange Rate Index	Notional/Sell Amount	Fair Value
July 2005[1]	July 2020	Cash Flow	3.82%	BMA Swap Index	$ 45,600	$ (5,681)
November 2008	October 2016	Cash Flow	5.95%	1 Month LIBOR+1.50%	$ 26,400	(2,703)
July 2012	June 2016	Cash Flow	1.81%	1 Month GBP LIBOR+1.20%	£ 137,000	2,325
July 2012[2]	June 2016	Cash Flow	$ 56,800	Buy USD/Sell GBP	£ 36,200	(2,756)

(1) Represents three interest-rate swap contracts with an aggregate notional amount of $45.6 million which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.

(2)

Currency swap contract (buy USD/sell GBP) hedges the foreign currency exchange risk related to a portion of our forecasted interest receipts on GBP denominated senior unsecured notes. Represents five foreign exchange contracts to sell £7.2 million at a rate of 1.5695 on various dates through June 2016.

For a more detailed description of our derivative financial instruments, see Note 24 to the Consolidated Financial Statements and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A.

Equity

At December 31, 2013, we had 457.0 million shares of common stock outstanding. At December 31, 2013, equity totaled $10.9 billion, and our equity securities had a market value of $16.8 billion.

As of December 31, 2013, there were a total of 4 million DownREIT units outstanding in four limited liability companies in which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

Shelf Registration

We have a prospectus that we filed with the SEC as part of a registration statement on Form S-3ASR, using a shelf registration process which expires in July 2015. Under the "shelf" process, we have the option to sell any one or a combination of the securities described in the prospectus in one or more offerings. The securities described in the prospectus include common stock, preferred stock, depositary shares, debt securities and warrants.

Non-GAAP Financial Measure Funds From Operations ("FFO")

We believe FFO applicable to common shares, diluted FFO applicable to common shares, and basic and diluted FFO per common share are important supplemental non-GAAP measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets utilizes straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. The term FFO was designed by the REIT industry to address this issue.

FFO as defined by the National Association of Real Estate Investment Trusts ("NAREIT") is net income applicable to common shares (computed in accordance with GAAP), excluding gains or losses from acquisition and dispositions of depreciable real estate or related interests, impairments of, or related to, depreciable real estate, plus real estate and DFL depreciation and amortization, with adjustments for joint ventures. Adjustments for joint ventures are calculated to reflect FFO on the same basis. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income. We compute FFO in accordance with the current NAREIT definition; however, other REITs may report FFO differently or have a different interpretation of the current NAREIT definition from ours. In addition, we present FFO before the impact of severance-related charges, litigation settlement charges, preferred stock redemption charges, impairments (recoveries) of non-depreciable assets and merger-related items (defined below) ("FFO as adjusted"). Management believes FFO as adjusted is a useful alternative measurement. This measure is a modification of the NAREIT definition of FFO and should not be used as an alternative to net income (determined in accordance with GAAP).

Details of certain items that affect comparability are discussed under *Results of Operations* above. The following is a reconciliation from net income applicable to common shares, the most direct

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comparable financial measure calculated and presented in accordance with GAAP, to FFO and FFO as adjusted (in thousands, except per share data):

	Year Ended December 31,		
	2013	2012	2011
Net income applicable to common shares	$ 969,103	$ 812,289	$ 515,302
Depreciation and amortization of real estate, in-place lease and other intangibles:			
Continuing operations	423,312	353,704	346,055
Discontinued operations	5,862	12,808	11,340
Impairments of real estate	1,372		
DFL depreciation	14,326	12,756	8,840
Gain on sales of real estate	(69,866)	(31,454)	(3,107)
Gain upon consolidation of joint venture			(7,769)
Equity income from unconsolidated joint ventures	(64,433)	(54,455)	(46,750)
FFO from unconsolidated joint ventures	74,324	64,933	56,887
Noncontrolling interests' and participating securities' share in earnings	15,903	17,547	18,062
Noncontrolling interests' and participating securities' share in FFO	(20,639)	(21,620)	(20,953)
FFO applicable to common shares	$ 1,349,264	$ 1,166,508	$ 877,907
Distributions on dilutive convertible units	13,276	13,028	6,916
Diluted FFO applicable to common shares	$ 1,362,540	$ 1,179,536	$ 884,823
Diluted FFO per common share	$ 2.95	$ 2.72	$ 2.19
Weighted average shares used to calculate diluted FFO per common share	461,710	434,328	403,864
Diluted earnings per common share	$ 2.13	$ 1.90	$ 1.29
Depreciation and amortization of real estate, in-place lease and other intangibles	0.93	0.85	0.89
Impairments on real estate and DFL depreciation	0.03	0.03	0.02
Gain on sales of real estate and upon consolidation of joint venture	(0.15)	(0.07)	(0.03)
Joint venture and participating securities FFO adjustments	0.01	0.01	0.02
Diluted FFO per common share	$ 2.95	$ 2.72	$ 2.19
Impact of adjustments to FFO:			
Severance-related charges[1]	$ 27,244	$	$ 4,827
Preferred stock redemption charge[2]		10,432	
Litigation settlement and provision charges[3]			125,000

Merger-related items(4)		5,642	26,596
Impairments(5)		7,878	15,400
	$ 27,244	$ 23,952	$ 171,823

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	Year Ended December 31,		
	2013	2012	2011
FFO as adjusted applicable to common shares	$ 1,376,508	$ 1,190,460	$ 1,049,730
Distributions on dilutive convertible units and other	13,220	12,957	11,633
Diluted FFO as adjusted applicable to common shares	$ 1,389,728	$ 1,203,417	$ 1,061,363
Diluted FFO as adjusted per common share	$ 3.01	$ 2.78	$ 2.70
Weighted average shares used to calculate diluted FFO as adjusted per common share(6)	461,710	433,607	393,237

(1) Our Board of Directors terminated our former Chairman, Chief Executive Officer and President on October 2, 2013. As a result of the termination, we incurred severance-related charges of $27.2 million that include: (i) the acceleration of $16.7 million of deferred compensation for restricted stock units and options that vested upon termination; and (ii) severance payments and other costs of approximately $10.5 million. See Note 16 to the Consolidated Financial Statements for additional information.

(2) In connection with the redemption of our preferred stock, during the year ended December 31, 2012, we incurred a redemption charge of $10.4 million related to the original issuance costs.

(3) The litigation settlement charge during the year ended December 31, 2011 relates to the Ventas settlement.

(4) The year ended December 31, 2012 merger-related items of $0.02 per share attributable to the Senior Housing Portfolio Acquisition include direct transaction costs and the impact of the negative carry of prefunding the transaction with the $1.0 billion, or 22 million shares, common stock offering completed on October 19, 2012 on the calculation of weighted average shares. Proceeds from this offering were used to fund the Senior Housing Portfolio Acquisition. Merger-related items for the year ended December 31, 2011 are attributable to our HCR ManorCare Acquisition (incurred from January 1st through April 6th 2011), which include the following: (i) $26.8 million of direct transaction costs, (ii) $23.9 million of interest expense associated with the $2.4 billion senior unsecured notes issued on January 24, 2011, proceeds from which were obtained to prefund the HCR ManorCare Acquisition, partially offset by (iii) $24.1 million of income related to gains upon the reinvestment of the our debt investment in HCR ManorCare and other miscellaneous items.

(5) The following impairments, net of recoveries had an impact on FFO:

The impairment charge during the year ended December 31, 2012 relates to the sale of a land parcel in our life science segment.

The impairment charge during the year ended December 31, 2011 relates to our senior secured loan to Delphis.

(6) Our weighted average shares used to calculate diluted FFO as adjusted eliminate the impact of 30 million shares from our March 2011 common stock offering (excludes 4.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares), which issuance increased our weighted average shares by 12.9 million for the year ended December 31, 2011. Proceeds from this offering were used to fund a portion of the cash

consideration for the HCR ManorCare Acquisition.

Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures as described under Note 8 to the Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 12 to the Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described below under *Contractual Obligations*.

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Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at December 31, 2013 (in thousands):

	Total[1]	Less than One Year	2015-2016	2017-2018	More than Five Years
Term loan[2]	$ 226,858	$	$ 226,858	$	$
Senior unsecured notes	6,987,000	487,000	1,300,000	1,350,000	3,850,000
Mortgage debt	1,401,986	179,525	600,159	557,060	65,242
Construction loan commitments[3]	31,108	14,533	16,575		
Development commitments[4]	20,708	20,708			
Ground and other operating leases	220,126	6,303	10,400	7,540	195,883
Interest[5]	2,473,701	409,437	713,135	449,224	901,905
Total	$ 11,361,487	$ 1,117,506	$ 2,867,127	$ 2,363,824	$ 5,013,030

(1) Excludes $75 million of other debt that represents Life Care Bonds that have no scheduled maturities.

(2) Represents £137 million translated into U.S. dollars as of December 31, 2013.

(3) Represents commitments to finance development projects and related working capital financings.

(4) Represents construction and other commitments for developments in progress.

(5) Interest on variable-rate debt is calculated using rates in effect at December 31, 2013.

Inflation

Our leases often provide for either fixed increases in base rents or indexed escalators, based on the Consumer Price Index or other measures, and/or additional rent based on increases in the tenants' operating revenues. Most of our MOB leases require the tenant to pay a share of property operating costs such as real estate taxes, insurance and utilities. Substantially all of our senior housing, life science, post-acute/skilled nursing and hospital leases require the operator or tenant to pay all of the property operating costs or reimburse us for all such costs. We believe that inflationary increases in expenses will be offset, in part, by the operator or tenant expense reimbursements and contractual rent increases described above.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards. There were no accounting pronouncements that were issued, but not yet adopted by us, that we believe will materially impact our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We use derivative financial instruments in the normal course of business to mitigate interest rate and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes. Derivatives are recorded on the consolidated balance sheets at their fair value. See Note 24 to the Consolidated Financial Statements for additional information.

To illustrate the effect of movements in the interest rate and foreign currency markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves and foreign currency exchange rates of the derivative portfolio in order to determine the instruments' change in fair value. Assuming a one percentage point change in the underlying interest rate curve and foreign currency exchange rates, the estimated change in fair value of each of the underlying derivative instruments would not exceed $6 million. See Note 24 to the Consolidated Financial Statements for additional analysis details.

Interest Rate Risk. At December 31, 2013, we are exposed to market risks related to fluctuations in interest rates on the following: (i) properties with a gross value of $83 million that are subject to leases where the payments fluctuate with changes in LIBOR that are partially offset by (ii) $25 million of variable-rate senior unsecured notes and (iii) $9 million of variable-rate mortgage debt payable (excludes $72 million of variable-rate mortgage notes that have been hedged through interest-rate swap contracts) . Additionally, our exposure to market risks related to fluctuations in interest rates excludes our GBP denominated $227 million (£137 million) variable-rate Term Loan that has been hedged through interest-rate swap contracts.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and assets unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no other changes in the outstanding balance as of December 31, 2013, our annual interest expense would increase by approximately $1 million, or less than $0.01 per common share on a diluted basis.

Foreign Currency Exchange Rate Risk. At December 31, 2013, our exposure to foreign currency exchange rates relates to forecasted interest receipts from our GBP denominated senior unsecured notes (see additional discussion of the Four Seasons senior unsecured notes in Note 10 to the Consolidated Financial Statements). Our foreign currency exchange exposure is mitigated by the forecasted interest and principal payments from our GBP denominated unsecured Term Loan (see Note 11 to the Consolidated Financial Statements for additional information), and a foreign currency swap contract for approximately 85% of the forecasted interest receipts from our Four Seasons senior unsecured notes through their non-call period, which ends on June 15, 2016.

Market Risk. We have investments in marketable debt securities classified as held-to-maturity, because we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current adjusted carrying value; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the market value, if any. At December 31, 2013, the fair value and carrying value of marketable debt securities were $281 million and $244 million, respectively.

The principal amount and the average interest rates for our loans receivable and debt categorized by maturity dates is presented in the table below. The fair value for our senior unsecured notes payable is based on prevailing market prices. The fair value estimates for loans receivable and mortgage debt

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payable are based on discounting future cash flows utilizing current rates for loans and debt of the same type and remaining maturity.

	Maturity							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
	(dollars in thousands)							
Assets:								
Loans receivable (USD)	$ 18,070(1)	$	$ 107,314	$ 236,281	$ 5,960	$	$ 367,625	$ 373,441
Weighted average interest rate	14.00%	%	7.82%	12.32%	8.00%	%	11.02%	
Debt securities held-for-sale (USD)	$	$	$ 16,771	$	$	$	$ 16,771	$ 16,994
Weighted average interest rate	%	%	4.43%	%	%	%	4.43%	
Debt securities held-for-sale (GBP)	$	$	$ 215,109	$	$	$	$ 215,109	$ 263,856
Weighted average interest rate	%	%	12.25%	%	%	%	12.25%	
Liabilities(2):								
Variable-rate debt:								
Term loan (GBP)	$	$	$ 226,858	$	$	$	$ 226,858	$ 226,858
Weighted average interest rate	%	%	2.00%	%	%	%	2.00%	
Senior unsecured notes payable (USD)	$ 25,000	$	$	$	$	$	$ 25,000	$ 24,978
Weighted average interest rate	1.21%	%	%	%	%	%	1.21%	
Mortgage debt payable (USD)	$ 455	$ 8,500	$	$	$	$	$ 8,955	$ 8,111
Weighted average interest rate	2.61%	0.80%	%	%	%	%	0.89%	
Fixed-rate debt:								
Senior unsecured notes payable (USD)	$ 462,000	$ 400,000	$ 900,000	$ 750,000	$ 600,000	$ 3,850,000	$ 6,962,000	$ 7,380,839
Weighted average interest rate	3.32%	6.57%	5.10%	6.03%	6.83%	4.50%	4.98%	
Mortgage debt payable (USD)	$ 179,071	$ 299,920	$ 291,738	$ 550,477	$ 6,583	$ 65,242	$ 1,393,031	$ 1,413,103
Weighted average interest rate	5.76%	5.86%	6.45%	5.68%	5.91%	4.51%	6.22%	
Interest-rate derivatives assets (liabilities):								
Variable-rate debt:								
Variable to fixed (USD)	$	$	$ (2,703)	$	$	$ (5,681)	$ (8,384)	$ (8,384)
Weighted average pay rate	%	%	5.95%	%	%	3.82%	4.51%	
Weighted average receive rate	%	%	3.34%	%	%	4.00%	3.79%	
Variable to fixed (GBP)	$	$	$ 2,325	$	$	$	$ 2,325	$ 2,325
Weighted average pay rate	%	%	1.81%	%	%	%	1.81%	
Weighted average receive rate	%	%	3.22%	%	%	%	3.22%	

(1) Effective January 1, 2011, a senior secured loan to Delphis was placed on non-accrual status. For additional information regarding the senior secured loan to Delphis see Note 7 to the Consolidated Financial Statements.

(2) Excludes $75 million of other debt that represents non-interest bearing Life Care Bonds and occupancy fee deposits at certain of our senior housing facilities, which have no scheduled maturities.

ITEM 8. Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements included in this report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired

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control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Also, we have investments in certain unconsolidated entities. Our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based upon that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective, as of December 31, 2013, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2013 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework (1992)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of HCP, Inc.
Long Beach, California

We have audited the internal control over financial reporting of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2013, of the Company and our report dated February 11, 2014 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 11, 2014

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ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees, including our Chief Executive Officer and all senior financial officers, including our principal financial officer, principal accounting officer and controller. We have also adopted a Vendor Code of Business Conduct and Ethics applicable to our vendors and business partners. A current copy of our Code of Business Conduct and Ethics and Vendor Code of Business Conduct and Ethics are posted on the Investor Relations section of our website at www.hcpi.com. In addition, waivers from, and amendments to, our Code of Business Conduct and Ethics that apply to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, will be timely posted in the Investor Relations section of our website at www.hcpi.com.

We hereby incorporate by reference the information appearing under the captions "Directors and Executive Officers," "Board of Directors and Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders to be held on May 1, 2014.

ITEM 11. Executive Compensation

We hereby incorporate by reference the information under the caption "Executive Compensation" in the Registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders to be held on May 1, 2014.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We hereby incorporate by reference the information under the captions "Security Ownership of Principal Stockholders, Directors and Management" and "Equity Compensation Plan Information" in the Registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders to be held on May 1, 2014.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

We hereby incorporate by reference the information under the captions "Certain Transactions" and "Board of Directors and Corporate Governance" in the Registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders to be held on May 1, 2014.

ITEM 14. Principal Accountant Fees and Services

We hereby incorporate by reference under the caption "Audit and Non-Audit Fees" in the Registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders to be held on May 1, 2014.

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PART IV

ITEM 15. Exhibits, Financial Statements and Financial Statement Schedules (2013)

(a)(1) Financial Statements:
Report of Independent Registered Public Accounting Firm Deloitte & Touche LLP
Financial Statements
Consolidated Balance Sheets December 31, 2013 and 2012
Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

Schedule II: Valuation and Qualifying Accounts

(a)(2) Schedule III: Real Estate and Accumulated Depreciation
Note: All other schedules have been omitted because the required information is presented in the financial statements and the related notes or because the schedules are not applicable.

(a)(3) Exhibits:

2.1 Purchase Agreement, dated as of December 13, 2010, by and among HCP, Inc., HCP 2010 REIT LLC, HCR ManorCare, Inc., HCR Properties, LLC and HCR Healthcare, LLC (incorporated herein by reference to Exhibit 2.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed December 14, 2010).

2.1.1 Amendment to Purchase Agreement, dated as of April 7, 2011, by and among HCP, Inc., HCP 2010 REIT LLC, HCR ManorCare MergeCo, Inc., HCR ManorCare, LLC, HCR Properties, LLC and HCR Healthcare, LLC (incorporated herein by reference to Exhibit 2.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed April 13, 2011).**

2.2 Purchase and Sale Agreement, dated as of October 16, 2012, by and among BRE/SW Portfolio LLC, those owner entities listed on Schedule 1 thereto, HCP, Inc. and Emeritus Corporation; and First Amendment to such Purchase and Sale Agreement, by and among such parties, dated as of December 4, 2012 (incorporated herein by reference to Exhibit 2.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2013).

3.1 Articles of Restatement of HCP (incorporated herein by reference to Exhibit 3.1 to HCP's Registration Statement on Form S-3 (Registration No. 333-182824, filed July 24, 2012).

3.2 Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed September 25, 2006).

3.2.1 Amendment No. 1 to Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.2.1 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2007).

3.2.2 Amendment No. 2 to Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.2.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2009).

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3.2.3 Amendment No. 3 to Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed March 10, 2011).

3.2.4 Amendment No. 4 to Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed October 3, 2013).

4.1 Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.2 to HCP's Registration Statement on Form S-3/A (Registration No. 333-86654), filed May 21, 2002).

4.1.1 First Supplemental Indenture dated as of January 24, 2011, to the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 24, 2011).

4.2 Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 19, 2012).

4.2.1 First Supplemental Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 19, 2012).

4.2.2 Second Supplemental Indenture, dated November 12, 2013, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 12, 2013).

4.3 Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 20, 2003).

4.4 Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 20, 2003).

4.5 Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed February 17, 2006).

4.6 Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP's Current Report on Form 8-K (File No. 001-08895), filed February 17, 2006).

4.7 Officers' Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled "6.00% Senior Notes due March 1, 2015" (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed February 28, 2003).

4.8 Officers' Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled "$5^5/_8$% Senior Notes due May 1, 2017" (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 001-08895), filed April 27, 2005).

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4.9	Officers' Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as trustee, setting forth the terms of HCP's Fixed Rate Medium-Term Notes and Floating Rate Medium-Term Notes (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 001-08895), filed February 17, 2006).
4.10	Form of 6.30% Notes Due 2016 (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed September 19, 2006).
4.11	Form of 6.00% Senior Notes Due 2017 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 22, 2007).
4.12	Officers' Certificate (including Form of 6.70% Senior Notes Due 2018 as Annex A thereto), dated October 15, 2007, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Trust Company, N.A., as successor trustee to The Bank of New York, establishing a series of securities entitled "6.70% Senior Notes due 2018" (incorporated herein by reference to Exhibit 4.29 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895), filed October 30, 2007).
4.13	Form of 2.700% Senior Notes due 2014 (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 24, 2011).
4.14	Form of 3.750% Senior Notes due 2016 (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 24, 2011).
4.15	Form of 5.375% Senior Notes due 2021 (incorporated herein by reference to Exhibit 4.4 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 24, 2011).
4.16	Form of 6.750% Senior Notes due 2041 (incorporated herein by reference to Exhibit 4.5 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 24, 2011).
4.17	Form of 3.75% Senior Notes due 2019 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 23, 2012).
4.18	Form of 3.15% Senior Notes due 2022 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed July 23, 2012).
4.19	Form of 2.625% Senior Notes due 2020 (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 19, 2012).
4.20	Form of 4.250% Senior Notes due 2023 (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 12, 2013).
10.1	Second Amended and Restated Director Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2009).*
10.2	Amended and Restated Executive Retirement Plan, effective as of May 7, 2003 (incorporated herein by reference to Exhibit 10.34 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2003).*
10.3	2006 Performance Incentive Plan, as amended and restated (incorporated by reference to Annex 2 to HCP's Proxy Statement (File No. 001-08895) for the Annual Meeting of Stockholders held on April 23, 2009).*
10.3.1	Form of CEO 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with five-year installment vesting (incorporated herein by reference to Exhibit 10.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2009).*

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10.3.2	Form of CEO 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with three-year cliff vesting (incorporated herein by reference to Exhibit 10.3 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2009).*
10.3.3	Form of Employee 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with five-year installment vesting (incorporated herein by reference to Exhibit 10.4 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2009).*
10.3.4	Form of Director 2006 Performance Incentive Plan Director Stock Unit Award Agreement with four-year installment vesting (incorporated herein by reference to Exhibit 10.1 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2009).*
10.3.5	HCP, Inc. Terms and Conditions Applicable to Restricted Stock Unit Awards Granted Under the 2006 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.3 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2011).*
10.3.6	Form of CEO 2006 Performance Incentive Plan Time-Based Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.4 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2011).*
10.3.7	Form of CEO 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with five-year installment vesting (incorporated herein by reference to Exhibit 10.17 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2008).*
10.3.8	Form of CEO 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with three-year cliff vesting (incorporated herein by reference to Exhibit 10.18 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2008).*
10.3.9	Form of Employee 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with five- year installment vesting (incorporated herein by reference to Exhibit 10.19 to HCP's Annual Report on Form 10-K, as amended (Filed No. 001-08895), for the year ended December 31, 2007).*
10.3.10	Form of Employee 2006 Performance Incentive Plan Nonqualified Stock Option Agreement with five-year installment vesting (incorporated herein by reference to Exhibit 10.37 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2006).*
10.3.11	Form of Non-Employee Director 2006 Performance Incentive Plan Restricted Stock Award Agreement with five- year installment vesting, (incorporated herein by reference to Exhibit 10.38 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2006).*
10.3.12	Form of Non-Employee Directors 2006 Performance Incentive Plan Stock-For-Fees Program (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed August 2, 2006).*
10.3.13	Amended and Restated Stock Unit Award Agreement Granted Under 2006 Performance Incentive Plan, dated April 24, 2008, by and between HCP and James F. Flaherty III (incorporated herein by reference to Exhibit 10.25 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2008).*

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10.3.14	Form of CEO 2006 Performance Incentive Plan Performance-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).*
10.3.15	Form of CEO 2006 Performance Incentive Plan Time-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.3 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).*
10.3.16	Form of Employee 2006 Performance Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.4 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).*
10.3.17	Form of Employee 2006 Performance Incentive Plan Performance-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.5 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).*
10.3.18	Form of Employee 2006 Performance Incentive Plan Time-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.6 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).*
10.3.19	Restricted Stock Unit Award Agreement, dated as of October 3, 2013, by and between HCP and Paul F. Gallagher (incorporated herein by reference to Exhibit 10.7 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.3.20	Restricted Stock Unit Award Agreement, dated as of October 3, 2013, by and between HCP and Timothy M. Schoen (incorporated herein by reference to Exhibit 10.8 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.3.21	Restricted Stock Unit Award Agreement, dated as of October 31, 2013, by and between HCP and James W. Mercer (incorporated herein by reference to Exhibit 10.9 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.3.22	Amended 2013 Restricted Stock Award Agreement, dated as of December 20, 2013, by and between HCP and Lauralee E. Martin.*
10.4	Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2012).*
10.5	Executive Bonus Program (incorporated herein by reference to HCP's Current Report on Form 8-K (File No. 001-08895), filed January 31, 2008).*
10.6	Amended and Restated Dividend Reinvestment and Stock Purchase Plan, amended as of July 25, 2012 (incorporated by reference to HCP's Registration Statement on Form S-3 (Registration No. 333-182824), dated July 24, 2012 and as supplemented on July 25, 2012).
10.7	Form of directors and officers Indemnification Agreement (incorporated herein by reference to Exhibit 10.21 to HCP's Annual Report on Form 10-K, as amended (File No. 001-08895) for the year ended December 31, 2007).*
10.8	Amended and Restated Employment Agreement, dated as of April 24, 2008, by and between HCP and James F. Flaherty III (incorporated herein by reference to Exhibit 10.11 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2008).*
10.9	Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File 001-08895), filed February 1, 2012).*

10.9.1	Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File 001-08895), filed April 5, 2013).*
10.9.2	Term Sheet Amendment to Employment Agreement, dated as of October 3, 2013, by and between HCP and Paul F. Gallagher (incorporated herein by reference to Exhibit 10.3 to HCP's Current Report on Form 8-K (File 001-08895), filed October 3, 2013).*
10.9.3	Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher (incorporated herein by reference to Exhibit 10.4 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.10	Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen (incorporated herein by reference to Exhibit 10.2 to HCP's Current Report on Form 8-K (File 001-08895), filed February 1, 2012).*
10.10.1	Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen (incorporated herein by reference to Exhibit 10.2 to HCP's Current Report on Form 8-K (File 001-08895), filed April 5, 2013).*
10.10.2	Term Sheet Amendment to Employment Agreement, dated as of October 3, 2013, by and between HCP and Timothy M. Schoen (incorporated herein by reference to Exhibit 10.2 to HCP's Current Report on Form 8-K (File 001-08895), filed October 3, 2013).*
10.10.3	Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen (incorporated herein by reference to Exhibit 10.5 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.11	Employment Agreement, dated October 25, 2012, by and between HCP, Inc. and James W. Mercer (incorporated herein by reference to Exhibit 10.1 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2012).*
10.11.1	Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and James W. Mercer (incorporated herein by reference to Exhibit 10.3 to HCP's Current Report on Form 8-K (File 001-08895), filed April 5, 2013).*
10.11.2	Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and James W. Mercer (incorporated herein by reference to Exhibit 10.6 to HCP's Quarterly Report on Form 10-Q (File 001-08895) for the quarter ended September 30, 2013).*
10.12	Employment Agreement, dated as of October 2, 2013, by and between HCP, Inc. and Lauralee E. Martin (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File 001-08895), filed October 3, 2013).*
10.13	Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999 (incorporated herein by reference to Exhibit 10.16 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 1998).
10.14	Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, dated as of August 17, 2001, as amended (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed November 9, 2012).

10.15	Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 2, 2003 (incorporated herein by reference to Exhibit 10.28 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2003).
10.15.1	Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of September 29, 2004 (incorporated herein by reference to Exhibit 10.37 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2004).
10.15.2	Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 29, 2004 (incorporated herein by reference to Exhibit 10.43 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2004).
10.15.3	Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC and New Member Joinder Agreement, dated as of October 19, 2005, by and among HCP, HCPI/Tennessee, LLC and A. Daniel Weyland (incorporated herein by reference to Exhibit 10.14.3 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended September 30, 2005).
10.15.4	Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, effective as of January 1, 2007 (incorporated herein by reference to Exhibit 10.12.4 to HCP's Annual Report on Form 10-K, as amended (File No. 001-08895), for the year ended December 31, 2007).
10.16	Amended and Restated Limited Liability Company Agreement of HC PDR MCD, LLC, dated as of February 9, 2007 (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed April 20, 2012).
10.17	Stockholders Agreement, dated as of December 13, 2010, among HCP, Inc., HCR ManorCare, Inc. and certain stockholders of HCR ManorCare, Inc. (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed December 14, 2010).
10.18	Credit Agreement, dated March 11, 2011, by and among HCP, as borrower, the lenders referred to therein, and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed March 15, 2011).
10.18.1	Amendment No. 1 to Credit Agreement, dated March 27, 2012, by and among HCP, as borrower, the lenders referred to therein and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed March 29, 2012).
10.18.2	Amendment No. 2 to Credit Agreement, dated May 7, 2013, by and among HCP, as borrower, the financial institutions referred to therein, and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.4 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2013).
10.19	Master Lease and Security Agreement, dated as of April 7, 2011, by and between the parties set forth on Exhibit A-1, Exhibit A-2, Exhibit A-3 and Exhibit A-4 attached thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 001-08895), filed July 12, 2011).**

10.19.1	First Amendment to Master Lease and Security Agreement, dated as of April 7, 2011, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.59.1 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2011).
10.19.2	Second Amendment to Master Lease and Security Agreement, dated as of May 16, 2011, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.59.2 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2011).
10.19.3	Third Amendment to Master Lease and Security Agreement, dated as of January 10, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.59.3 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2011).
10.19.4	Fourth Amendment to Master Lease and Security Agreement, dated as of April 18, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.1 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2012).
10.19.5	Fifth Amendment to Master Lease and Security Agreement, dated as of May 4, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.1 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2012).
10.19.6	Sixth Amendment to Master Lease and Security Agreement, dated as of May 30, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended June 30, 2012).
10.19.7	Seventh Amendment to Master Lease and Security Agreement, dated as of February 11, 2013, by and among the parties signatory thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 2.2 to HCP's Quarterly Report on Form 10-Q (File No. 001-08895) for the quarter ended March 31, 2013).
10.20	Master Lease and Security Agreement, dated as of October 31, 2012, by and between HCPI Trust, HCP Senior Housing Properties Trust, HCP SH ELP1 Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH Oakridge, LLC, HCP SH River Valley Landing, LLC and HCP SH Sellwood Landing, LLC, as lessor, and Emeritus Corporation, as lessee (incorporated herein by reference to Exhibit 10.40 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2012).**
10.20.1	First Amendment to Master Lease and Security Agreement, dated as of December 4, 2012, by and between HCPI Trust, HCP Senior Housing Properties Trust, HCP SH ELP1 Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH Oakridge, LLC, HCP SH River Valley Landing, LLC and HCP SH Sellwood Landing, LLC, as lessor, and Emeritus Corporation, as lessee (incorporated herein by reference to Exhibit 10.40.1 to HCP's Annual Report on Form 10-K (File No. 001-08895) for the year ended December 31, 2012).**
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP.
23.2	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP.

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31.1	Certification by Lauralee E. Martin, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification by Lauralee E. Martin, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
32.2	Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
99.1	HCR ManorCare, Inc. Financial Statements as of December 31, 2013 and 2012 and for the three years in the periods ended December 31, 2013.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Management Contract or Compensatory Plan or Arrangement

** Portions of this exhibit have been omitted pursuant to a request for confidential treatment with the SEC.

Filed herewith.

Furnished herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 11, 2014

HCP, Inc. (Registrant)

/s/ LAURALEE E. MARTIN

Lauralee E. Martin,
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ LAURALEE E. MARTIN Lauralee E. Martin	President and Chief Executive Officer (Principal Executive Officer)	February 11, 2014
/s/ TIMOTHY M. SCHOEN Timothy M. Schoen	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 2014
/s/ SCOTT A. ANDERSON Scott A. Anderson	Senior Vice President Chief Accounting Officer (Principal Accounting Officer)	February 11, 2014
/s/ BRIAN G. CARTWRIGHT Brian G. Cartwright	Director	February 11, 2014
/s/ CHRISTINE N. GARVEY Christine N. Garvey	Director	February 11, 2014
/s/ DAVID B. HENRY David B. Henry	Director	February 11, 2014
/s/ MICHAEL D. MCKEE Michael D. McKee	Director	February 11, 2014

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Signature	Title	Date
/s/ PETER L. RHEIN Peter L. Rhein	Director	February 11, 2014
/s/ JOSEPH P. SULLIVAN Joseph P. Sullivan	Director	February 11, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of HCP, Inc.
Long Beach, California

We have audited the accompanying consolidated balance sheets of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HCP, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 11, 2014

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HCP, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Real estate:		
Buildings and improvements	$ 10,544,110	$ 10,448,752
Development costs and construction in progress	225,869	236,859
Land	1,822,862	1,838,613
Accumulated depreciation and amortization	(1,965,592)	(1,694,892)
Net real estate	10,627,249	10,829,332
Net investment in direct financing leases	7,153,399	6,881,393
Loans receivable, net	366,001	276,030
Investments in and advances to unconsolidated joint ventures	196,576	212,213
Accounts receivable, net of allowance of $1,529 and $1,668, respectively	27,494	34,150
Cash and cash equivalents	300,556	247,673
Restricted cash	37,229	37,848
Intangible assets, net	489,842	551,737
Real estate and intangible assets held for sale, net	9,819	56,659
Other assets, net	867,705	788,520
Total assets(1)	$ 20,075,870	$ 19,915,555
LIABILITIES AND EQUITY		
Term loan	$ 226,858	$ 222,694
Senior unsecured notes	6,963,375	6,712,624
Mortgage debt	1,396,485	1,665,210
Mortgage debt and intangible liabilities on assets held for sale, net		13,063
Other debt	74,909	81,958
Intangible liabilities, net	98,810	104,180
Accounts payable and accrued liabilities	318,427	293,994
Deferred revenue	65,872	68,055
Total liabilities(2)	9,144,736	9,161,778
Commitments and contingencies		
Common stock, $1.00 par value: 750,000,000 shares authorized; 456,960,648 and 453,191,321 shares issued and outstanding, respectively	456,961	453,191
Additional paid-in capital	11,334,041	11,180,066
Cumulative dividends in excess of earnings	(1,053,215)	(1,067,367)
Accumulated other comprehensive loss	(14,487)	(14,653)

Total stockholders' equity	10,723,300	10,551,237
Joint venture partners	23,729	14,752
Non-managing member unitholders	184,105	187,788
Total noncontrolling interests	207,834	202,540
Total equity	10,931,134	10,753,777
Total liabilities and equity	$ 20,075,870	$ 19,915,555

(1) The Company's consolidated total assets at December 31, 2013 and 2012 include assets of certain variable interest entities ("VIEs") that can only be used to settle the liabilities of those VIEs. At December 31, 2013: other assets, net, $1 million. At December 31, 2012: accounts receivable, net, $2 million; cash and cash equivalents, $10 million; and other assets, net, $2 million. See Note 21 for additional details.

(2) The Company's consolidated total liabilities at December 31, 2013 and 2012 include liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. At December 31, 2013: accounts payable and accrued liabilities, $9 million. At December 31, 2012: other debt, $0.2 million; accounts payable and accrued liabilities, $14 million; and deferred revenue, $2 million. See Note 21 for additional details.

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Rental and related revenues	$ 1,128,054	$ 997,767	$ 986,432
Tenant recoveries	100,649	94,626	92,254
Resident fees and services	146,288	139,073	49,091
Income from direct financing leases	636,881	622,073	464,704
Interest income	86,159	24,536	99,864
Investment management fee income	1,847	1,895	2,073
Total revenues	2,099,878	1,879,970	1,694,418
Costs and expenses:			
Interest expense	435,252	416,172	415,455
Depreciation and amortization	423,312	353,704	346,055
Operating	298,282	280,716	218,701
General and administrative	109,233	79,395	96,059
Litigation provision			125,000
Impairments		7,878	15,400
Total costs and expenses	1,266,079	1,137,865	1,216,670
Other income, net	18,216	2,976	12,933
Income before income taxes and equity income from unconsolidated joint ventures	852,015	745,081	490,681
Income taxes	(5,815)	1,654	(1,301)
Equity income from unconsolidated joint ventures	64,433	54,455	46,750
Income from continuing operations	910,633	801,190	536,130
Discontinued operations:			
Income before impairment losses and gain on sales of real estate, net of income taxes	5,879	14,198	15,257
Impairment losses on real estate	(1,372)		
Gain on sales of real estate, net of income taxes	69,866	31,454	3,107
Total discontinued operations	74,373	45,652	18,364

Net income		985,006		846,842		554,494
Noncontrolling interests' share in earnings		(14,169)		(14,302)		(15,603)
Net income attributable to HCP, Inc.		970,837		832,540		538,891
Preferred stock dividends				(17,006)		(21,130)
Participating securities' share in earnings		(1,734)		(3,245)		(2,459)
Net income applicable to common shares	$	969,103	$	812,289	$	515,302
Basic earnings per common share:						
Continuing operations	$	1.97	$	1.80	$	1.25
Discontinued operations		0.16		0.10		0.04
Net income applicable to common shares	$	2.13	$	1.90	$	1.29
Diluted earnings per common share:						
Continuing operations	$	1.97	$	1.80	$	1.25
Discontinued operations		0.16		0.10		0.04
Net income applicable to common shares	$	2.13	$	1.90	$	1.29
Weighted average shares used to calculate earnings per common share:						
Basic		455,002		427,047		398,446
Diluted		455,702		428,316		400,218

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$ 985,006	$ 846,842	$ 554,494
Other comprehensive income (loss):			
Change in net unrealized gains (losses) on securities:			
Unrealized gains (losses)	1,355	7,776	(5,396)
Reclassification adjustment realized in net income	(9,131)		5,396
Change in net unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses)	6,435	(3,127)	(4,367)
Reclassification adjustment realized in net income	1,220	387	(1,033)
Change in Supplemental Executive Retirement Plan obligation	240	(356)	(495)
Foreign currency translation adjustment	47	249	(450)
Total other comprehensive income (loss)	166	4,929	(6,345)
Total comprehensive income	985,172	851,771	548,149
Total comprehensive income attributable to noncontrolling interests	(14,169)	(14,302)	(15,603)
Total comprehensive income attributable to HCP, Inc.	$ 971,003	$ 837,469	$ 532,546

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	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
Net income						538,891		538,891	15,603	554,494
Other comprehensive losses							(6,345)	(6,345)		(6,345)
Issuance of common stock, net			36,683	36,683	1,268,781			1,305,464	(3,456)	1,302,008
Repurchase of common stock			(136)	(136)	(4,855)			(4,991)		(4,991)
Exercise of stock options			1,157	1,157	29,639			30,796		30,796
Amortization of deferred compensation					20,034			20,034		20,034
Preferred dividends						(21,130)		(21,130)		(21,130)
Common dividends ($1.92 per share)						(766,559)		(766,559)		(766,559)
Distributions to noncontrolling interests									(15,156)	(15,156)
Noncontrolling interests in acquisitions									1,500	1,500
Issuance of noncontrolling interests									14,028	14,028
Purchase of noncontrolling interests					(20,045)			(20,045)	(14,059)	(34,104)
December 31, 2011	11,820	285,173	408,629	408,629	9,383,536	(1,024,274)	(19,582)	9,033,482	187,140	9,220,622
Net income						832,540		832,540	14,302	846,842
Other comprehensive income							4,929	4,929		4,929
Preferred stock redemption	(11,820)	(285,173)				(10,327)		(295,500)		(295,500)
Issuance of common stock, net			42,468	42,468	1,739,357			1,781,825	(25,029)	1,756,796
Repurchase of common stock			(361)	(361)	(15,271)			(15,632)		(15,632)
Exercise of stock options			2,455	2,455	49,167			51,622		51,622
Amortization of deferred compensation					23,277			23,277		23,277

Preferred dividends				(6,679)		(6,679)		(6,679)
Common dividends ($2.00 per share)				(858,627)		(858,627)		(858,627)
Distributions to noncontrolling interests							(15,631)	(15,631)
Noncontrolling interests in acquisitions							42,734	42,734
Issuance of noncontrolling interests							1,584	1,584
Purchase of noncontrolling interests							(2,560)	(2,560)
December 31, 2012	$ 453,191	453,191	11,180,066	(1,067,367)	(14,653)	10,551,237	202,540	10,753,777
Net income				970,837		970,837	14,169	985,006
Other comprehensive income					166	166		166
Issuance of common stock, net	3,136	3,136	107,565			110,701	(3,683)	107,018
Repurchase of common stock	(242)	(242)	(10,196)			(10,438)		(10,438)
Exercise of stock options	876	876	16,626			17,502		17,502
Amortization of deferred compensation			39,980			39,980		39,980
Common dividends ($2.10 per share)				(956,685)		(956,685)		(956,685)
Distributions to noncontrolling interests							(17,664)	(17,664)
Issuance of noncontrolling interests							12,472	12,472
December 31, 2013	456,961	$ 456,961	$ 11,334,041	$ (1,053,215)	$ (14,487)	$ 10,723,300	$ 207,834	$ 10,931,134

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	$ 985,006	$ 846,842	$ 554,494
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	423,312	353,704	346,055
Discontinued operations	5,862	12,808	11,340
Amortization of above and below market lease intangibles, net	(6,646)	(2,232)	(4,510)
Amortization of deferred compensation	39,980	23,277	20,034
Amortization of deferred financing costs, net	18,541	16,501	25,769
Straight-line rents	(39,587)	(47,311)	(59,173)
Loan and direct financing lease interest accretion	(86,314)	(95,444)	(93,003)
Deferred rental revenues	(2,843)	(1,655)	(2,319)
Equity income from unconsolidated joint ventures	(64,433)	(54,455)	(46,750)
Distributions of earnings from unconsolidated joint ventures	3,989	3,384	3,273
Gain upon consolidation of joint venture			(7,769)
Marketable securities (gains) losses, net	(11,350)		5,396
Gain upon settlement of loans receivable			(22,812)
Gain on sales of real estate	(69,866)	(31,454)	(3,107)
Foreign currency and derivative (gains) losses, net	533	43	(1,226)
Impairments	1,372	7,878	15,400
Changes in:			
Accounts receivable, net	6,656	(7,469)	2,590
Other assets	(58,290)	(3,814)	27,582
Accounts payable and other accrued liabilities	3,065	14,267	(47,103)
Net cash provided by operating activities	1,148,987	1,034,870	724,161
Cash flows from investing activities:			
Other acquisitions of real estate	(64,678)	(186,478)	(113,324)
Cash used in the senior housing portfolio acquisition		(1,701,410)	
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)
Development of real estate	(130,317)	(133,596)	(85,061)
Leasing costs and tenant and capital improvements	(64,557)	(61,440)	(52,903)
Proceeds from sales of real estate, net	95,816	150,943	19,183
Purchase of an interest in and contributions to unconsolidated joint ventures			(95,000)
Distributions in excess of earnings from unconsolidated joint ventures	14,102	2,915	2,408
Purchases of marketable securities	(16,706)	(214,859)	(22,449)
Proceeds from sales of marketable securities	28,403		
Principal repayments on loans receivable	263,445	45,046	303,941
Investments in loans receivable	(322,775)	(218,978)	(369,939)
(Increase) decrease in restricted cash	619	3,705	(5,234)
Net cash used in investing activities	(196,648)	(2,314,152)	(4,580,484)

Cash flows from financing activities:			
Net borrowings (repayments) under bank line of credit		(454,000)	454,000
Borrowings under term loan		214,789	
Issuance of senior unsecured notes	800,000	1,550,000	2,400,000
Repayments of senior unsecured notes	(550,000)	(250,000)	(292,265)
Repayments of mortgage and other secured debt	(302,119)	(155,565)	(169,783)
Issuance of mortgage and other debt	6,798		
Deferred financing costs	(7,300)	(27,565)	(43,716)
Preferred stock redemption		(295,500)	
Net proceeds from the issuance of common stock and exercise of options	114,082	1,792,786	1,327,813
Dividends paid on common and preferred stock	(956,685)	(865,306)	(787,689)
Issuance of noncontrolling interests	12,472	1,584	14,028
Purchase of noncontrolling interests		(2,143)	(34,104)
Distributions to noncontrolling interests	(17,664)	(15,631)	(15,156)
Net cash provided by (used in) financing activities	(900,416)	1,493,449	2,853,128
Effect of foreign exchange on cash and cash equivalents	960		
Net increase (decrease) in cash and cash equivalents	52,883	214,167	(1,003,195)
Cash and cash equivalents, beginning of year	247,673	33,506	1,036,701
Cash and cash equivalents, end of year	$ 300,556	$ 247,673	$ 33,506

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business

HCP, Inc., an S&P 500 company, is a Maryland corporation that is organized to qualify as a real estate investment trust ("REIT") which, together with its consolidated entities (collectively, "HCP" or the "Company"), invests primarily in real estate serving the healthcare industry in the United States. The Company acquires, develops, leases, manages and disposes of healthcare real estate and provides financing to healthcare providers.

(2) Summary of Significant Accounting Policies

Use of Estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ("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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures or variable interest entities that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation.

The Company is required to continually evaluate its VIE relationships and consolidate these entities when it is determined to be the primary beneficiary of their operations. A VIE is broadly defined as an entity where either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company qualitatively assesses whether it is (or is not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, the Company's ability to direct the activities that most significantly impact the VIE's economic performance, its form of ownership interest, its representation on the VIE's governing body, the size and seniority of its investment, its ability and the rights of other investors to participate in policy making decisions and its ability to replace the manager of and/or liquidate the entity.

For its investments in joint ventures, the Company evaluates the type of ownership rights held by the limited partner(s) that may preclude consolidation in circumstances in which the sole general partner would otherwise consolidate the limited partnership. The assessment of limited partners' rights and their impact on the presumption of control over a limited partnership by the sole general partner should be made when an investor becomes the sole general partner and should be reassessed if (i) there is a change to the terms or in the exercisability of the rights of the limited partners, (ii) the sole general partner increases or decreases its ownership in the limited partnership interests, or (iii) there is an increase or decrease in the number of outstanding limited partnership interests. The Company similarly evaluates the rights of managing members of limited liability companies.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, the Company assesses its terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the future minimum lease payments (excluding executory costs) are equal to 90% or more of the excess estimated fair value (over retained tax credits) of the leased building. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predicable and collectible, the lease arrangement is generally accounted for as a direct financing lease.

The Company recognizes rental revenue for operating lease arrangements when the tenant has taken possession or controls the physical use of a leased asset. If a lease arrangement provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded by the Company is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Ownership of tenant improvements is determined based on various factors including, but not limited to, the following criteria:

- lease stipulations of how and on what a tenant improvement allowance may be spent;
- which party to the arrangement retains legal title to the tenant improvements upon lease expiration;
- whether the tenant improvements are unique to the tenant or general purpose in nature; and
- if the tenant improvements are expected to have significant residual value at the end of the lease term.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds, and only after any contingency has been removed (when the related thresholds are achieved). This may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Tenant recoveries subject to operating leases related to the reimbursement of real estate taxes, insurance, repairs and maintenance and other operating expenses are recognized as revenue in the period the expenses are incurred. The reimbursements are recognized and presented gross, as the Company is generally the primary obligor and, with respect to purchasing goods and services from third party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

For operating leases with minimum scheduled rent increases, the Company recognizes income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis for leases results in recognized revenue amounts which differ from those that are contractually due from tenants. If the Company determines that collectibility of straight-line rents is not reasonably assured, future revenue recognition is limited to amounts contractually owed and paid, and, when appropriate, an allowance for estimated losses is established.

HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Resident fee revenue is recorded when services are rendered and includes resident room and care charges, community fees and other resident charges. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly. Revenue for certain care related services is recognized as services are provided and is billed monthly in arrears.

The Company maintains an allowance for doubtful accounts, including an allowance for operating lease straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on a continuous basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For operating lease straight-line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease.

The Company utilizes the direct finance method of accounting to record income from direct financing leases ("DFLs"). For leases accounted for as DFLs, the net investment in the DFL represents receivables for the sum of minimum lease payments receivable and the estimated residual values of the leased properties, less the unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured.

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. Loans held-for-investment are carried at amortized cost and are reduced by a valuation allowance for estimated credit losses as necessary. The Company recognizes interest income on loans, including the amortization of discounts and premiums, using the interest method. The interest method is applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums and discounts are recognized as yield adjustments over the term of the related loans. Loans are transferred from held-for-investment to held-for-sale when management's intent is to no longer hold the loans for the foreseeable future. Loans held-for-sale are recorded at the lower of cost or fair value.

Allowances are established for loans and DFLs based upon an estimate of probable losses on an individual basis if they are determined to be impaired. Loans and DFLs 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 loan's or DFL's effective interest rate, fair value of collateral, general economic conditions and trends, historical and industry loss experience and other relevant factors, as appropriate.

Loans and DFLs are placed on non-accrual status when management determines that the collectibility of contractual amounts is not reasonably assured. While on non-accrual status, loans and DFLs are either accounted for on a cash basis, in which income is recognized only upon receipt of cash, or on a cost-recovery basis, were cash receipts reduce the carrying value of the loan or DFL, based on the Company's expectation of future collectibility.

The Company recognizes gain on sales of real estate upon the closing of a transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when the collectibility of the sales price is reasonably assured, the Company is not obligated to perform additional activities that may be considered significant, the initial investment from the buyer is sufficient and other profit recognition criteria have been satisfied. Gain on sales of real estate may be deferred in whole or in part until the requirements for gain recognition have been met.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company receives management fees from its investments in certain joint venture entities for various services it provides as the managing member. Management fees are recorded as revenue when management services have been performed. Intercompany profit for management fees is eliminated.

Real Estate

The Company's real estate assets, consisting of land, buildings and improvements are recorded at their then fair value at the time of acquisition and/or consolidation. The assumed liabilities, acquired tangible assets and identifiable intangibles are also recorded at their then fair value. The Company assesses fair value based on cash flow projections that utilize appropriate discount and/or capitalization rates and other available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, as well as market and economic conditions. The fair value of tangible assets of an acquired property is based on the value of the property as if it is vacant. Transaction costs related to acquisitions of businesses, including properties, are expensed as incurred.

The Company records acquired "above and below market" leases at their fair value using discount rates which reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the extended term for any leases with bargain renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on the Company's evaluation of the specific characteristics of each property and the respective tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes estimates of lost rents at estimated market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions and expected trends. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate asset. The Company capitalizes construction and development costs while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of company owned tenant improvements, but no later than one year from cessation of significant construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. For redevelopment of existing operating properties, the Company capitalizes costs based on the net carrying value of the existing property under redevelopment plus the cost for the construction and improvement incurred in connection with the redevelopment. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The Company considers costs incurred in conjunction with re-leasing properties, including tenant improvements and lease commissions, to represent the acquisition of productive assets and, accordingly, such costs are reflected as investing activities in the Company's consolidated statement of cash flows.

The Company computes depreciation on properties using the straight-line method over the assets' estimated useful life. Depreciation is discontinued when a property is identified as held-for-sale. Buildings and improvements are depreciated over useful lives ranging up to 50 years. Above and below

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

market lease intangibles are amortized primarily to revenue over the remaining noncancellable lease terms and bargain renewal periods, if any. In-place lease intangibles are amortized to expense over the remaining noncancellable lease term and bargain renewal periods, if any.

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company tests its real estate assets for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the real estate assets. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate assets is greater than its fair value.

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Potential impairment indicators and qualitative factors include a significant decline in real estate valuations, restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the value of the Company's market capitalization. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company applies the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compares the fair value of a reporting unit with its carrying amount, including goodwill and, if necessary, (ii) compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment, if any. The Company selected the fourth quarter of each fiscal year to perform its annual impairment test.

Assets Held-for-Sale and Discontinued Operations

Certain long-lived assets are classified as held-for-sale and are reported at the lower of their carrying value or their fair value less costs to sell and are no longer depreciated. Discontinued operations is a component of an entity that has either been disposed of or is deemed to be held-for-sale and, (i) the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Investments in Unconsolidated Joint Ventures

Investments in entities which the Company does not consolidate but has the ability to exercise significant influence over operating and financial policies are reported under the equity method of accounting. Under the equity method of accounting, the Company's share of the investee's earnings or losses are included in the Company's consolidated results of operations.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the fair value of the assets prior to the sale of interests in the joint venture. To the extent that the Company's cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of equity in earnings of the joint

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

venture. The Company evaluates its equity method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. When the Company determines a decline in the fair value of an investment in an unconsolidated joint venture below its carrying value is other-than-temporary, an impairment is recorded. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

The Company's fair values for its equity method investments are based on discounted cash flow models that include all estimated cash inflows and outflows over a specified holding period and, where applicable, any estimated debt premiums or discounts. Capitalization rates, discount rates and credit spreads utilized in these models are based upon assumptions that the Company believes to be within a reasonable range of current market rates for the respective investments.

Share-Based Compensation

Compensation expense for share-based awards granted to employees, including grants of employee stock options, are recognized in the consolidated statements of income based on their grant date fair market value. Compensation expense for awards with graded vesting schedules is generally recognized ratably over the period from the grant date to the date when the award is no longer contingent on the employee providing additional services.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments with maturities of three months or less when purchased.

Restricted Cash

Restricted cash primarily consists of amounts held by mortgage lenders to provide for (i) real estate tax expenditures, tenant improvements and capital expenditures, and (ii) security deposits and net proceeds from property sales that were executed as tax-deferred dispositions.

Derivatives

During its normal course of business, the Company uses certain types of derivative instruments for the purpose of managing interest rate and currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with the Company's related assertions.

The Company recognizes all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities in the consolidated balance sheets at their fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria of hedge accounting are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forecasted transactions as well as recognized obligations or assets in the consolidated balance sheets. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivatives that are designated in hedging transactions are highly effective in offsetting the designated risks associated with the respective hedged items. If it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues hedge accounting prospectively and records the appropriate adjustment to earnings based on the current fair value of the derivative.

Income Taxes

HCP, Inc. elected REIT status and believes it has always operated so as to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, HCP, Inc. will not be subject to U.S. federal income tax, provided that it continues to qualify as a REIT and makes distributions to stockholders equal to or in excess of its taxable income. In addition, the Company has formed several consolidated subsidiaries, which have elected REIT status. HCP, Inc. and its consolidated REIT subsidiaries are each subject to the REIT qualification requirements under Sections 856 to 860 of the Code. If any REIT fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates and may be ineligible to qualify as a REIT for four subsequent tax years.

HCP, Inc. and its consolidated REIT subsidiaries are subject to state and local income taxes in some jurisdictions, and in certain circumstances each REIT may also be subject to federal excise taxes on undistributed income. In addition, certain activities that the Company undertakes may be conducted by entities which elect to be treated as taxable REIT subsidiaries ("TRSs"). TRSs are subject to both federal and state income taxes. The Company recognizes tax penalties relating to unrecognized tax benefits as additional income tax expense. Interest relating to unrecognized tax benefits is recognized as interest expense.

Marketable Securities

The Company classifies its marketable equity securities as available-for-sale. These securities are carried at their fair value with unrealized gains and losses recognized in stockholders' equity as a component of accumulated other comprehensive income (loss). Gains or losses on securities sold are determined based on the specific identification method. When the Company determines declines in fair value of marketable securities are other-than-temporary, a loss is recognized in earnings.

The Company classifies its marketable debt securities as held-to-maturity, because the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity.

Capital Raising Issuance Costs

Costs incurred in connection with the issuance of common shares are recorded as a reduction of additional paid-in capital. Costs incurred in connection with the issuance of preferred shares are recorded as a reduction of the preferred stock amount. Debt issuance costs are deferred, included in other assets and amortized to interest expense over the remaining term of the related debt utilizing the interest method.

HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment Reporting

The Company's segments are based on its internal method of reporting which classifies operations by healthcare sector. The Company's business operations include five segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital.

Noncontrolling Interests

The Company reports arrangements with noncontrolling interests as a component of equity separate from the parent's equity. The Company accounts for purchases or sales of equity interests that do not result in a change in control as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the consolidated statements of income and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, is recorded at its fair value with any gain or loss recognized in earnings.

The Company consolidates non-managing member limited liability companies ("DownREITs") because it exercises control, and noncontrolling interests in these entities are carried at cost. The non-managing member LLC Units ("DownREIT units") are exchangeable for an amount of cash approximating the then-current market value of shares of the Company's common stock or, at the Company's option, shares of the Company's common stock (subject to certain adjustments, such as stock splits and reclassifications). Upon exchange of DownREIT units for the Company's common stock, the carrying amount of the DownREIT units is reclassified to stockholders' equity.

Foreign Currency Translation and Transactions

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

Preferred Stock Redemptions

The Company recognizes the excess of the redemption value of cumulative redeemable preferred stock redeemed over its carrying amount as a charge to earnings.

Life Care Bonds Payable

Certain of the Company's continuing care retirement communities ("CCRCs") issue non-interest bearing life care bonds payable to certain residents of the CCRCs. Generally, the bonds are refundable to the resident or to the resident's estate upon termination or cancellation of the CCRC agreement or upon the successful resale of the unit. Proceeds from the issuance of new bonds are used to retire existing bonds, and since the maturity of the obligations for the facilities is not determinable, no interest is imputed. These amounts are included in other debt in the Company's consolidated balance sheets.

Fair Value Measurement

The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 quoted prices for *identical* instruments in active markets;

Level 2 quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow and Black-Scholes valuation models. The Company also considers its counterparty's and own credit risk on derivatives and other liabilities measured at their fair value. The Company has elected the mid-market pricing expedient when determining fair value.

Earnings per Share

Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. The Company accounts for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities, which are included in the computation of earnings per share pursuant to the two-class method. Diluted earnings per common share is calculated by including the effect of dilutive and preferred securities.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2013-10"). This update permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 on July 17, 2013 did not have a material impact on the Company's consolidated financial position or results of operations.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Reclassifications

Certain amounts in the Company's consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held-for-sale and associated liabilities have been reclassified on the consolidated balance sheets and operating results reclassified from continuing to discontinued operations.

(3) HCR ManorCare Acquisition

On April 7, 2011, the Company completed its acquisition of substantially all of the real estate assets of HCR ManorCare, Inc. ("HCR ManorCare"), for a purchase price of $6.0 billion (the "HCR ManorCare Acquisition"). The purchase price consisted of the following: (i) $4 billion in cash consideration; and (ii) $2 billion representing the fair value of the Company's HCR ManorCare debt investments that were settled as part of this acquisition. Through this transaction, the Company acquired 334 HCR ManorCare post-acute, skilled nursing and assisted living facilities. The facilities are located in 30 states, with the highest concentrations in Ohio, Pennsylvania, Florida, Illinois and Michigan. A wholly-owned subsidiary of HCR ManorCare operates the assets pursuant to a long-term triple-net master lease agreement supported by a guaranty from HCR ManorCare. Additionally, the Company exercised its option to purchase an ownership interest of HCR ManorCare for $95 million that represented a 9.9% equity interest at closing.

The HCR ManorCare Acquisition total purchase price was as follows (in thousands):

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

Legal, accounting and other fees and costs(3)	$	26,839

(1)

The Company recognized a gain of approximately $23 million, included in interest income, which represents the fair value of the Company's existing mezzanine and mortgage loan investments in HCR ManorCare in excess of its carrying value on the acquisition date.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) In August 2011, the Company paid or refunded these amounts to certain taxing authorities or the seller. These August 2011 cash payments are included in the "cash used in the HCR ManorCare Acquisition, net of cash acquired" that is presented in the 2011 consolidated statement of cash flows under investing activities.

(3) Represents estimated fees and costs of $16 million and $11 million that were expensed and included in general and administrative expense and interest expense, respectively. These charges are directly attributable to the transaction and represent non-recurring costs.

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

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

In connection with the HCR ManorCare Acquisition, the Company entered into a credit agreement for a 365-day bridge loan facility (from funding to maturity) in an aggregate amount of up to $3.3 billion. In March 2011, the Company terminated this bridge loan facility in accordance with its terms; consequently, the Company incurred a charge of $11 million related to the write-off of unamortized loan commitment fees that is included in interest expense.

The assets and liabilities of the Company's investments related to HCR ManorCare and the related results of operations are included in the consolidated financial statements from the acquisition date. From the acquisition date to December 31, 2011, the Company recognized income of $412 million related to its HCR ManorCare DFLs and $45 million related to its share in earnings from its equity method investment in HCR ManorCare.

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations for the year ended December 31, 2011 assume that the HCR ManorCare Acquisition, including the Company's ownership interest in the operations of HCR ManorCare, was completed as of January 1, 2010 (in thousands, except per share amounts):

Revenues	$ 1,803,199
Net income	673,036
Net income applicable to HCP, Inc.	657,433
Basic earnings per common share	$ 1.56
Diluted earnings per common share	1.56

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amounts above were restated in 2013; the previous pro forma presentation assumed that HCR ManorCare Acquisition was completed as of January 1, 2011 (in thousands, except per share amounts); the previously reported amounts, adjusted for discontinued operations, follows:

Revenues	$	1,789,677
Net income		659,514
Net income applicable to HCP, Inc.		643,911
Basic earnings per common share	$	1.53
Diluted earnings per common share		1.52

(4) Other Real Estate Property Investments

Senior Housing Portfolio Acquisition

During the fourth quarter of 2012 and first quarter of 2013, the Company acquired 133 senior housing communities for $1.74 billion from a joint venture between Emeritus Corporation ("Emeritus") and Blackstone Real Estate Partners VI, an affiliate of the Blackstone Group (the "Blackstone JV"). Located in 29 states, the portfolio encompasses a diversified care mix of 61% assisted living, 25% independent living, 13% memory care and 1% skilled nursing based on units. Based on operating performance at closing, the 133 communities consisted of 99 that were stabilized and 34 that were in lease-up. The transaction closed in two stages: (i) 129 senior housing facilities during the fourth quarter of 2012 for $1.7 billion; and (ii) four senior housing facilities during the first quarter of 2013 for $38 million. The Company paid $1.73 billion in cash consideration and assumed $13 million of mortgage debt to acquire: (i) real estate with a fair value of $1.57 billion, (ii) intangible assets with a fair value of $174 million; and (iii) assumed intangible liabilities with a fair value of $4 million. The lease-up intangibles assets recognized were attributable to the value of the acquired underlying operating resident leases of the senior housing communities that were stabilized or nearly stabilized (e.g., resident occupancy above 80%).

Emeritus operates the communities pursuant to two triple-net master leases for 128 properties (the "Master Lease") and five individual leases, all guaranteed by Emeritus (together, the "Leases"). The Leases provide aggregate contractual rent in the first year of $105.8 million. The contractual rent will increase annually by the greater of the percentage increase in the Consumer Price Index ("CPI") or 3.7% on average over the initial five years, and thereafter by the greater of CPI or 3.0% for the remaining initial lease term. At the beginning of the sixth lease year, rent on the 34 lease-up properties will increase to the greater of the percentage increase in CPI or fair market, subject to a floor of 103% and a cap of 130% of the prior year's rent. From the 2012 acquisition dates to December 31, 2012, the Company recognized revenues and income of $22 million and $14 million, respectively, related to its acquisitions of the 129 senior housing communities.

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

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

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations assume that the Blackstone JV Acquisition was completed as of January 1, 2011 (in thousands, except per share amounts):

	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues	$ 1,966,303	$ 1,798,018
Net income	870,802	584,361
Net income applicable to HCP, Inc.	856,500	568,758
Basic earnings per common share	$ 1.88	$ 1.30
Diluted earnings per common share	1.88	1.29

Other Real Estate Acquisitions

In addition to the Blackstone JV Acquisition (discussed above), during the year ended December 31, 2013, the Company acquired a senior housing facility for $18 million, exercised its purchase option for a senior housing facility it previously leased for $16 million and acquired 38 acres of land to be developed for use in the post-acute/skilled nursing segment for $0.4 million. During the year ended December 31, 2013, the Company incurred an aggregate of $173 million for construction, tenant and other capital improvement projects, primarily in the senior housing, life science and medical office segments.

A summary of other real estate acquisitions for the year ended December 31, 2012 follows (in thousands):

	Consideration			Assets Acquired	
Acquisitions	Cash Paid	Debt and Other Liabilities Assumed	Noncontrolling Interest	Real Estate	Net Intangibles
Senior housing	$ 3,860	$	$	$ 3,541	$ 319
Life science	7,964		86	7,580	470
Medical office	171,654	60,597	42,648(1)	207,561	67,338
Hospital	3,000			3,000	
	$ 186,478	$ 60,597	$ 42,734	$ 221,682	$ 68,127

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

During the year ended December 31, 2012, the Company incurred an aggregate of $183 million for construction, tenant and other capital improvement projects, primarily in the senior housing, life science and medical office segments.

(5) Dispositions of Real Estate and Discontinued Operations

During the year ended December 31, 2013, the Company sold the following: (i) eight post-acute/skilled nursing facilities for $68 million, (ii) two senior housing facilities for $22 million and (iii) two medical office buildings for $6 million. In addition, in September 2013, the Company sold a 62-bed hospital located in Greenfield, Wisconsin in exchange for a 60-bed hospital located in Webster, Texas and recognized a gain of $8 million based on the fair value of the hospital acquired in excess of the

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

carrying value of the hospital sold. During the year ended December 31, 2012, the Company sold the following: (i) two senior housing facilities for $111 million, (ii) a skilled nursing facility for $15 million, (iii) a medical office building for $7 million and (iv) a parcel of land in the life science segment for $18 million.

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. At December 31, 2012, properties classified as held for sale included 12 senior housing facilities, two hospitals and two medical office buildings with a combined aggregate carrying value of $56 million.

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Rental and related revenues	$ 16,649	$ 33,777	$ 32,555
Depreciation and amortization expenses	5,862	12,808	11,340
Operating expenses	3,929	3,304	1,472
Other expense, net	979	3,467	4,486
Income before impairments and gain on sales of real estate, net of income taxes	$ 5,879	$ 14,198	$ 15,257
Impairments	$ 1,372	$	$
Gain on sales of real estate, net of income taxes	$ 69,866	$ 31,454	$ 3,107
Number of properties included in discontinued operations	16	20	23

(6) Net Investment in Direct Financing Leases

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

	December 31,	
	2013	**2012**
Minimum lease payments receivable[(1)]	$ 24,808,386	$ 25,217,520

Estimated residual values	4,134,405	4,010,514
Less unearned income	(21,789,392)	(22,346,641)
Net investment in direct financing leases	$ 7,153,399	$ 6,881,393
Properties subject to direct financing leases	364	361

(1) The minimum lease payments receivable are primarily attributable to HCR ManorCare, Inc. ("HCR ManorCare") ($23.5 billion and $24.0 billion at December 31, 2013 and 2012, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of $506 million beginning April 1, 2013 (prior to April 1, 2013, annual rent was $489 million). The rent increases by 3.5% per year over the next three years and by 3% for the remaining portion of the initial lease term. The properties are grouped into four pools, and HCR ManorCare has a one-time extension option for each pool with rent increased for the first year of the extension option to the greater of fair market rent or a 3% increase over the rent for the prior year. Including the extension options, which the Company determined to be bargain renewal options, the four leased pools had total initial available terms ranging from 23 to 35 years.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 21, 2013, the Company reached an agreement with Tenet Healthcare Corporation to modify and extend three acute care hospital leases. The leases were extended at current rent levels and contain annual CPI-based escalators under staggered terms from three to eight years with purchase options exercisable for a fixed price at the end of each term. As a result of these lease modifications, the Company reassessed the classification of the leases and accounted for the lease agreements as DFLs.

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 collection of all rental payments is no longer reasonably assured, rental revenue for the DFL Portfolio will be recognized on a cash basis. Furthermore, the Company assessed the DFL Portfolio for impairment. The Company determined that the DFL Portfolio was not impaired at September 30, 2013, based on its belief that: (i) it is 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 exceeds the DFL Portfolio's $376 million carrying amount. The fair value of the DFL Portfolio was estimated based on a discounted cash flow model, the inputs to which 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 year ended December 31, 2013, 2012 and 2011, the Company recognized DFL income of $24.4 million, $27.8 million and $27.5 million, respectively, and received cash payments of $24.0 million, $23.8 million and $21.9 million, respectively, from the DFL Portfolio.

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

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

Future minimum lease payments contractually due under DFLs at December 31, 2013, were as follows (in thousands):

Year	Amount
2014	$ 594,270
2015	606,618
2016	626,713
2017	638,775
2018	656,263
Thereafter	21,685,747
	$ 24,808,386

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Loans Receivable

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

	December 31,					
	2013			2012		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	$	$ 234,455	$ 234,455	$	$ 145,150	$ 145,150
Other	147,669		147,669	147,264		147,264
Unamortized discounts, fees and costs		(2,713)	(2,713)		(2,974)	(2,974)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)
	$ 147,669	$ 218,332	$ 366,001	$ 147,264	$ 128,766	$ 276,030

Real Estate Secured Loans

Following is a summary of loans receivable secured by real estate at December 31, 2013:

Final Maturity Date	Number of Loans	Payment Terms	Principal Amount (in thousands)	Carrying Amount (in thousands)
2016	4[(1)]	aggregate monthly interest-only payments of $0.5 million, accrues interest at 8.5% and secured by four senior housing facilities located in Tennessee, Maryland, Pennsylvania and Texas	70,615	77,094
2016	1	monthly interest-only payments of $0.2 million, accrues interest at 6.4%, and secured by five senior housing facilities located in Arizona, Minnesota and Texas	30,220	30,220
2017	2[(1)]	aggregate monthly interest-only payments of $0.2 million, accrues interest at 8.25%, and secured by two senior housing facilities in New Jersey and Pennsylvania	33,045	34,395
2018	1[(1)]	monthly interest-only payments of $37,000, accrues interest at 8.00% and secured by a senior housing facility located in Pennsylvania	5,799	5,960
	8		$ 139,679	$ 147,669

(1) Represents commitments to fund an aggregate of $141 million for seven senior housing development projects.

At December 31, 2013, future contractual principal payments to be received on loans receivable secured by real estate are $101 million in 2016, $33 million in 2017 and $6 million in 2018.

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

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 11. 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 representing primarily 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.

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. At closing, this loan was subordinate to $400 million in senior mortgage debt and $137 million in other senior mezzanine debt. The Company funded $100 million (the "First Tranche") at closing and funded an additional $102 million (the "Second Tranche") in June 2013. The Second Tranche was used to by Tandem repay the senior mezzanine debt. At December 31, 2013, the loans were subordinate to $443 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 a 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 all of the assets of the Borrower. The Borrower's collateral is comprised primarily of interests in partnerships operating surgical facilities, of which one partnership leases a property owned by the Company. In December 2009, the Company determined that the loan was impaired. Further, in January 2011 the Company placed the loan on cost-recovery status, whereby accrual of interest income was suspended, and any payments received from the Borrower are applied to reduce the recorded investment in the loan.

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

Pursuant to the 2012 Agreement, the Company received the remaining cash ($4.8 million, after reducing this amount by $0.5 million for related legal expenses) and other consideration ($2.1 million) of $6.9 million from the Guarantors. In addition, during 2012, the Company received $38.1 million in net proceeds from the sales of two of the primary collateral assets, which proceeds, together with the cash payments and other consideration, were applied to reduce the carrying value of the loan. The carrying value of the loan, net of an allowance for loan losses of $13 million, was $18.1 million and $30.7 million at December 31, 2013 and 2012, respectively. At December 31, 2013, the Company believes the fair value of the collateral supporting this loan is in excess of its carrying value. During the years ended December 31, 2013, 2012 and 2011, the Company received cash payments of $12.6 million, $43 million and $2.1 million, respectively.

HCR ManorCare Loans. In December 2007, the Company made a $900 million investment (at a discount of $100 million) in HCR ManorCare mezzanine loans, which paid interest at a floating rate of

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LIBOR plus 4.0%. Also, in August 2009 and January 2011, the Company purchased $720 million (at a discount of $130 million) and $360 million, respectively, in participations in HCR ManorCare first mortgage debt, which paid interest at LIBOR plus 1.25%.

On April 7, 2011, upon closing of the HCR ManorCare Acquisition, the Company's $2.0 billion of loans to HCR ManorCare were settled, which resulted in additional interest income of $23 million, which represents the excess of the loans' fair values above their carrying values at the acquisition date. See Note 3 for additional discussion related to the HCR ManorCare Acquisition.

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

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

(8) Investments in and Advances to Unconsolidated Joint Ventures

HCP Ventures II

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

The HCP Ventures II consideration was as follows (in thousands):

	January 14, 2011
Cash paid for HCP Ventures II's partnership interest	$ 135,550
Fair value of HCP's 35% interest in HCP Ventures II (carrying value of $65,223 at closing)(1)	72,992
Total consideration	$ 208,542

Estimated fees and costs	
Legal, accounting, and other fees and costs(2)	$ 150
Debt assumption fees(3)	500
Total	$ 650

(1)

At closing, the Company recognized a gain of approximately $8 million, included in other income, net, which represents the fair value of the Company's 35% interest in HCP Ventures II in excess of its carrying value as of the acquisition date.

(2) Represents estimated fees and costs that were expensed and included in general and administrative expenses.

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

In accordance with the accounting guidance applicable to acquisitions of the partner's ownership interests that result in consolidation of previously unconsolidated entities, the Company recorded all of

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the assets and liabilities of HCP Ventures II at their fair value as of the January 14, 2011 acquisition date. In estimating the fair values, relevant market data and valuation techniques were utilized and included, but were not limited to, market data comparables for capitalization and discount rates, credit spreads and property specific cash flows assumptions. The capitalization and discount rates as well as credit spread assumptions utilized in the Company's valuation model were based on information that it believes to be within a reasonable range of current market data.

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

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

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

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Unconsolidated Joint Venture Information

The Company owns interests in the following entities that are accounted for under the equity method at December 31, 2013 (dollars in thousands):

Entity[1]	Segment	Investment[2]	Ownership%
HCR ManorCare	post-acute/skilled nursing operations	$ 84,099	9.5
HCP Ventures III, LLC	medical office	7,147	30
HCP Ventures IV, LLC	medical office and hospital	29,715	20
HCP Life Science[3]	life science	68,843	50-63
Suburban Properties, LLC	medical office	6,403	67
Advances to unconsolidated joint ventures, net		369	
		$ 196,576	

Edgewood Assisted Living Center, LLC	senior housing	$ (386)	45
Seminole Shores Living Center, LLC	senior housing	(625)	50
		$ (1,011)	

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures. See Note 2 regarding the Company's accounting policies related to principles of consolidation.

(2) Represents the carrying value of the Company's investment in the unconsolidated joint venture. See Note 2 regarding the Company's accounting policy for joint venture interests. At December 31, 2013, includes a senior housing partnership for which the Company has a 72% ownership with an investment balance of zero.

(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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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31,	
	2013	2012
Real estate, net	$ 3,662,450	$ 3,731,740
Goodwill and other assets, net	5,384,553	5,734,318
Total assets	$ 9,047,003	$ 9,466,058
Capital lease obligations and mortgage debt	$ 6,768,815	$ 6,875,932
Accounts payable	1,045,260	971,095
Other partners' capital	1,098,228	1,435,885
HCP's capital[1]	134,700	183,146
Total liabilities and partners' capital	$ 9,047,003	$ 9,466,058

(1) The combined basis difference of the Company's investments in these joint ventures of $60 million, as of December 31, 2013, is primarily attributable to real estate, capital lease obligations, deferred tax assets, goodwill and lease-related net intangibles.

	Year Ended December 31,		
	2013	2012	2011[1][2]
Total revenues	$ 4,269,156	$ 4,260,319	$ 4,388,376
Net loss[3]	(362,379)	(15,865)	(827,306)
HCP's share in earnings[3][4]	64,433	54,455	46,750
Fees earned by HCP	1,847	1,895	2,073
Distributions received by HCP	18,091	6,299	5,681

(1) Includes the financial information of HCP Ventures II, up to the date in which it was consolidated on January 14, 2011.

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

(3) The combined net loss for the year ended December 31, 2011 includes impairments, net of the related tax benefit, of $865 million related to HCR ManorCare's goodwill and intangible assets. The impairments at the operating entity were the result of reduced cash flows primarily caused by the reimbursement reductions for the Medicare skilled nursing facility Prospective Payment System announced by the Centers for Medicare & Medicaid Services effective October 1, 2011. The combined net loss for the year ended December 31, 2013 includes tax expense of $400 million related to

recording of a valuation allowance which was necessary to reduce the carrying value of HCR ManorCare's deferred tax assets to an amount that is more likely than not to be realized as determined by HCR ManorCare's management. HCR ManorCare's goodwill, intangible assets and deferred tax assets were not previously considered in the Company's initial investments in the operations of HCR ManorCare; therefore, the related impairments and valuation allowance against the carrying value of the deferred tax assets did not impact the Company's recorded investment. As such, HCR ManorCare's impairments during the year ended December 31, 2011 and tax expense related to the valuation allowance during the year ended December 31, 2013 did not have an impact on the Company's share of earnings from or its investment in HCR ManorCare.

(4)

The Company's joint venture interest in HCR ManorCare is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP's ownership in HCR ManorCare. As required to eliminate intercompany profit, the Company recharacterized $62.1 million, $59.4 million and $42.2 million of DFL income to the Company's share of earnings from HCR ManorCare (equity income) for the years ended December 31, 2013, 2012 and 2011, respectively.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Intangibles

The Company's intangible lease assets were (in thousands):

Intangible lease assets	December 31, 2013	December 31, 2012
Lease-up intangibles	$ 578,143	$ 580,319
Above market tenant lease intangibles	144,355	153,141
Below market ground lease intangibles	58,939	58,939
Gross intangible lease assets	781,437	792,399
Accumulated depreciation and amortization	(291,595)	(240,662)
Net intangible lease assets	$ 489,842	$ 551,737

The remaining weighted average amortization period of intangible assets was 15 years at both December 31, 2013 and 2012.

The Company's intangible lease liabilities were (in thousands):

Intangible lease liabilities	December 31, 2013	December 31, 2012
Below market lease intangibles	$ 201,234	$ 188,534
Above market ground lease intangibles	6,121	6,091
Gross intangible lease liabilities	207,355	194,625
Accumulated depreciation and amortization	(108,545)	(90,445)
Net intangible lease liabilities	$ 98,810	$ 104,180

The remaining weighted average amortization period of unfavorable market lease intangibles was approximately nine years at both December 31, 2013 and 2012.

In 2013, the Company restated the above weighted average amortization periods of intangible assets and liabilities as of December 31, 2012, which were previously reported as 12 years and 8 years, respectively.

For the years ended December 31, 2013, 2012 and 2011, rental income includes additional revenues of $9 million, $4 million and $6 million, respectively, from the amortization of net below market lease intangibles. For the years ended December 31, 2013, 2012 and 2011, operating expenses include additional expense of $0.8 million, $0.7 million and $0.6 million, respectively, from the amortization of net above market ground lease intangibles. For the years ended December 31, 2013, 2012 and 2011, depreciation and amortization expense includes additional expense of $59 million, $44 million and $45 million, respectively, from the amortization of lease-up and non-compete agreement intangibles.

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Estimated aggregate amortization of intangible assets and liabilities for each of the five succeeding fiscal years and thereafter follows (in thousands):

	Intangible Assets	Intangible Liabilities
2014	$ 69,556	$ 16,728
2015	65,639	16,171
2016	61,395	15,643
2017	53,847	13,674
2018	41,791	11,290
Thereafter	197,614	25,304
	$ 489,842	$ 98,810

(10) Other Assets

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

	December 31,	
	2013	2012
Straight-line rent assets, net of allowance of $34,230 and $33,521, respectively	$ 368,919	$ 306,294
Marketable debt securities(1)	244,089	222,809
Leasing costs, net	104,601	93,763
Deferred financing costs, net	42,106	45,490
Goodwill	50,346	50,346
Marketable equity securities		24,829
Other(2)	57,644	44,989
Total other assets	$ 867,705	$ 788,520

(1) Includes £137.0 million of Four Seasons senior unsecured notes translated into U.S. dollars (see below for additional information).

(2) Includes a $5.4 million allowance for losses related to accrued interest receivable on the Delphis loan. At both December 31, 2013 and 2012, the net carrying value of interest accrued related to the Delphis loan was zero. See Note 7 for additional information about the Delphis loan and the related impairment. At both December 31, 2013 and 2012, includes a loan receivable of $10 million from HCP Ventures IV, LLC, an unconsolidated joint venture (see Note 8 for additional information) with an interest rate of 12% which matures in May 2014. The loan is secured by the Company's joint venture partner's 80% partnership interest in the joint venture.

In June 2011, the Company purchased approximately $22 million of marketable equity securities that were classified as available-for-sale. At December 31, 2011, the Company incurred a $5 million impairment for these securities as it concluded the decrease in value of such securities below their carrying value was other-than-temporary. At December 31, 2012, the fair value and adjusted cost basis of the marketable equity securities were $25 million and $17 million, respectively. During the year ended December 31, 2013, the Company realized gains from the sale of marketable equity securities of $11 million, which were included in other income, net.

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Four Seasons Health Care Senior Unsecured Notes

On June 28, 2012, the Company purchased senior unsecured notes with an aggregate par value of £138.5 million at a discount for £136.8 million ($214.9 million). The notes were issued by Elli Investments Limited, a subsidiary of Terra Firma, a European private equity firm, as part of its financing for the acquisition of Four Seasons Health Care ("Four Seasons"), an elderly and specialist care provider in the United Kingdom. The notes mature in June 2020 and are non-callable through June 2016. The notes bear interest on their par value at a fixed rate of 12.25% per annum, with an original issue discount resulting in a yield to maturity of 12.5%. This investment was financed by a GBP denominated unsecured term loan that is discussed in Note 11. These senior unsecured notes are accounted for as marketable debt securities and classified as held-to-maturity.

(11) Debt

Bank Line of Credit and Term Loan

The Company's $1.5 billion unsecured revolving line of credit facility (the "Facility") matures in March 2016 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends on the Company's debt ratings. The Company pays a facility fee on the entire revolving commitment that depends upon its debt ratings. Based on the Company's debt ratings at December 31, 2013, the margin on the Facility was 1.075%, and the facility fee was 0.175%. The Facility also includes a feature that will allow the Company to increase the borrowing capacity by an aggregate amount of up to $500 million, subject to securing additional commitments from existing lenders or new lending institutions. At December 31, 2013, the Company had no balance outstanding under this Facility.

On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million ($227 million at December 31, 2013) four-year unsecured term loan (the "Term Loan") that accrues interest at a rate of GBP LIBOR plus 1.20%, based on the Company's current debt ratings. Concurrent with the closing of the Term Loan, the Company entered into a four-year interest rate swap contract that fixes the interest rate of the Term Loan at 1.81%, subject to adjustments based on the Company's debt ratings. The Term Loan contains a one-year committed extension option.

The Facility and Term Loan contain certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60%, (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times and (v) require a formula-determined Minimum Consolidated Tangible Net Worth of $9.2 billion at December 31, 2013. At December 31, 2013, the Company was in compliance with each of these restrictions and requirements of the Facility and Term Loan.

Senior Unsecured Notes

At December 31, 2013, the Company had senior unsecured notes outstanding with an aggregate principal balance of $7.0 billion. At December 31, 2013, interest rates on the notes ranged from 1.21% to 6.98% with a weighted average effective rate of 4.97% and a weighted average maturity of six years. Discounts and premiums are amortized to interest expense over the term of the related senior unsecured notes. The senior unsecured notes contain certain covenants including limitations on debt,

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cross-acceleration provisions and other customary terms. As of December 31, 2013, the Company believes it was in compliance with these covenants.

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.

On November 12, 2013, the Company issued $800 million of 4.25% senior unsecured notes due in 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 5.625% senior unsecured notes.

On November 19, 2012, the Company issued $800 million of 2.625% senior unsecured notes due in 2020. The notes were priced at 99.729% of the principal amount with an effective yield to maturity of 2.667%. Net proceeds from this offering were $793 million.

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

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

On January 23, 2012, the Company issued $450 million of 3.75% senior unsecured notes due in 2019. The notes were priced at 99.523% of the principal amount with an effective yield to maturity of 3.83%; net proceeds from the offering were $444 million.

The following is a summary of senior unsecured notes outstanding by maturity date at December 31, 2013 (dollars in thousands):

Maturity	Principal Amount	Weighted Average Interest Rate
2014	$ 487,000	3.21%
2015	400,000	6.57
2016	900,000	5.10
2017	750,000	6.03
2018	600,000	6.83
2019	450,000	3.96
2020	800,000	2.79
2021	1,200,000	5.60
2022	300,000	3.39
2023	800,000	4.41
2041	300,000	6.88
	6,987,000	
Discounts, net	(23,625)	
	$ 6,963,375	

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Mortgage Debt

At December 31, 2013, the Company had $1.4 billion in aggregate principal amount of mortgage debt outstanding that is secured by 126 healthcare facilities (including redevelopment properties) that had a carrying value of $1.8 billion. At December 31, 2013, interest rates on the mortgage debt range from 0.69% to 8.69% with a weighted average effective interest rate of 6.19% and a weighted average maturity of three years.

The following is a summary of mortgage debt outstanding by maturity date at December 31, 2013 (dollars in thousands):

Maturity	Amount	Weighted Average Interest Rate
2014	$ 179,525	5.80%
2015	308,421	5.96
2016	291,738	6.89
2017	550,477	6.20
2018	6,583	5.90
Thereafter	65,242	5.09
	1,401,986	
Discounts, net	(5,501)	
	$ 1,396,485	

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.

Other Debt

At December 31, 2013, the Company had $75 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Debt Maturities

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at December 31, 2013 (in thousands):

Year	Term Loan[1]	Senior Unsecured Notes	Mortgage Debt	Total[2]
2014	$	$ 487,000	$ 179,525	$ 666,525
2015		400,000	308,421	708,421
2016	226,858	900,000	291,738	1,418,596
2017		750,000	550,477	1,300,477
2018		600,000	6,583	606,583
Thereafter		3,850,000	65,242	3,915,242
	226,858	6,987,000	1,401,986	8,615,844
Discounts, net		(23,625)	(5,501)	(29,126)
	$ 226,858	$ 6,963,375	$ 1,396,485	$ 8,586,718

(1) Represents £137 million translated into U.S. dollars as of December 31, 2013.

(2) Excludes $75 million of other debt that represents Life Care Bonds, which have no scheduled maturities.

(12) Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company's business. Except as described in this Note 12, the Company is not aware of any other 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 accrue legal expenses as they are incurred.

On May 3, 2007, Ventas, Inc. ("Ventas") filed a complaint against the Company in the United States District Court for the Western District of Kentucky alleging, among other things, that the Company interfered with Ventas's prospective business advantage in connection with Ventas's 2007 acquisition of Sunrise Senior Living Real Estate Investment Trust ("Sunrise REIT"). Ventas sought compensatory damages in excess of $300 million plus punitive damages. Prior to the jury deliberations, the District Court dismissed, among other rulings, Ventas's claim for punitive damages. On September 4, 2009, the jury returned a verdict in favor of Ventas in the amount of approximately $102 million. The Company recognized $102 million as a provision for litigation expense during the three months ended September 30, 2009. Both Ventas and the Company appealed various rulings of the District Court and the jury verdict to the United States Sixth Circuit Court of Appeals. On May 17, 2011, the Sixth Circuit Court of Appeals held that the District Court erred by not submitting Ventas's claim for punitive damages to the jury, and affirmed the District Court's judgment in all other respects. On August 23, 2011, the Company paid Ventas $102 million resulting from the jury verdict. On November 9, 2011, the Company and Ventas settled all claims relating to the litigation and the Company paid $125 million to

Ventas in addition to the $102 million paid in August 2011.

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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:

Segment Concentrations:

	Percentage of Senior Housing Gross Assets		Percentage of Senior Housing Revenues		
	December 31,		Year Ended December 31,		
Operators	**2013**	**2012**	**2013**	**2012**	**2011**
Emeritus Corporation ("Emeritus")(1)	37	37	35	23	24
Sunrise(2)	17	18	13	16	19
HCR ManorCare(3)	11	11	10	11	10
Brookdale Senior Living ("Brookdale")(4)	11	11	12	14	22

	Percentage of Post-Acute/ Skilled Nursing Gross Assets		Percentage of Post-Acute/ Skilled Nursing Revenues		
	December 31,		Year Ended December 31,		
Operators	**2013**	**2012**	**2013**	**2012**	**2011**
HCR ManorCare(3)	89	90	83	91	85

Total Company Concentrations:

	Percentage of Total Company Assets		Percentage of Total Company Revenues		
	December 31,		Year Ended December 31,		
Operators	**2013**	**2012**	**2013**	**2012**	**2011**
HCR ManorCare(3)	32	31	28	30	28
Emeritus(1)	14	14	13	8	7
Sunrise(2)	7	7	5	5	6
Brookdale(4)	4	4	4	5	7

(1) Percentage of total revenues from Emeritus for the year ended December 31, 2012 includes partial results for the Blackstone JV acquisition. Assuming that full-year results were included for this acquisition in the Company's 2012 revenues, the percentage of segment revenues and total revenues would be 37% and 12%, respectively.

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

(4) Percentages do not include senior housing facilities that Brookdale operates on the Company's behalf under a RIDEA structure.

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

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

At December 31, 2013 and 2012, the Company's gross real estate assets in the state of California, excluding assets held-for-sale, represented approximately 23% and 21% of the Company's total assets, respectively. For the year ended December 31, 2013, the Company's revenues derived from properties located in the states of California, Texas and Florida represented approximately 21%, 11% and 9% of the Company's total revenues, respectively.

DownREIT LLCs

In connection with the formation of certain DownREIT limited liability companies ("LLCs"), members may contribute appreciated real estate to a DownREIT LLC in exchange for DownREIT units. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if a contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specifically allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Code ("make-whole payments"). These make-whole payments include a tax gross-up provision. These indemnification agreements have expiration terms that range through 2033.

Credit Enhancement Guarantee

Certain of the Company's senior housing facilities serve as collateral for $112 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is

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guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of $374 million as of December 31, 2013.

Environmental Costs

The Company monitors its properties for the presence of hazardous or toxic substances. The Company is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, financial condition or results of operations. The Company carries environmental insurance and believes that the policy terms, conditions, limitations and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice.

General Uninsured Losses

The Company obtains various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. The Company attempts to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, the Company has a large number of properties that are exposed to earthquake, flood and windstorm occurrences for which the related insurances carry high deductibles.

Tenant Purchase Options

Certain leases, including DFLs, contain purchase options whereby the tenant may elect to acquire the underlying real estate. Annualized base rent from leases subject to purchase options, summarized by the year the purchase options are exercisable are as follows (dollars in thousands):

Year	Annualized Base Rent[1]	Number of Properties
2014	$ 21,541	11
2015	55,397	35
2016	40,098	18
2017	6,969	3
2018	19,204	5
Thereafter	102,367	62
	$ 245,576	134

(1) Represents the most recent month's base rent including additional rent floors and cash income from direct financing leases annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of above and below market lease intangibles, DFL interest accretion and deferred revenues).

Rental Expense

The Company's rental expense attributable to continuing operations for the years ended December 31, 2013, 2012 and 2011 was approximately $8 million, $7 million and $6 million, respectively. These rental expense amounts include ground rent and other leases. Ground leases generally require fixed annual rent payments and may also include escalation clauses and renewal

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options. These leases have terms that are up to 99 years, excluding extension options. Future minimum lease obligations under non-cancelable ground and other operating leases as of December 31, 2013 were as follows (in thousands):

Year	Amount
2014	$ 6,303
2015	5,781
2016	4,620
2017	3,880
2018	3,659
Thereafter	195,883
	$ 220,126

(13) Equity

Common Stock

On January 30, 2014, the Company announced that its Board declared a quarterly cash dividend of $0.545 per share. The common stock cash dividend will be paid on February 25, 2014 to stockholders of record as of the close of business on February 10, 2014.

On October 19, 2012, the Company completed a public offering of 22 million shares of common stock and received net proceeds of $979 million, which were primarily used to acquire the 129 senior housing communities from the Blackstone JV.

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

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

In March 2011, the Company completed a $1.273 billion public offering of 34.5 million shares of common stock at a price of $36.90 per share. The Company received total net proceeds of $1.235 billion, which were primarily used to finance part of the aggregate purchase price of the HCR ManorCare Acquisition. The following is a summary of the Company's other issuances of common stock:

	Year Ended December 31,		
	2013	2012	2011
		(shares in thousands)	
Dividend Reinvestment and Stock Purchase Plan	2,441	1,064	1,910
Conversion of DownREIT units	100	736	80
Exercise of stock options	876	2,455	1,157
Vesting of restricted stock units[(1)]	471	707	228

(1) Issued under the Company's 2006 Performance Incentive Plan, as amended and restated.

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Preferred Stock

On April 23, 2012, the Company redeemed all of its outstanding preferred stock consisting of 4,000,000 shares of its 7.25% Series E preferred stock and the 7,820,000 shares of its 7.10% Series F preferred stock. The shares of Series E and Series F preferred stock were redeemed at a price of $25 per share, or $295.5 million in aggregate, plus all accrued and unpaid dividends to the redemption date. As a result of the redemption, the Company incurred a charge of $10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in the Company's consolidated statements of income).

Accumulated Other Comprehensive Loss

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

	December 31,	
	2013	2012
Unrealized gains on available for sale securities	$	$ 7,776
Unrealized losses on cash flow hedges, net	(10,797)	(18,452)
Supplemental Executive Retirement Plan minimum liability	(2,910)	(3,150)
Cumulative foreign currency translation adjustment	(780)	(827)
Total accumulated other comprehensive loss	$ (14,487)	$ (14,653)

Noncontrolling Interests

At December 31, 2013, there were 4 million non-managing member units (6 million shares of HCP common stock are issuable upon conversion) outstanding in four DownREIT LLCs, in all of which the Company is the managing member. At December 31, 2013, the carrying and market values of the 4 million DownREIT units were $184 million and $217 million, respectively.

(14) Segment Disclosures

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the senior housing, post-acute/skilled nursing, life science and hospital segments, the Company invests or co-invests primarily in single operator or tenant properties, through the acquisition and development of real estate, management of operations (RIDEA) and by debt issued by operators in these sectors. Under the medical office segment, the Company invests or co-invests through the acquisition and development of medical office buildings ("MOBs") that are leased under gross, modified gross or triple-net leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described under Summary of Significant Accounting Policies (see Note 2). There were no intersegment sales or transfers during the years ended December 31, 2013, 2012 and 2011. The Company evaluates performance based upon property net operating income from continuing operations ("NOI"), adjusted NOI (cash NOI) and interest income of the combined 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

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revenues and expenses are not allocated to individual segments in determining the Company's performance measure. See Note 12 for other information regarding concentrations of credit risk.

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

For the year ended December 31, 2013:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2) (Cash NOI)
Senior housing	$ 602,506	$ 146,288	$ 11,621	$	$ 760,415	$ 653,191	$ 594,492
Post-acute/skilled nursing	541,805		73,595		615,400	539,320	467,508
Life science	296,879			4	296,883	239,923	228,475
Medical office	352,334			1,843	354,177	212,958	210,811
Hospital	72,060		943		73,003	68,198	79,752
Total	$ 1,865,584	$ 146,288	$ 86,159	$ 1,847	$ 2,099,878	$ 1,713,590	$ 1,581,038

For the year ended December 31, 2012:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2) (Cash NOI)
Senior housing	$ 481,559	$ 139,073	$ 3,503	$	$ 624,135	$ 529,209	$ 478,671
Post-acute/skilled nursing	530,037		19,993		550,030	529,562	453,456
Life science	289,664			4	289,668	236,491	226,997
Medical office	333,008			1,891	334,899	200,876	195,761
Hospital	80,198		1,040		81,238	76,685	75,104
Total	$ 1,714,466	$ 139,073	$ 24,536	$ 1,895	$ 1,879,970	$ 1,572,823	$ 1,429,989

For the year ended December 31, 2011:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2) (Cash NOI)
Senior housing	$ 469,251	$ 49,091	$ 178	$ 70	$ 518,590	$ 484,970	$ 432,047
Post-acute/skilled nursing	388,633		98,450		487,083	388,214	331,134

Life science	288,151			4	288,155	235,355	212,250
Medical office	318,368			1,999	320,367	190,584	184,408
Hospital	78,987		1,236		80,223	74,657	72,707
Total	$ 1,543,390	$ 49,091	$ 99,864	$ 2,073	$ 1,694,418	$ 1,373,780	$ 1,232,546

(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

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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.

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

	Years ended December 31,		
	2013	**2012**	**2011**
Net income	$ 985,006	$ 846,842	$ 554,494
Interest income	(86,159)	(24,536)	(99,864)
Investment management fee income	(1,847)	(1,895)	(2,073)
Interest expense	435,252	416,172	415,455
Depreciation and amortization	423,312	353,704	346,055
General and administrative	109,233	79,395	96,059
Litigation settlement and provision			125,000
Impairments		7,878	15,400
Other income, net	(18,216)	(2,976)	(12,933)
Income taxes	5,815	(1,654)	1,301
Equity income from unconsolidated joint ventures	(64,433)	(54,455)	(46,750)
Total discontinued operations	(74,373)	(45,652)	(18,364)
NOI	1,713,590	1,572,823	1,373,780
Straight-line rents	(39,587)	(47,311)	(59,173)
DFL accretion	(86,055)	(94,240)	(74,007)
Amortization of above and below market lease intangibles, net	(6,646)	(2,232)	(4,510)
Lease termination fees	(217)	(636)	(5,873)
NOI adjustments related to discontinued operations	(47)	1,585	2,329
Adjusted (Cash) NOI	$ 1,581,038	$ 1,429,989	$ 1,232,546

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's total assets by segment were (in thousands):

Segments	December 31, 2013	December 31, 2012
Senior housing	$ 7,803,085	$ 7,638,316
Post-acute/skilled nursing	6,266,938	6,039,575
Life science	3,986,187	3,932,397
Medical office	2,686,069	2,643,893
Hospital	639,357	702,102
Gross segment assets	21,381,636	20,956,283
Accumulated depreciation and amortization	(2,257,188)	(1,933,311)
Net segment assets	19,124,448	19,022,972
Assets held-for-sale, net	9,819	56,659
Other non-segment assets	941,603	835,924
Total assets	$ 20,075,870	$ 19,915,555

At December 31, 2013, goodwill of $50 million was allocated to segment assets as follows: (i) senior housing $31 million, (ii) post-acute/skilled nursing $3 million, (iii) medical office $11 million, and (iv) hospital $5 million. The Company completed the required annual impairment test during the three months ended December 31, 2013; no impairment was recognized based on the results of this impairment test.

(15) Future Minimum Rents

Future minimum lease payments to be received, excluding operating expense reimbursements, from tenants under non-cancelable operating leases as of December 31, 2013, are as follows (in thousands):

Year	Amount
2014	$ 1,056,273
2015	1,028,424
2016	991,159
2017	929,408
2018	847,918
Thereafter	3,718,573
	$ 8,571,755

(16) Compensation Plans

Stock Based Compensation

On May 11, 2006, the Company's stockholders approved the 2006 Performance Incentive Plan, as amended and restated (the "2006 Incentive Plan"). The 2006 Incentive Plan provides for the granting of stock-based compensation, including stock options, restricted stock and performance restricted stock units to officers, employees and directors in connection with their employment with or services provided to the Company. On April 23, 2009, the Company's stockholders amended the 2006 Incentive Plan. As a result of the amendment, the maximum number of shares reserved for awards under the 2006 Incentive Plan, as amended, is 23.2 million shares. The maximum number of shares available for future awards under the

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HCP, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2006 Incentive Plan is 5.6 million shares at December 31, 2013, of which approximately 3.7 million shares may be issued as restricted stock and performance restricted stock units.

Stock Options

Stock options are granted with an exercise price per share equal to the closing market price of the company's common stock on the grant date. Stock options generally vest ratably over a four- to five-year period and have a 10-year contractual term. Vesting of certain options may accelerate, as provided in the 2006 Incentive Plan or in the applicable award agreement, upon retirement, a change in control or other specified events. Upon the exercise of options, the participant is required to pay the exercise price of the options being exercised and the related tax withholding obligation. Participants have the ability to elect to have the Company withhold the number of shares to be delivered upon exercise of stock options to pay the related exercise price and tax withholding obligation. The value of the shares withheld is dependent upon the closing market price of the Company's common stock on the date that the relevant transaction occurs.

A summary of the stock option activity in 2013 is presented in the following table (dollars and shares in thousands, except per share amounts):

	Shares Under Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2013	3,127	$ 31.16	6.9	$ 43,774
Granted	499	46.92		
Exercised	(1,300)	29.17		
Forfeited	(104)	33.29		
Outstanding as of December 31, 2013	2,222	35.77	5.0	8,870
Exercisable as of December 31, 2013	1,281	35.64	3.3	4,924