HCP, INC.
Form 10-Q
May 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-08895

HCP, Inc.
(Exact name of registrant as specified in its charter)

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

1920 Main Street, Suite 1200
Irvine, CA 92614
(Address of principal executive offices)
(949) 407-0700
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer (Do not check if a smaller reporting company)	Smaller Reporting Company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES NO
At April 30, 2018, there were 469,755,917 shares of the registrant's $1.00 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

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HCP, Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Real estate:		
Buildings and improvements	$11,532,338	$11,239,732
Development costs and construction in progress	344,948	447,976
Land	1,808,210	1,785,865
Accumulated depreciation and amortization	(2,826,325)	(2,741,695)
Net real estate	10,859,171	10,731,878
Net investment in direct financing leases	713,463	714,352
Loans receivable, net	47,012	313,326
Investments in and advances to unconsolidated joint ventures	863,775	800,840
Accounts receivable, net of allowance of $4,516 and $4,425, respectively	51,468	40,733
Cash and cash equivalents	86,021	55,306
Restricted cash	31,947	26,897
Intangible assets, net	395,298	410,082
Assets held for sale, net	436,155	417,014
Other assets, net	583,261	578,033
Total assets	$14,067,571	$14,088,461
LIABILITIES AND EQUITY		
Bank line of credit	$1,092,357	$1,017,076
Term loan	236,878	228,288
Senior unsecured notes	6,398,976	6,396,451
Mortgage debt	143,524	144,486
Other debt	93,856	94,165
Intangible liabilities, net	52,576	52,579
Liabilities of assets held for sale, net	8,564	14,031
Accounts payable and accrued liabilities	391,942	401,738
Deferred revenue	167,975	144,709
Total liabilities	8,586,648	8,493,523
Commitments and contingencies		
Common stock, $1.00 par value: 750,000,000 shares authorized; 469,725,220 and 469,435,678 shares issued and outstanding, respectively	469,725	469,436
Additional paid-in capital	8,183,166	8,226,113
Cumulative dividends in excess of earnings	(3,425,293)	(3,370,520)
Accumulated other comprehensive income (loss)	(21,307)	(24,024)
Total stockholders' equity	5,206,291	5,301,005
Joint venture partners	97,744	117,045
Non-managing member unitholders	176,888	176,888
Total noncontrolling interests	274,632	293,933
Total equity	5,480,923	5,594,938
Total liabilities and equity	$14,067,571	$14,088,461

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Rental and related revenues	$279,578	$286,218
Tenant recoveries	37,174	33,675
Resident fees and services	142,814	140,232
Income from direct financing leases	13,266	13,712
Interest income	6,365	18,331
Total revenues	479,197	492,168
Costs and expenses:		
Interest expense	75,102	86,718
Depreciation and amortization	143,250	136,554
Operating	172,552	159,081
General and administrative	29,175	22,478
Transaction costs	2,195	1,057
Total costs and expenses	422,274	405,888
Other income (expense):		
Gain (loss) on sales of real estate, net	20,815	317,258
Other income (expense), net	(40,407)	51,208
Total other income (expense), net	(19,592)	368,466
Income (loss) before income taxes and equity income (loss) from unconsolidated joint ventures	37,331	454,746
Income tax benefit (expense)	5,336	6,162
Equity income (loss) from unconsolidated joint ventures	570	3,269
Net income (loss)	43,237	464,177
Noncontrolling interests' share in earnings	(3,005)	(3,032)
Net income (loss) attributable to HCP, Inc.	40,232	461,145
Participating securities' share in earnings	(391)	(770)
Net income (loss) applicable to common shares	$39,841	$460,375
Earnings per common share:		
Basic	$0.08	$0.98
Diluted	$0.08	$0.97
Weighted average shares outstanding:		
Basic	469,557	468,299
Diluted	469,695	475,173
Dividends declared per common share	$0.37	$0.37

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	$43,237	$464,177
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses)	(5,164)	(302)
Reclassification adjustment realized in net income (loss)	125	213
Change in Supplemental Executive Retirement Plan obligation and other	104	83
Foreign currency translation adjustment	7,652	990
Total other comprehensive income (loss)	2,717	984
Total comprehensive income (loss)	45,954	465,161
Total comprehensive income (loss) attributable to noncontrolling interests	(3,005)	(3,032)
Total comprehensive income (loss) attributable to HCP, Inc.	$42,949	$462,129

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except per share data)
(Unaudited)

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity
December 31, 2017	469,436	$469,436	$8,226,113	$(3,370,520)	$(24,024)	$5,301,005	$293,933	$5,594,938
Impact of adoption of ASU No. 2017-05[1]	—	—	—	79,144	—	79,144	—	79,144
January 1, 2018	469,436	$469,436	$8,226,113	$(3,291,376)	$(24,024)	$5,380,149	$293,933	$5,674,082
Net income (loss)	—	—	—	40,232	—	40,232	3,005	43,237
Other comprehensive income (loss)	—	—	—	—	2,717	2,717	—	2,717
Issuance of common stock, net	382	382	2,392	—	—	2,774	—	2,774
Repurchase of common stock	(93)	(93)	(2,051)	—	—	(2,144)	—	(2,144)
Amortization of deferred compensation	—	—	5,919	—	—	5,919	—	5,919
Common dividends ($0.37 per share)	—	—	—	(174,149)	—	(174,149)	—	(174,149)
Distributions to noncontrolling interest	—	—	—	—	—	—	(5,077)	(5,077)
Issuances of noncontrolling interest	—	—	—	—	—	—	995	995
Purchase of noncontrolling interest	—	—	(49,207)	—	—	(49,207)	(18,224)	(67,431)
March 31, 2018	469,725	$469,725	$8,183,166	$(3,425,293)	$(21,307)	$5,206,291	$274,632	$5,480,923

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity
January 1, 2017	468,081	$468,081	$8,198,890	$(3,089,734)	$(29,642)	$5,547,595	$393,713	$5,941,308

Net income (loss)	—	—	—	461,145	—	461,145	3,032	464,177
Other comprehensive income (loss)	—	—	—	—	984	984	—	984
Issuance of common stock, net	427	427	3,045	—	—	3,472	—	3,472
Conversion of DownREIT units to common stock	54	54	1,494	—	—	1,548	(1,548)	—
Repurchase of common stock	(116)	(116)	(3,416)	—	—	(3,532)	—	(3,532)
Amortization of deferred compensation	—	—	3,765	—	—	3,765	—	3,765
Common dividends ($0.37 per share)	—	—	—	(173,629)	—	(173,629)	—	(173,629)
Distributions to noncontrolling interest	—	—	—	—	—	—	(5,659)	(5,659)
Issuances of noncontrolling interest	—	—	—	—	—	—	650	650
Deconsolidation of noncontrolling interest	—	—	—	—	—	—	(58,061)	(58,061)
March 31, 2017	468,446	$468,446	$8,203,778	$(2,802,218)	$(28,658)	$5,841,348	$332,127	$6,173,475

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(1) On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"), and recognized the cumulative-effect of adoption to beginning retained earnings. Refer to Note 2 for a detailed impact of adoption.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$43,237	$464,177
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles:	143,250	136,554
Amortization of deferred compensation	5,919	3,765
Amortization of deferred financing costs	3,336	3,858
Straight-line rents	(10,686)	(5,007)
Equity loss (income) from unconsolidated joint ventures	(570)	(3,269)
Distributions of earnings from unconsolidated joint ventures	5,336	7,842
Deferred income tax expense (benefit)	(2,394)	(8,130)
Impairments (recoveries), net	(3,298)	—
Loss (gain) on sales of real estate, net	(20,815)	(317,258)
Loss (gain) on consolidation, net	41,017	—
Loss (gain) on sale of marketable securities	—	(50,895)
Other non-cash items	(2,401)	(660)
Decrease (increase) in accounts receivable and other assets, net	(18,082)	1,136
Increase (decrease) in accounts payable and accrued liabilities	12,315	(38,984)
Net cash provided by (used in) operating activities	196,164	193,129
Cash flows from investing activities:		
Acquisitions of real estate	(22,121)	—
Development and redevelopment of real estate	(113,648)	(75,166)
Leasing costs, tenant improvements, and recurring capital expenditures	(19,246)	(22,693)
Proceeds from sales of real estate, net	30,392	1,206,256
Contributions to unconsolidated joint ventures	(3,688)	(8,109)
Distributions in excess of earnings from unconsolidated joint ventures	7,257	870
Proceeds from the RIDEA II transaction, net	—	462,241
Proceeds from sales/principal repayments on debt investments and direct financing leases	132,429	185,364
Investments in loans receivable, direct financing leases and other	(647)	(15,000)
Net cash provided by (used in) investing activities	10,728	1,733,763
Cash flows from financing activities:		
Borrowings under bank line of credit, net	240,000	(375,812)
Repayments under bank line of credit	(170,000)	(37,032)
Repayments and repurchase of debt, excluding bank line of credit	(1,172)	(647,427)
Issuance of common stock and exercise of options	2,774	3,472
Repurchase of common stock	(2,144)	(3,532)
Dividends paid on common stock	(174,149)	(173,629)
Issuance of noncontrolling interests	995	650
Distributions to and purchase of noncontrolling interests	(67,542)	(5,659)
Net cash provided by (used in) financing activities	(171,238)	(1,238,969)
Effect of foreign exchanges on cash, cash equivalents and restricted cash	111	7
Net increase (decrease) in cash, cash equivalents and restricted cash	35,765	687,930
Cash, cash equivalents and restricted cash, beginning of period	82,203	136,990

Cash, cash equivalents and restricted cash, end of period	$117,968	$824,920

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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HCP, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Business

Overview

HCP, Inc., a Standard & Poor's ("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 ("U.S."). The Company acquires, develops, leases, manages and disposes of healthcare real estate and provides financing to healthcare providers. The Company's diverse portfolio is comprised of investments in the following reportable healthcare segments: (i) senior housing triple-net; (ii) senior housing operating portfolio ("SHOP"); (iii) life science and (iv) medical office.

NOTE 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

The consolidated financial statements include the accounts of HCP, Inc., its wholly-owned subsidiaries, joint ventures ("JVs") and variable interest entities ("VIEs") that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation. All adjustments (consisting of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC").

Recent Accounting Pronouncements

Revenue Recognition. Between May 2014 and February 2017, the Financial Accounting Standards Board ("FASB") issued four ASUs changing the requirements for recognizing and reporting revenue (together, herein referred to as the "Revenue ASUs"): (i) ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), (ii) ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"), (iii) ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"), and (iv) ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. ASU 2017-05 clarifies the scope of the FASB's recently established guidance on nonfinancial asset derecognition and aligns the accounting for partial sales of nonfinancial assets and in-substance nonfinancial assets with the guidance in ASU 2014-09. The Company adopted the Revenue ASUs effective January 1, 2018 and utilized a modified retrospective adoption approach, resulting in a cumulative-effect adjustment to equity of $79 million as of January 1, 2018. Under the Revenue ASUs, the Company also elected to utilize a practical expedient which allows the Company to only reassess contracts that were not completed as of the adoption date, rather than all historical contracts.

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As the primary source of revenue for the Company is generated through leasing arrangements, for which timing and recognition of revenue are excluded from the Revenue ASUs, the impact of the Revenue ASUs, upon and subsequent to adoption, is generally limited to the following:

- The Company, along with its JV partners and independent SHOP operators, provide certain ancillary services to SHOP residents that are not contemplated in the lease with each resident (i.e., guest meals, concierge services, pharmacy services, etc.). These services are provided and paid for in addition to the standard services included in each resident lease (i.e., room and board, standard meals, etc.). The Company bills residents for ancillary services one month in arrears and recognizes revenue as the services are provided, as the Company has no continuing performance obligation related to those services. The Company records ancillary service revenue within resident fees and services and, under the Revenue ASUs, is required to disclose, on an ongoing basis, ancillary service revenue generated from its RIDEA structures. Included within resident fees and services for the quarters ended March 31, 2018 and 2017 is $10 million of ancillary service revenue.
- Prior to the adoption of the Revenue ASUs, the Company recognized a gain on sale of real estate using the full accrual method when collectibility of the sales price was reasonably assured, the Company was not obligated to perform additional activities that may be considered significant, the initial investment from the buyer was sufficient and other profit recognition criteria had been satisfied. The Company deferred all or a portion of a gain on sale of real estate if the requirements for gain recognition were not met at the time of sale. Subsequent to adopting the Revenue ASUs on January 1, 2018, the Company began recognizing a gain on sale of real estate upon transferring control of the asset to the purchaser, which is generally satisfied at the time of sale. In conjunction with its adoption of the Revenue ASUs, the Company reassessed its historical partial sale of real estate transactions to determine which transactions, if any, were not completed contracts (i.e., the transaction did not qualify for sale treatment under previous guidance). The Company concluded that it had one such material transaction, its partial sale of RIDEA II in the first quarter of 2017 (which was not a completed sale under historical guidance as of the Company's adoption date due to a minor obligation related to the interest sold). In accordance with the Revenue ASUs, the Company recorded its retained 40% equity investment at fair value as of the sale date. As a result, the Company recorded an adjustment to equity as of January 1, 2018 (under the modified retrospective transition approach) representing a step-up in the fair value of its equity investment in RIDEA II of $107 million (to a carrying value of $121 million as of January 1, 2018) and a $30 million impairment charge to decrease the carrying value to the expected sales price of the investment (see Note 4).
- The Company generally expects that the new guidance will result in certain transactions qualifying as sales of real estate at an earlier date than under historical accounting guidance.

The following table illustrates changes in the Company’s consolidated balance sheet as reported and as it would have been reported prior to the adoption of the Revenue ASUs as of March 31, 2018 (in thousands):

	March 31, 2018	
	As Reported	As Would Have Been Reported Prior to Adoption
Investments in and advances to unconsolidated joint ventures	863,775	792,291
Other assets, net	583,261	586,066
Deferred revenue	167,975	178,440
Total stockholders' equity	5,206,291	5,127,147

Additionally, effective January 1, 2018, the Company adopted the following ASUs, each of which did not have a material impact to its consolidated financial position, results of operations, cash flows or disclosures upon adoption:

- ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”) and ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (“ASU 2018-03”). The core principle of the amendments in ASU 2016-01 and ASU 2018-03 involves the measurement of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation) at fair value and the recognition of changes in fair value of those investments during each reporting period in net income (loss). As a result, ASU 2016-01 and ASU 2018-03 eliminate the cost method of accounting for equity securities that do not have readily determinable fair values. Pursuant to the new guidance, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

- ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The amendments in ASU 2016-16 require an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory

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at the time that the transfer occurs. Historical guidance does not require recognition of tax consequences until the asset is eventually sold to a third party.

During the fourth quarter of 2017, the Company adopted ASU No. 2016-18, Restricted Cash (“ASU 2016-18”) and ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”) (collectively, the “Cash Flow ASUs”). ASU 2016-18 requires an entity to reconcile and explain the period-over-period change in total cash, cash equivalents and restricted cash within its statements of cash flows and ASU 2016-15 provides guidance clarifying how certain cash receipts and cash payments should be classified. The full retrospective approach of adoption is required for the Cash Flow ASUs and, accordingly, certain line items in the Company’s consolidated statements of cash flows have been reclassified to conform to the current period presentation.

The following table illustrates changes in the Company’s cash flows as reported and as previously reported prior to the adoption of the Cash Flow ASUs during the fourth quarter of 2017 (in thousands):

	Three Months Ended March 31, 2017	
	As Reported	As Previously Reported
Net cash provided by (used in) investing activities	$1,733,763	$1,715,217
Net increase (decrease) in balance[1]	687,930	669,384
Balance - beginning of period[1]	136,990	94,730
Balance - end of period[1]	824,920	764,114

(1) Amounts in the As Reported column include cash and cash equivalents and restricted cash as required upon the adoption of the Cash Flow ASUs. Amounts in the As Previously Reported column reflect only cash and cash equivalents.

In addition to the changes in the consolidated statements of cash flows as a result of the adoption the Cash Flow ASUs, certain amounts within the consolidated statements of cash flows have been reclassified for prior periods to conform to the current period presentation. Such reclassifications primarily combined line items of similar classes of transactions and had no impact on the cash flows from operating, investing and financing activities.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 amends the current accounting for leases to: (i) require lessees to put most leases on their balance sheets, but continue recognizing expenses on their income statements in a manner similar to requirements under current accounting guidance, (ii) eliminate current real estate specific lease provisions, and (iii) modify the classification criteria and accounting for sales-type leases for lessors. ASU 2016-02 is effective for fiscal years, and interim periods within, beginning after December 15, 2018. Early adoption is permitted. The transition method required by ASU 2016-02 varies based on the specific amendment being adopted. As a result of adopting ASU 2016-02, the Company: (i) will recognize all of its significant operating leases for which it is the lessee, including corporate office leases, equipment leases, and ground leases, on its consolidated balance sheets, (ii) will capitalize fewer legal costs related to the drafting and execution of its lease agreements, and (iii) may be required to increase its revenue and expense for the amount of real estate taxes and insurance paid by its tenants under triple-net leases.

ASU 2016-02 provides a practical expedient, which the Company plans to elect, that allows an entity to not reassess the following upon adoption (must be elected as a group): (i) whether an expired or existing contract contains a lease arrangement, (ii) lease classification related to expired or existing lease arrangements, or (iii) whether costs incurred on expired or existing leases qualify as initial direct costs. Although not yet finalized, the FASB has also proposed an option for lessors to elect a practical expedient allowing them to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure. This practical expedient is limited to circumstances in which (i) the timing and pattern of transfer are the same for the nonlease component and the related lease component and (ii) the lease component would be classified as an operating lease. If finalized, the Company plans to elect this practical expedient as well. The Company is still evaluating the complete impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial position, results of operations and disclosures.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amendments in ASU 2016-13 eliminate the “probable” initial threshold for recognition of credit losses in current accounting guidance and, instead, reflect an entity’s current estimate of all expected credit losses over the life of the financial instrument. Previously, when credit losses were measured under current accounting guidance, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss. ASU 2016-13 is effective for fiscal years, and interim periods within, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within, beginning after December 15, 2018. A reporting entity is required to apply the amendments in ASU 2016-13 using a modified retrospective approach by recording

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a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Upon adoption of ASU 2016-13, the Company is required to reassess its financing receivables, including direct financing leases ("DFLs") and loans receivable, and expects that application of ASU 2016-13 may result in the Company recognizing credit losses at an earlier date than would otherwise be recognized under current accounting guidance. The Company is evaluating the impact of the adoption of ASU 2016-13 on January 1, 2020 to its consolidated financial position and results of operations.

The following ASU has been issued, but not adopted, and the Company does not expect a material impact to its consolidated financial position, results of operations, cash flows, or disclosures upon adoption:

- ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). ASU 2017-12 is effective for fiscal years, including interim periods within, beginning after December 15, 2018 and early adoption is permitted. The amendments in ASU 2017-12 expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For cash flow and net investment hedges existing at the date of adoption, a reporting entity must apply the amendments in ASU 2017-12 using the modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The presentation and disclosure amendments in ASU 2017-12 must be applied using a prospective approach.

NOTE 3. Master Transactions and Cooperation Agreement with Brookdale

Master Transactions and Cooperation Agreement with Brookdale

On November 1, 2017, the Company and Brookdale Senior Living Inc. ("Brookdale") entered into a Master Transactions and Cooperation Agreement (the "MTCA") to provide the Company with the ability to significantly reduce its concentration of assets leased to and/or managed by Brookdale (the "Brookdale Transactions"). Through a series of dispositions and transitions of assets currently leased to and/or managed by Brookdale, as contemplated by the MTCA and further described below, the Company's exposure to Brookdale is expected to be significantly reduced.

In connection with the overall transaction pursuant to the MTCA, the Company (through certain of its subsidiaries), and Brookdale (through certain of its subsidiaries) (the "Lessee") entered into an Amended and Restated Master Lease and Security Agreement (the "Amended Master Lease"), which amended and restated the then-existing triple-net leases between the parties for 78 assets, which account for primarily all of the assets subject to triple-net leases between the Company and the Lessee (before giving effect to the contemplated sale or transition of 34 assets discussed below). Under the Amended Master Lease, the Company has the benefit of a guaranty from Brookdale of the Lessee's obligations and, upon a change in control, will have various additional protections under the MTCA and the Amended Master Lease including:

- A security deposit (which increases if specified leverage thresholds are exceeded);
- A termination right if certain financial covenants and a net worth test are not satisfied;
- Enhanced reporting requirements and related remedies; and
- The right to market for sale the CCRC portfolio (as defined below).

Future changes in control of Brookdale are permitted pursuant to the Amended Master Lease, subject to certain conditions, including the purchaser either meeting experience requirements or retaining a majority of Brookdale's principal officers.

The Amended Master Lease preserves the renewal terms and, with certain exceptions, the rents under the previously existing triple-net leases. In addition, the Company and Brookdale agreed to the following:

- The Company has the right to sell, or transition to other operators, 32 triple-net assets. If such sale or transition does not occur within one year, the triple-net lease with respect to such assets will convert to a cash flow lease (under which the Company will bear the risks and rewards of operating the assets) with a term of two years, provided that the Company has the right to terminate the cash flow lease at any time during the term without penalty;
- The Company has provided an aggregate $5 million annual reduction in rent on three assets, effective January 1, 2018; and
-

The Company will sell two triple-net assets to Brookdale or its affiliates for $35 million, both of which were sold in April 2018.

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Also pursuant to the MTCA, the Company and Brookdale agreed to the following:

- The Company, which owned 90% of the interests in its RIDEA I and RIDEA III JVs with Brookdale at the time the MTCA was executed, agreed to purchase Brookdale's 10% noncontrolling interest in each JV for an aggregate purchase price of $95 million. These JVs collectively own and operate 58 independent living, assisted living, memory care and/or skilled nursing facilities (the "RIDEA Facilities"). The Company completed its acquisitions of the RIDEA III noncontrolling interest for $32 million in December 2017 and the RIDEA I noncontrolling interest for $63 million in March 2018;
- The Company has the right to sell, or transition to other managers, 36 of the RIDEA Facilities and terminate related management agreements with an affiliate of Brookdale without penalty. If the related management agreements are not terminated within one year, the base management fee (5% of gross revenues) increases by 1% of gross revenues per year over the following two years to a maximum of 7% of gross revenues. As of March 31, 2018, the Company had completed the transition of eight SHOP assets;
- The Company will sell four of the RIDEA Facilities to Brookdale or its affiliates for $239 million, one of which was sold in January 2018 for $32 million. The remaining three RIDEA Facilities were sold in April 2018 for $207 million;
- A Brookdale affiliate continues to manage the remaining 18 RIDEA Facilities pursuant to amended management agreements, which provide for extended terms on select assets, modified performance hurdles for extensions and incentive fees, and modified termination rights (including stricter performance-based termination rights, a staggered right to terminate seven agreements over a 10 year period beginning in 2021, and a right to terminate at will upon payment of a termination fee, in lieu of sale-related termination rights) and two other existing facilities managed in separate RIDEA structures; and
- The Company has the right to sell, to certain permitted transferees, its 49% ownership interest in JVs that own and operate a portfolio of continuing care retirement communities (the "CCRC Portfolio") and in which Brookdale owns the other 51% interest (the "CCRC JV"), subject to certain conditions and a right of first offer in favor of Brookdale. Brookdale will have a corresponding right to sell its 51% interest in the CCRC JV to certain permitted transferees, subject to certain conditions, a right of first offer and a right to terminate management agreements following such sale of Brookdale's interest, each in favor of HCP. Following a change in control of Brookdale, the Company will have the right to initiate a sale of the CCRC Portfolio, subject to certain rights of first offer and first refusal in favor of Brookdale.

NOTE 4. Real Estate Transactions

Dispositions of Real Estate

Held for Sale

At March 31, 2018, seven SHOP facilities, two senior housing triple-net facilities and four life science facilities were classified as held for sale, with an aggregate carrying value of $436 million, primarily comprised of real estate assets of $410 million, net of accumulated depreciation of $98 million. At December 31, 2017, two senior housing triple-net facilities, four life science facilities and six SHOP facilities were classified as held for sale, with an aggregate carrying value of $417 million, primarily comprised of real estate assets of $393 million, net of accumulated depreciation of $93 million. Liabilities of assets held for sale is primarily comprised of intangible and other liabilities at both March 31, 2018 and December 31, 2017.

RIDEA II Sale Transaction

In January 2017, the Company completed the contribution of its ownership interest in RIDEA II to an unconsolidated JV owned by HCP and an investor group led by Columbia Pacific Advisors, LLC ("CPA") ("HCP/CPA PropCo" and "HCP/CPA OpCo," together, the "HCP/CPA JV"). Also in January 2017, RIDEA II was recapitalized with $602 million of debt, of which $360 million was provided by a third-party and $242 million was provided by HCP. In return for both transaction elements, the Company received combined proceeds of $480 million from the HCP/CPA JV and $242 million in loan receivables and retained an approximately 40% ownership interest in RIDEA II (the note receivable and 40% ownership interest are herein referred to as the "RIDEA II Investments"). This transaction resulted in the Company deconsolidating the net assets of RIDEA II and recognizing a net gain on sale of $99 million. The RIDEA II Investments are currently recognized and accounted for as equity method investments. Refer to Note 2 for

the impact of adopting the Revenue ASUs on January 1, 2018 to the Company's partial sale of RIDEA II in the first quarter of 2017.
On November 1, 2017, the Company entered into a definitive agreement with an investor group led by CPA to sell its remaining 40% ownership interest in RIDEA II for $91 million. The Company expects the transaction to close in the second quarter of 2018. CPA has also agreed to cause refinancing of the Company's $242 million loan receivables from RIDEA II within one year following the close of the transaction.

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U.K. Portfolio

On May 1, 2018, the Company entered into definitive agreements with an institutional investor to create a joint venture (the "U.K. JV") through which the Company will sell a 51% interest in all United Kingdom ("U.K.") assets owned by the Company ("the U.K. Portfolio") based on a total value of £394 million. The Company will retain a 49% noncontrolling interest in the joint venture. Upon closing the U.K. JV, the Company expects to deconsolidate the U.K. Portfolio and recognize a gain on deconsolidation.

2018 Dispositions

In January 2018, the Company sold two SHOP assets for $35 million, resulting in gain on sales of $21 million.

In April 2018, the Company sold four SHOP assets and two senior housing triple-net assets for $265 million.

2017 Dispositions (Three months ended March 31, 2017)

In January 2017, the Company sold four life science facilities in Salt Lake City, Utah for $76 million, resulting in a net gain on sale of $45 million.

In March 2017, the Company sold 64 senior housing triple-net assets, previously under triple-net leases with Brookdale, for $1.125 billion to affiliates of Blackstone Real Estate Partners VIII, L.P., resulting in a net gain on sale of $170 million.

Investments in Real Estate

During the three months ended March 31, 2018, the Company acquired development rights on a land parcel in the Boston suburb of Lexington, Massachusetts for $21 million. The Company will commence a life science development on the land in 2018.

There were no new real estate investments made during the three months ended March 31, 2017.

NOTE 5. Net Investment in Direct Financing Leases

Net investment in DFLs consisted of the following (dollars in thousands):

	March 31, 2018	December 31, 2017
Minimum lease payments receivable	$1,049,400	$1,062,452
Estimated residual value	504,457	504,457
Less unearned income	(840,394)	(852,557)
Net investment in direct financing leases	$713,463	$714,352
Properties subject to direct financing leases	29	29

In February 2017, the Company sold a hospital within a DFL in Palm Beach Gardens, Florida for $43 million to the current tenant and recognized a gain on sale of $4 million.

Direct Financing Lease Internal Ratings

The following table summarizes the Company's internal ratings for DFLs at March 31, 2018 (dollars in thousands):

			Internal Ratings		
Segment	Carrying Amount	Percentage of DFL Portfolio	Performing DFLs	Watch List DFLs	Workout DFLs
Senior housing triple-net	$628,859	88	$274,264	$354,595	$ —
Other non-reportable segments	84,604	12	84,604	—	—
	$713,463	100	$358,868	$354,595	$ —

Beginning September 30, 2013, the Company placed a 14-property senior housing triple-net DFL (the "DFL Watchlist Portfolio") on nonaccrual status and "Watch List" status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue for the DFL Watchlist Portfolio is being recognized on a cash basis. During the three months ended March 31, 2018 and 2017, the Company recognized income from DFLs of $3 million and received cash payments of $5 million and $4 million, respectively, from the DFL Watchlist Portfolio. The carrying value of the DFL Watchlist Portfolio was $355 million and $356 million at March 31, 2018 and December 31, 2017, respectively.

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NOTE 6. Loans Receivable

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

	March 31, 2018			December 31, 2017		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine[1]	$—	$22,105	$22,105	$—	$269,299	$269,299
Other[2]	24,990	—	24,990	188,418	—	188,418
Unamortized discounts, fees and costs	—	(83)	(83)	—	(596)	(596)
Allowance for loan losses[3]	—	—	—	—	(143,795)	(143,795)
	$24,990	$22,022	$47,012	$188,418	$124,908	$313,326

(1) In December 2017, the Company entered into a participating debt financing arrangement to fund a $115 million senior living development project, which remained unfunded at March 31, 2018.

(2) Represents loans denominated in British pound sterling ("GBP"). At December 31, 2017, includes the U.K. Bridge Loan discussed below.

(3) Related to the Company's mezzanine loan facility to Tandem Health Care discussed below.

Loans Receivable Internal Ratings

The following table summarizes the Company's internal ratings for loans receivable at March 31, 2018 (dollars in thousands):

			Internal Ratings		
Investment Type	Carrying Amount	Percentage of Loan Portfolio	Performing Loans	Watch List Loans	Workout Loans
Real estate secured	$24,990	53	$24,990	$ —	$ —
Other secured	22,022	47	22,022	—	—
	$47,012	100	$47,012	$ —	$ —

Four Seasons Health Care

In March 2017, the Company sold its investment in Four Seasons Health Care's ("Four Seasons") senior secured term loan at par plus accrued interest for £29 million ($35 million).

Additionally, in March 2017, pursuant to a shift in the Company's investment strategy, the Company sold its £138.5 million par value Four Seasons senior notes (the "Four Seasons Notes") for £83 million ($101 million). The disposition of the Four Seasons Notes generated a £42 million ($51 million) gain on sale, recognized in other income (expense), net, as the sales price was above the previously-impaired carrying value of £41 million ($50 million).

HC-One Facility

On June 30, 2017, the Company received £283 million ($367 million) from the repayment of its HC-One mezzanine loan.

Tandem Health Care Loan

From July 2012 through May 2015, the Company funded, in aggregate, $257 million under a collateralized mezzanine loan facility (the "Mezzanine Loan") to certain affiliates of Tandem Health Care (together with its affiliates, "Tandem"). During 2017, the Company recorded impairment charges totaling $144 million on the Mezzanine Loan. The decline in fair value driving each impairment charge was based primarily on declining operating results of the collateral underlying the Mezzanine Loan, as well as market and industry data, which reflected a declining trend in admissions and a continuing shift away from higher-rate Medicare plans in the post-acute/skilled nursing sector. The resulting carrying value of the Mezzanine Loan as of December 31, 2017 was $105 million. In conjunction with the declining operating results and industry trends, beginning in the first quarter of 2017, the Company elected to recognize interest income on a cash basis. During the three months ended March 31, 2018 and 2017, the Company recognized interest income and received cash payments of zero and $7 million, respectively, from Tandem.

In March 2018, the Company sold the Mezzanine Loan to a third party for approximately $112 million, resulting in an impairment recovery, net of transaction costs and fees, of $3 million included in other income (expense), net. The Company holds no further economic interest in the operations of Tandem.

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U.K. Bridge Loan

In 2016, the Company provided a £105 million ($131 million at closing) bridge loan to Maria Mallaband Care Group Ltd. ("MMCG") to fund the acquisition of a portfolio of seven care homes in the U.K. Under the bridge loan, the Company retained a three-year call option to acquire those seven care homes at a future date for £105 million, subject to certain conditions precedent being met. In March 2018, upon resolution of all conditions precedent, the Company began the process of exercising its call option to acquire the seven care homes and concluded that it should consolidate the real estate. As a result, the Company derecognized the outstanding loan receivable of £105 million and recognized a £29 million ($41 million) loss on consolidation. Refer to Note 15 for the complete impact of consolidating the seven care homes during the first quarter of 2018.

NOTE 7. Investments in and Advances to Unconsolidated Joint Ventures

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

		Carrying Amount	
Entity[(1)]	Ownership%	March 31, 2018	December 31, 2017
CCRC JV	49	$395,005	$400,241
RIDEA II[(2)]	40	328,873	259,651
Life Science JVs[(3)]	50 - 63	65,016	65,581
MBK JV	50	37,442	38,005
Development JVs[(4)]	50 - 90	23,733	23,365
Medical Office JVs[(5)]	20 - 67	12,395	12,488
K&Y JVs[(6)]	80	1,298	1,283
Advances to unconsolidated joint ventures, net		13	226
		$863,775	$800,840

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the JVs.

(2) Effective January 1, 2018, the Company increased its carrying value in RIDEA II as a net adjustment to retained earnings under its elected transition approach in accordance with the adoption of ASU 2017-05 (see Note 2). See Note 4 for further information on the deconsolidation and pending sale of RIDEA II.

(3) Includes the following unconsolidated 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%).

(4) Includes four unconsolidated SHOP development partnerships (and the Company's ownership percentage): (i) Vintage Park Development JV (85%); (ii) Waldwick JV (85%); (iii) Otay Ranch JV (90%); and (iv) MBK Development JV (50%).

(5) Includes three unconsolidated medical office partnerships (and the Company's ownership percentage): HCP Ventures IV, LLC (20%); HCP Ventures III, LLC (30%); and Suburban Properties, LLC (67%).

(6) Includes three unconsolidated JVs.

NOTE 8. Intangibles

Intangible assets primarily consist of lease-up intangibles, above market tenant lease intangibles and below market ground lease intangibles. Intangible liabilities primarily consist of below market lease intangibles and above market ground lease intangibles. The following tables summarize the Company's intangible lease assets and liabilities (in thousands):

Intangible lease assets	March 31, 2018	December 31, 2017

Gross intangible lease assets	$732,110	$ 795,305
Accumulated depreciation and amortization	(336,812)	(385,223)
Intangible assets, net	$395,298	$ 410,082

Intangible lease liabilities	March 31, 2018	December 31, 2017
Gross intangible lease liabilities	$124,609	$ 126,212
Accumulated depreciation and amortization	(72,033)	(73,633)
Intangible liabilities, net	$52,576	$ 52,579

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NOTE 9. Debt

Bank Line of Credit and Term Loan

The Company’s $2.0 billion unsecured revolving line of credit facility (the “Facility”) matures on October 19, 2021 and contains two, six-month extension options. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends on the Company’s credit ratings. The Company pays a facility fee on the entire revolving commitment that depends on its credit ratings. Based on the Company’s credit ratings at March 31, 2018, the margin on the Facility was 1.00% and the facility fee was 0.20%. The Facility also includes a feature that allows the Company to increase the borrowing capacity by an aggregate amount of up to $750 million, subject to securing additional commitments. At March 31, 2018, the Company had $1.1 billion, including £105 million ($147 million), outstanding under the Facility, with a weighted average effective interest rate of 2.99%.

On April 6, 2018, the Company paid down $290 million outstanding under the Facility primarily using proceeds from asset sales to Brookdale (see Note 3).

At March 31, 2018, the Company had £169 million ($237 million) outstanding on its term loan, which accrues interest at a rate of GBP LIBOR plus 1.15%, subject to adjustments based on the Company’s credit ratings. The term loan matures in January 2019 and contains a one-year committed extension option. The Company has a one-time right to repay the outstanding GBP balance and re-borrow in USD with all other key terms unchanged.

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 Minimum Consolidated Tangible Net Worth of $6.5 billion. At March 31, 2018, the Company was in compliance with each of these restrictions and requirements of the Facility and term loan.

Senior Unsecured Notes

At March 31, 2018, the Company had senior unsecured notes outstanding with an aggregate principal balance of $6.5 billion. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at March 31, 2018.

The following table summarizes the Company’s senior unsecured notes payoffs during the year ended December 31, 2017 (dollars in thousands):

Date	Amount	Coupon Rate
May 1, 2017	$250,000	5.625%
July 27, 2017	$500,000	5.375%

There were no senior unsecured notes repayments during the three months ended March 31, 2018.

There were no senior unsecured notes issuances during the three months ended March 31, 2018 or year ended December 31, 2017.

Mortgage Debt

At March 31, 2018, the Company had $138 million in aggregate principal of mortgage debt outstanding, which is secured by 16 healthcare facilities (including redevelopment properties) with a carrying value of $296 million. In March 2017, the Company paid off $472 million of mortgage debt.

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 may require tenants or operators to maintain compliance with the applicable leases or operating agreements of such real estate assets.

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Debt Maturities
The following table summarizes the Company's stated debt maturities and scheduled principal repayments at March 31, 2018 (in thousands):

Year	Bank Line of Credit(1)	Term Loan(2)	Senior Unsecured Notes(3)	Mortgage Debt(4)	Total(5)
2018 (nine months)	$—	$ —	$—	$2,649	$2,649
2019	—	237,175	450,000	3,700	690,875
2020	—	—	800,000	3,758	803,758
2021	1,092,357	—	700,000	11,117	1,803,474
2022	—	—	900,000	2,861	902,861
Thereafter	—	—	3,600,000	113,619	3,713,619
	1,092,357	237,175	6,450,000	137,704	7,917,236
(Discounts), premium and debt costs, net	—	(297)	(51,024)	5,820	(45,501)
	$1,092,357	$ 236,878	$6,398,976	$143,524	$7,871,735

(1) Includes £105 million translated into U.S. dollars ("USD").
(2) Represents £169 million translated into USD.
(3) Effective interest rates on the notes ranged from 2.79% to 6.88% with a weighted average effective interest rate of 4.20% and a weighted average maturity of six years.
(4) Interest rates on the mortgage debt ranged from 1.95% to 5.91% with a weighted average effective interest rate of 4.18% and a weighted average maturity of 20 years.
(5) Excludes $94 million of other debt that have no scheduled maturities.

NOTE 10. Commitments and Contingencies

Legal Proceedings
From time to time, the Company is a party to, or has a significant relationship to, legal proceedings, lawsuits and other claims. Except as described below, the Company is not aware of any legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's policy is to expense legal costs as they are incurred.
Class Action. On May 9, 2016, a purported stockholder of the Company filed a putative class action complaint, Boynton Beach Firefighters' Pension Fund v. HCP, Inc., et al., Case No. 3:16-cv-01106-JJH, in the U.S. District Court for the Northern District of Ohio against the Company, certain of its officers, HCR ManorCare, Inc. ("HCRMC"), and certain of its officers, asserting violations of the federal securities laws. The suit asserts claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and alleges that the Company made certain false or misleading statements relating to the value of and risks concerning its investment in HCRMC by allegedly failing to disclose that HCRMC had engaged in billing fraud, as alleged by the U.S. Department of Justice in a pending suit against HCRMC arising from the False Claims Act. The plaintiff in the suit demands compensatory damages (in an unspecified amount), costs and expenses (including attorneys' fees and expert fees), and equitable, injunctive, or other relief as the Court deems just and proper. On November 28, 2017, the Court appointed Societe Generale Securities GmbH (SGSS Germany) and the City of Birmingham Retirement and Relief Systems (Birmingham) as Co-Lead Plaintiffs in the class action. Co-Lead Plaintiffs filed a consolidated Amended Complaint on February 28, 2018. Defendants filed their motion to dismiss the Amended Complaint on March 30, 2018. The Company believes the suit to be without merit and intends to vigorously defend against it.
Derivative Actions. On June 16, 2016 and July 5, 2016, purported stockholders of the Company filed two derivative actions, respectively Subodh v. HCR ManorCare Inc., et al., Case No. 30-2016-00858497-CU-PT-CXC and Stearns v. HCR ManorCare, Inc., et al., Case No. 30-2016-00861646-CU-MC-CJC, in the Superior Court of California, County of Orange, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. As both derivative actions contained substantially the same allegations, they have been

consolidated into a single action. The consolidated action alleges that the defendants engaged in various acts of wrongdoing, including, among other things, breaching fiduciary duties by publicly making false or misleading statements of fact regarding HCRMC's finances and prospects, and failing to maintain adequate internal controls. As the Subodh/Stearns action is in the early stages, defendants have not yet responded to the complaint. On April 18, 2017, the Court approved the parties' stipulation staying the action pending further developments, including in the related securities class action litigation. The Court recently adjourned the status conference scheduled for January 10, 2018 to June 11, 2018.

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On April 10, 2017, a purported stockholder of the Company filed a derivative action, Weldon v. Martin et al., Case No. 3:17-cv-755, in federal court in the Northern District of Ohio, Western Division, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The Weldon complaint asserts similar claims to those asserted in the California derivative actions. In addition, the complaint asserts a claim under Section 14(a) of the Exchange Act, alleging that the Company made false statements in its 2016 proxy statement by not disclosing that the Company's performance issues in 2015 were the direct result of billing fraud at HCRMC. On April 18, 2017, the Court re-assigned and transferred this action to the judge presiding over the related federal securities class action. Defendants have not yet been served or responded to the complaint. On July 11, 2017, the Court approved a stipulation by the parties to stay the case pending disposition of the motion to dismiss the class action.

On July 21, 2017, a purported stockholder of the Company filed another derivative action, Kelley v. HCR ManorCare, Inc., et al., Case No. 8:17-cv-01259, in federal court in the Central District of California, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The Kelley complaint asserts similar claims to those asserted in Weldon and in the California derivative actions. Like Weldon, the Kelley complaint also additionally alleges that the Company made false statements in its 2016 proxy statement, and asserts a claim for a violation of Section 14(a) of the Exchange Act. On September 25, 2017, Defendants moved to transfer the action to the Northern District of Ohio (i.e., the court where the class action and other federal derivative action are pending) or, in the alternative, to stay the action. The Court granted Defendants' motion to transfer on November 28, 2017, and Kelley is now pending in the Northern District of Ohio.

The Court in the Northern District of Ohio is considering a request to consolidate the Weldon and Kelley actions.

The Company's Board of Directors received letters dated August 17, 2016, April 19, 2017, and April 20, 2017 from private law firms acting on behalf of clients who are purported stockholders of the Company, each asserting allegations similar to those made in the Subodh and Stearns matters discussed above. Each letter demands that the Board of Directors take action to assert the Company's rights. The Board of Directors completed its evaluation and determined to reject the demand letters. Rejection notices were sent in December of 2017.

The Company believes that the plaintiffs lack standing or the lawsuits and demands are without merit, and the Company is unable to estimate the amount of loss or range of reasonably possible losses with respect to the matters discussed above as of March 31, 2018.

NOTE 11. Equity

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the Company's accumulated other comprehensive income (loss) (in thousands):

	March 31, 2018	December 31, 2017
Cumulative foreign currency translation adjustment	$697	$ (6,955)
Unrealized gains (losses) on cash flow hedges, net	(18,989)	(13,950)
Supplemental Executive Retirement plan minimum liability and other	(3,015)	(3,119)
Total other comprehensive income (loss)	$(21,307)	$ (24,024)

Noncontrolling Interests

See Note 4 for the deconsolidation of RIDEA II and Note 14 for the supplemental schedule of non-cash financing activities.

See Note 3 for the Company's purchase of Brookdale's noncontrolling interest in RIDEA III in March 2018.

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NOTE 12. Segment Disclosures

The Company evaluates its business and allocates resources based on its reportable business segments: (i) senior housing triple-net, (ii) SHOP, (iii) life science and (iv) medical office. The Company has non-reportable segments that are comprised primarily of the Company's debt investments, hospital properties, unconsolidated JVs (see below) and care homes in the U.K. The accounting policies of the segments are the same as those in Note 2 to the Consolidated Financial Statements in the Company's 2017 Annual Report on Form 10-K filed with the SEC, as updated by Note 2 herein.

During the three months ended March 31, 2018, there were no transfers of assets between segments. During the three months ended March 31, 2017, one senior housing triple-net facility was transferred to the Company's SHOP segment.

The Company evaluates performance based upon: (i) property NOI and (ii) Adjusted NOI. NOI is defined as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expenses (which exclude transition costs); NOI excludes all other financial statement amounts included in net income (loss). Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL non-cash interest, amortization of market lease intangibles, termination fees, and the impact of deferred community fee income and expense.

During the fourth quarter of 2017, as a result of a change in how operating results are reported to the chief operating decision makers, for the purpose of evaluating performance and allocating resources, the Company began excluding unconsolidated JVs from its evaluation of its segments' operating results. Unconsolidated JVs are now reflected in other non-reportable segments.

The adjustments to NOI and resulting Adjusted NOI for SHOP have been recast for prior periods to conform to the current period presentation which excludes: (i) the impact of deferred community fee income and expense, resulting in recognition as cash is received and expenses are paid and (ii) adjustments related to unconsolidated JVs (see above).

Non-segment assets consist of assets in the Company's other non-reportable segments and corporate non-segment assets. Corporate non-segment assets consist primarily of corporate assets, including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities and, if any, real estate assets and liabilities held for sale. See Note 16 for other information regarding concentrations of credit risk.

The following tables summarize information for the reportable segments (in thousands):

For the three months ended March 31, 2018:

	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Rental revenues[1]	$ 74,289	$ 144,670	$ 99,622	$ 123,935	$ 30,316	$ —	$ 472,832
Operating expenses	(1,045)	(101,746)	(21,809)	(46,696)	(1,256)	—	(172,552)
NOI	73,244	42,924	77,813	77,239	29,060	—	300,280
Adjustments to NOI[2]	(1,865)	(1,607)	(3,751)	(1,071)	(1,392)	—	(9,686)
Adjusted NOI	71,379	41,317	74,062	76,168	27,668	—	290,594
Addback adjustments	1,865	1,607	3,751	1,071	1,392	—	9,686
Interest income	—	—	—	—	6,365	—	6,365
Interest expense	(600)	(988)	(83)	(120)	(728)	(72,583)	(75,102)
Depreciation and amortization	(21,906)	(27,628)	(36,080)	(45,519)	(12,117)	—	(143,250)
General and administrative	—	—	—	—	—	(29,175)	(29,175)
Transaction costs	—	—	—	—	—	(2,195)	(2,195)
Gain (loss) on sales of real estate, net	—	20,815	—	—	—	—	20,815
Other income (expense), net	—	—	—	—	(40,567)	160	(40,407