HCP, INC.
Form 10-Q
April 28, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
	For the quarterly period ended March 31, 2009.
	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	**33-0091377**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days YES x NO o

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

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

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o (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 in Rule 12b-2 of the Exchange Act)
YES o NO x

As of April 15, 2009, there were 253,974,711 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.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Real estate:		
Buildings and improvements	$ 7,758,432	$ 7,752,714
Development costs and construction in progress	240,690	224,337
Land	1,550,286	1,550,219
Less accumulated depreciation and amortization	880,881	820,441
Net real estate	8,668,527	8,706,829
Net investment in direct financing leases	648,411	648,234
Loans receivable, net	1,074,874	1,076,392
Investments in and advances to unconsolidated joint ventures	267,350	272,929
Accounts receivable, net of allowance of $18,508 and $18,413, respectively	29,046	34,211
Cash and cash equivalents	66,376	57,562
Restricted cash	32,973	35,078
Intangible assets, net	482,329	505,986
Real estate held for sale, net	15,120	19,799
Other assets, net	516,283	492,806
Total assets	$ 11,801,289	$ 11,849,826
LIABILITIES AND EQUITY		
Bank line of credit	$ 235,000	$ 150,000
Bridge and term loans	520,000	520,000
Senior unsecured notes	3,524,338	3,523,513
Mortgage debt	1,603,838	1,641,734
Other debt	101,047	102,209
Intangible liabilities, net	223,749	232,654
Accounts payable and accrued liabilities	190,100	211,691
Deferred revenue	72,305	60,185
Total liabilities	6,470,377	6,441,986
Commitments and contingencies		
Preferred stock, $1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of $25 per share	285,173	285,173
Common stock, $1.00 par value: 750,000,000 shares authorized; 253,975,040 and 253,601,454 shares issued and outstanding, respectively	253,975	253,601
Additional paid-in capital	4,870,942	4,873,727
Cumulative dividends in excess of earnings	(203,359)	(130,068)
Accumulated other comprehensive loss	(77,469)	(81,162)
Total stockholders equity	5,129,262	5,201,271
Joint venture partners	8,245	12,912
Non-managing member unitholders	193,405	193,657
Total noncontrolling interests	201,650	206,569
Total equity	5,330,912	5,407,840
Total liabilities and equity	$ 11,801,289	$ 11,849,826

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Rental and related revenues	$ 213,588	$ 206,905
Tenant recoveries	23,664	21,447
Income from direct financing leases	12,925	14,974
Investment management fee income	1,438	1,467
Total revenues	251,615	244,793
Costs and expenses:		
Depreciation and amortization	80,537	77,632
Operating	47,676	48,221
General and administrative	18,991	20,445
Total costs and expenses	147,204	146,298
Other income (expense):		
Interest and other income, net	24,333	35,322
Interest expense	(76,674)	(96,263)
Total other income (expense)	(52,341)	(60,941)
Income before income taxes and equity income (loss) from unconsolidated joint ventures	52,070	37,554
Income taxes	(915)	(2,241)
Equity income (loss) from unconsolidated joint ventures	(462)	1,288
Income from continuing operations	50,693	36,601
Discontinued operations:		
Income before gain on sales of real estate, net of income taxes	659	9,389
Gain on sales of real estate, net of income taxes	1,357	10,138
Total discontinued operations	2,016	19,527
Net income	52,709	56,128
Noncontrolling interests and participating securities share in earnings	(4,141)	(6,266)
Preferred stock dividends	(5,283)	(5,283)
Net income applicable to common shares	$ 43,285	$ 44,579
Basic earnings per common share:		
Continuing operations	$ 0.16	$ 0.12
Discontinued operations	0.01	0.09
Net income applicable to common shares	$ 0.17	$ 0.21
Diluted earnings per common share:		
Continuing operations	$ 0.16	$ 0.12
Discontinued operations	0.01	0.09
Net income applicable to common shares	$ 0.17	$ 0.21

Weighted average shares used to calculate earnings per common share:				
Basic		253,335		216,773
Diluted		253,423		217,391
Dividends declared per common share	$	0.460	$	0.455

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands)

(Unaudited)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net income	$ 52,709	$ 56,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles:		
Continuing operations	80,537	77,632
Discontinued operations	61	4,726
Amortization of above and below market lease intangibles, net	(2,660)	(2,152)
Stock-based compensation	3,546	3,526
Amortization of debt premiums, discounts and issuance costs, net	2,768	3,039
Straight-line rents	(11,422)	(9,782)
Interest accretion	(6,121)	(6,292)
Deferred rental revenue	6,914	8,605
Equity loss (income) from unconsolidated joint ventures	462	(1,288)
Distributions of earnings from unconsolidated joint ventures	1,468	1,191
Gain on sales of real estate	(1,357)	(10,138)
Marketable securities losses, net	309	113
Derivative losses, net	439	
Changes in:		
Accounts receivable	5,165	12,043
Other assets	(1,050)	10,480
Accounts payable and accrued liabilities	(14,756)	(16,156)
Net cash provided by operating activities	117,012	131,675
Cash flows from investing activities:		
Acquisitions and development of real estate	(20,269)	(42,962)
Lease commissions and tenant and capital improvements	(9,642)	(18,107)
Proceeds from sales of real estate, net	5,764	29,590
Contributions to unconsolidated joint ventures		(472)
Distributions in excess of earnings from unconsolidated joint ventures	1,714	2,316
Principal repayments on loans receivable and direct financing leases	2,485	2,155
Investments in loans receivable	(16)	(602)
Decrease in restricted cash	2,105	6,763
Net cash used in investing activities	(17,859)	(21,319)
Cash flows from financing activities:		
Net borrowings under bank line of credit	85,000	66,900
Repayments of mortgage debt	(38,463)	(12,071)
Issuance of common stock and exercise of options	665	6,265
Repurchase of common stock	(2,143)	(2,022)
Dividends paid on common and preferred stock and participating securities	(122,174)	(104,370)
Purchase of noncontrolling interests	(9,097)	
Distributions to noncontrolling interests	(4,127)	(7,327)
Net cash used in financing activities	(90,339)	(52,625)
Net increase in cash and cash equivalents	8,814	57,731
Cash and cash equivalents, beginning of period	57,562	96,269
Cash and cash equivalents, end of period	$ 66,376	$ 154,000

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Business

HCP, Inc. is a Maryland corporation that is organized to qualify as a self-administered 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, disposes and manages healthcare real estate and provides financing to healthcare providers.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

Use of Estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures that it controls, through voting rights or other means. All material intercompany transactions and balances have been eliminated in consolidation.

The Company applies Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities*, as revised (FIN 46R), for arrangements with variable interest entities. FIN 46R provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise is the primary beneficiary of the VIE. A variable interest entity is broadly defined as an entity where either (i) the equity investors as a group, if any, do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support. The Company consolidates investments in VIEs when the Company is the primary beneficiary at either the creation of the variable interest entity or upon the occurrence of a qualifying reconsideration event. Qualifying reconsideration events include, but are not limited to, the modification of contractual arrangements that affect the characteristics or adequacy of the entity s equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary. At March 31, 2009, the Company did not consolidate any significant variable interest entities.

The Company uses qualitative and quantitative approaches when determining whether it is (or is not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, the form of the Company s ownership interest, its representation on the entity s governing body, the size and seniority of its investment, various cash flow scenarios related to the VIE, its ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace the Company as manager and/or liquidate the venture, if applicable.

At March 31, 2009, the Company had 80 properties leased to a total of nine tenants that have been identified as VIEs (VIE tenants) and a loan to a borrower that has been identified as a VIE. The Company acquired these leases and loan on October 5, 2006 in its merger with CNL Retirement Properties, Inc. (CRP). CRP determined it was not the primary beneficiary of these VIEs, and the Company is required to carry forward CRP s accounting conclusions after the acquisition

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relative to their primary beneficiary assessments, provided the Company does not believe CRP s accounting to be in error. The Company believes that its accounting for the VIEs is the appropriate application of FIN 46R. On December 21, 2007, the Company made an investment of approximately $900 million in mezzanine loans where each mezzanine borrower has been identified as a VIE. The Company has also determined that it is not the primary beneficiary of these VIEs.

The carrying amount and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company s involvement with VIEs are presented below (in thousands):

VIE Type	**Maximum Loss Exposure(1)**	**Asset/Liability Type**	**Carrying Amount**
VIE tenants operating leases	$ 767,007	Lease intangibles, net and straight-line rent receivables	$ 35,873
VIE tenants DFLs(2)	658,099	Net investment in DFLs	213,534
Senior secured loans	80,158	Loans receivable, net	80,158
Mezzanine loans	922,153	Loans receivable, net	922,153

(1) The Company s maximum loss exposure related to the VIE tenants represents the future minimum lease payments over the remaining term of the respective leases, which may be mitigated by re-leasing the respective properties to new tenants. The Company s maximum loss exposure related to loans to VIEs represents the carrying amount of the respective loan.
(2) Direct financing leases (DFLs).

See Notes 6 and 11 for additional description of the nature, purpose and activities of the Company s variable interest entities and the Company s interests therein.

The Company applies Emerging Issues Task Force (EITF) Issue 04-5, *Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights* (EITF 04-5), to investments in joint ventures. EITF 04-5 provides guidance on the type of rights held by the limited partner(s) that preclude consolidation in circumstances in which the sole general partner would otherwise consolidate the limited partnership in accordance with GAAP. The assessment of limited partners rights and their impact on the presumption of control over 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. EITF 04-5 also applies to managing member interests in limited liability companies.

Investments in Unconsolidated Joint Ventures

Investments in entities which the Company does not consolidate but for which the Company 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 carrying 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 life of the related assets and liabilities and included in the Company s share of equity in earnings of the joint venture. The Company evaluates its equity method investments for impairment based upon a comparison of the estimated fair value of the equity method investment to its carrying value in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. When the Company determines a decline in the estimated 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 in accordance with the American Institute of Certified Public Accountants Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for Sales of Real Estate* (SFAS No. 66).

Revenue Recognition

Rental income from tenants is recognized in accordance with GAAP, including SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). The Company recognizes rental revenue 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 the leased asset. For assets acquired subject to leases, the Company recognizes revenue upon acquisition of the asset provided the tenant has

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taken possession or controls the physical use of the leased asset. If the lease 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 use of the 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. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

Certain leases provide for additional rents 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. Such revenue is recognized in accordance with SAB 104, which requires that income is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented in accordance with EITF Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). EITF 99-19 requires that these reimbursements be recorded gross, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the credit risk.

For 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 exceeding amounts contractually due from tenants. Such cumulative excess amounts are included in other assets and were $124 million and $112 million, net of allowances, at March 31, 2009 and December 31, 2008, respectively. If the Company determines that collectibility of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed, and, where appropriate, establishes an allowance for estimated losses.

The Company maintains an allowance for doubtful accounts, including an allowance for straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, the Company s assessment is based on amounts estimated to be recoverable over the term of the lease. At March 31, 2009 and December 31, 2008, respectively, the Company had an allowance of $46.9 million and $40.3 million, included in other assets, as a result of the Company s determination that collectibility is not reasonably assured for certain straight-line rent amounts.

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

The Company recognizes gains on sales of properties in accordance with SFAS No. 66 upon the closing of the 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 significant activities after the sale, the initial investment from the buyer is sufficient and other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition under SFAS No. 66 have been met.

The Company uses 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. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as 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.

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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, reduced by a valuation allowance for estimated credit losses. The Company recognizes interest income on loans, including the amortization of discounts and premiums, using the effective interest method 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 life 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 for the individual loans and DFLs deemed to be impaired. Loans and DFLs are impaired when it is deemed probable that the Company will be unable to collect all amounts due on a timely basis in accordance with the contractual terms of the loan or lease. The allowance is based upon the Company s 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 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.

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 or 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, in which all cash receipts reduce the carrying value of the loan or DFL, based on the Company s judgment of collectibility.

Real Estate

Real estate, consisting of land, buildings and improvements, is recorded at cost. The Company allocates the cost of the acquisition, including the assumption of liabilities, to the acquired tangible assets and identifiable intangibles based on their estimated fair values in accordance with SFAS No. 141R, *Business Combinations*, as revised (SFAS No. 141R). Prior to the adoption of SFAS No. 141R on January 1, 2009, the Company applied SFAS No. 141, *Business Combinations*.

The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it was vacant.

The Company records acquired above and below market leases at 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 below market 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 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 market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions. 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 project. In accordance with SFAS No. 34, *Capitalization of Interest Cost*, and SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, construction and development costs are capitalized 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 tenant improvements, but no later than one year from cessation of major 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 net book value of the existing property under redevelopment plus the cost for the construction and improvement incurred in connection with the redevelopment are capitalized. 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 for tenant improvements and lease commissions, to be the acquisition of productive assets and are reflected as investment activities in the Company s statement of cash flows.

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The Company computes depreciation on properties using the straight-line method over the assets estimated useful lives. Depreciation is discontinued when a property is identified as held-for-sale. Buildings and improvements are depreciated over useful lives ranging up to 45 years. Above and below market lease intangibles are amortized primarily to revenue over the remaining noncancellable lease terms and bargain renewal periods, if any. Other 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), whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS No. 144). The Company tests its real estate assets for impairment by comparing the sum of the expected undiscounted cash flows to the carrying amount of the real estate asset or asset group. If the carrying value exceeds the expected undiscounted cash flows, an impairment loss will be recognized by adjusting the carrying amount of the real estate assets to its estimated fair value.

Goodwill is tested for impairment by applying the two-step approach defined in SFAS No. 142, *Goodwill and Other Intangible Assets,* at least annually and whenever the Company identifies triggering events that may indicate impairment. Potential impairment indicators include a significant decline in real estate valuations, restructuring plans or a decline in the Company s market capitalization below book value. The Company tests for impairment of its goodwill by comparing the estimated fair value of a reporting unit containing goodwill to its carrying value. If the carrying value exceeds the fair value, the second step of the test is needed to measure the amount of potential goodwill impairment. The second step requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit 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. 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 in accordance with SFAS No. 144. Long-lived assets to be disposed of are reported at the lower of their carrying amount or their fair value less cost to sell and are no longer depreciated. Discontinued operations is defined in SFAS No. 144 as a component of an entity that has either been disposed of or is deemed to be held for sale if, (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.

Stock-Based Compensation

Share-based compensation expense is recognized in accordance with SFAS No. 123R, *Share-Based Payments*, as revised (SFAS No. 123R). On January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective application transition method which provides for only current and future period stock-based awards to be measured and recognized at fair value.

SFAS No. 123R requires all share-based awards granted on or after January 1, 2006 to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Compensation expense for awards with graded vesting is generally recognized ratably over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional services. Prior to the adoption of SFAS No. 123R, the Company applied the fair value provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, for stock-based awards granted prior to January 1, 2006.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less when purchased. The Company maintains cash deposits with major financial institutions which periodically exceed the Federal Deposit Insurance Corporation insurance limit. The Company has not experienced any losses to date related to cash or cash equivalents.

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Restricted Cash

Restricted cash primarily consists of amounts held by mortgage lenders to provide for (i) future real estate tax expenditures, tenant improvements and capital improvements, 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 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 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 applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities in the Company s condensed consolidated balance sheet at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria for hedge accounting under SFAS No. 133 are recognized in earnings. For derivatives designated as hedging instruments in qualifying 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 forecasted transactions or recognized obligations in the balance sheet. The Company also assesses and documents, both at the hedging instrument s inception and on a quarterly basis thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the respective hedged items. When 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 reclassifies amounts recorded to accumulated other comprehensive income (loss) to earnings.

Income Taxes

In 1985, 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. On July 27, 2007, the Company formed HCP Life Science REIT, a consolidated subsidiary, which elected REIT status for the year ended December 31, 2007. HCP, Inc., along with its consolidated REIT subsidiary, are each subject to the REIT qualification requirements under Sections 856 to 860 of the Code. If either 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 HCP Life Science REIT 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 the Company undertakes must be conducted by entities which elect to be treated as taxable REIT subsidiaries (TRSs). TRSs are subject to both federal and state income taxes.

Marketable Securities

The Company classifies its marketable equity and debt securities as available-for-sale in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). These securities are carried at 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 realized loss is recognized in earnings.

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Capital Raising Issuance Costs

Costs incurred in connection with the issuance of common shares are recorded as a reduction in 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 based on the effective interest method over the remaining term of the related debt.

Segment Reporting

The Company reports its condensed consolidated financial statements in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131). The Company s segments are based on the Company s method of internal reporting which classifies its operations by healthcare sector. The Company s business includes five segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital and (v) skilled nursing.

Noncontrolling Interests and Mandatorily Redeemable Financial Instruments

The Company applies SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* (SFAS No. 160), for arrangements with noncontrolling interests. SFAS No. 160 requires that minority interests be recharacterized as noncontrolling interests and be reported as a component of equity separate from the parent s equity. Purchases or sales of equity interests that do not result in a change in control should be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, should be recorded at fair value with any gain or loss recognized in earnings. The Company adopted SFAS No. 160 beginning January 1, 2009, which applies prospectively, except for the presentation and disclosure requirements, which apply retrospectively. The adoption of SFAS No. 160 on January 1, 2009 did not have a material impact on the Company s consolidated financial position or earnings per share.

As of March 31, 2009, there were 4.8 million non-managing member units outstanding in six limited liability companies (LLC), all of which the Company is the managing member: (i) HCPI/Tennessee, LLC; (ii) HCPI/Utah, LLC; (iii) HCPI/Utah II, LLC; (iv) HCP DR California, LLC; (v) HCP DR Alabama, LLC; and (vi) HCP DR MCD, LLC. The Company consolidates these entities since it exercises control and carries the noncontrolling interests 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). At March 31, 2009, the carrying value and market value of the 4.8 million DownREIT units were $193.4 million and $114.8 million, respectively.

Life Care Bonds Payable

Two 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. An additional senior housing facility owned by the Company collects non-interest bearing occupancy fee deposits that are refundable to the resident or the resident s estate upon the earlier of the re-letting of the unit or after two years of vacancy. Proceeds from the issuance of new bonds are used to retire existing bonds, and since the maturity of the obligations for the three facilities is not determinable, no interest is imputed. These amounts are included in other debt in the Company s consolidated balance sheets.

Fair Value Measurements

On January 1, 2008, the Company implemented the requirements of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for its financial assets and liabilities. On January 1, 2009, the Company implemented the requirements of SFAS No. 157 for its non-financial assets and liabilities. The adoption of SFAS No. 157 for non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value 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*.

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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 on either a recurring or non-recurring basis. 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 in an inactive or over-the-counter market where significant fluctuations in pricing can occur, 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, market capitalization rates, etc. 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 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 the impact of the Company s or counterparty s credit risk on derivatives and other liabilities measured at fair value as well as the election of the mid-market pricing expedient.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 was effective as of the beginning of an entity s first fiscal year after November 15, 2007, and reporting periods thereafter. Currently the Company has not adopted the guidelines of SFAS No. 159 and continues to evaluate whether or not it will in future periods based on industry participant elections and financial reporting consistency with its peers.

Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share* (SFAS No. 128). 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.

On January 1, 2009, the Company adopted FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in SFAS No. 128. In accordance with FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, all prior-period earnings per share data presented was adjusted retrospectively with no material impact.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 amends SFAS No. 107 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual financial statements. FSP FAS 107-1 also amends APB No. 28 to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption. The Company does not expect the adoption of FSP FAS 107-1 on July 1, 2009 to have a material impact on its consolidated financial position or results of operations.

In April 2009, the FASB issued FSP Financial Accounting Standard 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is effective for fiscal years and interim periods beginning after

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June 15, 2009. The Company does not expect the adoption of FSP FAS 115-2 and FAS 124-2 on July 1, 2009 to have a material impact on its consolidated financial position or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for both financial and nonfinancial assets or liabilities have significantly decreased. FSP FAS 157-4 is effective for fiscal years and interim periods beginning after July 1, 2009 and shall be applied prospectively. Early adoption for periods ending before March 15, 2009, is not permitted. The Company does not expect the adoption of FSP FAS 157-4 on July 15, 2009 to have a material impact on its consolidated financial position or results of operations.

Reclassifications

Certain amounts in the Company s condensed 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 balance sheets and operating results reclassified from continuing to discontinued operations in accordance with SFAS No. 144 (see Note 4). In accordance with SFAS No. 160, (i) all prior period noncontrolling interests on the condensed consolidated balance sheets have been reclassified as a component of equity and (ii) all prior period noncontrolling interests share of earnings on the condensed consolidated statements of income have been reclassified to clearly identify net income attributable to the non-controlling interest.

(3) Acquisitions of Real Estate Properties

During the three months ended March 31, 2009, the Company funded an aggregate of $25 million for construction, tenant and other capital projects primarily in the life science segment.

During the three months ended March 31, 2008, the Company acquired a senior housing facility for $11 million and funded an aggregate of $49 million for construction, tenant and other capital projects primarily in the life science and medical office segments.

(4) Dispositions of Real Estate, Real Estate Interests and Discontinued Operations

Dispositions of Real Estate

During the three months ended March 31, 2009, the Company sold seven properties for $6.0 million and recognized gains on sale of real estate of $1.4 million.

During the three months ended March 31, 2008, the Company sold four properties for approximately $30 million and recognized gain on sales of real estate of $10.1 million.

Properties Held for Sale

At March 31, 2009 and December 31, 2008, the Company held for sale two and nine properties with carrying amounts of $15 million and $20 million, respectively.

Results from Discontinued Operations

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

	Three Months Ended March 31,	
	2009	**2008**
Rental and related revenues	$ 902	$ 17,610
Other revenues		58
Total revenues	902	17,668

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	Three Months Ended March 31,			
	2009		2008	
Depreciation and amortization expenses		61		4,726
Operating expenses		106		3,255
Other costs and expenses		76		298
Income before gain on sales of real estate, net of income taxes	$	659	$	9,389
Gain on sales of real estate	$	1,357	$	10,138
Number of properties held for sale		2		56
Number of properties sold		7		4
Number of properties included in discontinued operations		9		60

(5) Net Investment in Direct Financing Leases

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

	March 31, 2009		December 31, 2008	
Minimum lease payments receivable	$	1,361,110	$	1,373,283
Estimated residual values		467,248		467,248
Less unearned income		1,179,947		1,192,297
Net investment in direct financing leases	$	648,411	$	648,234
Properties subject to direct financing leases		30		30

The DFLs were acquired in the Company s merger with CRP. CRP determined that these leases were DFLs, and the Company is required to carry forward CRP s accounting conclusions after the acquisition date relative to their assessment of these leases, provided that the Company does not believe CRP s accounting to be in error. The Company believes that its accounting for the leases is the appropriate accounting in accordance with GAAP. 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.

Lease payments due to the Company relating to three land-only DFLs with a carrying value of $56 million at March 31, 2009, are subordinate to and, along with the land, serve as collateral for first mortgage construction loans entered into by the tenants to fund development costs related to the properties. During the three months ended December 31, 2008, the Company determined that two of these DFLs were impaired and began recognizing income on a cost-recovery basis. At March 31, 2009, the carrying value of these two DFLs was $36.7 million.

(6) Loans Receivable

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

	March 31, 2009			December 31, 2008		
	Real Estate Secured	Other	Total	Real Estate Secured	Other	Total
Mezzanine	$	$ 999,891	$ 999,891	$	$ 999,891	$ 999,891
Joint venture partners		785	785		7,055	7,055
Other	71,041	77,253	148,294	71,224	76,725	147,949
Unamortized discounts, fees and costs		(74,096)	(74,096)		(78,262)	(78,262)
Loan loss allowance					(241)	(241)
	$ 71,041	$ 1,003,833	$ 1,074,874	$ 71,224	$ 1,005,168	$ 1,076,392

On October 5, 2006, through its merger with CRP, the Company assumed an agreement to provide an affiliate of the Cirrus Group, LLC with an interest-only, senior secured term loan. The loan provided for a maturity date of December 31, 2008, with a one-year extension at the option of the borrower, subject to certain conditions, under which amounts were borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships. This loan accrues interest at a rate of 14.0%, of which 9.5% is payable monthly and the balance of 4.5% is deferred until maturity.

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The loan is subject to equity contribution requirements, borrower financial covenants, is collateralized by assets of the borrower (comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by HCP Ventures IV or the Company) and is guaranteed up to $37.4 million through a combination of (i) a personal guarantee of up to $9.7 million by a principal of Cirrus, and (ii) a guarantee of the balance by other principals of Cirrus under arrangements for recourse limited to their pledged interests in certain entities owning real estate. At December 31, 2008, the borrower did not meet the conditions necessary to exercise its extension option and could not repay the loan upon maturity. On April 22, 2009, new terms for extending the loan were reached, including the payment of a $1.1 million extension fee, and the maturity has been extended to December 31, 2010. The Company expects to collect all amounts when due according to the amended terms of the loan agreement. At March 31, 2009 and December 31, 2008, the carrying value of this loan was $80 million and $79 million, respectively.

On December 21, 2007, the Company made an investment in mezzanine loans having an aggregate face value of $1.0 billion, for approximately $900 million, as part of the financing for The Carlyle Group s $6.3 billion purchase of HCR ManorCare. These interest-only loans mature in January 2013 and bear interest on their face amounts at a floating rate of one-month London Interbank Offered Rate (LIBOR) plus 4.0%. These loans are mandatorily pre-payable in January 2012 unless the borrower satisfies certain financial conditions. The loans are secured by an indirect pledge of equity ownership in 339 HCR ManorCare facilities located in 30 states and are subordinate to other debt of approximately $3.6 billion at closing. At March 31, 2009, the carrying amount of these loans was $922.2 million.

(7) Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities which are accounted for under the equity method at March 31, 2009 (dollars in thousands):

Entity(1)	Properties		Investment(2)	Ownership%
HCP Ventures II	25 senior housing facilities	$	140,750	35
HCP Ventures III, LLC	13 medical office buildings (MOBs)		11,577	30
HCP Ventures IV, LLC	54 MOBs and 4 hospitals		44,408	20
HCP Life Science(3)	4 life science facilities		63,953	50 - 63
Suburban Properties, LLC	1 MOB		4,060	67
Advances to unconsolidated joint ventures, net			2,602	
		$	267,350	
Edgewood Assisted Living Center, LLC(4)(5)	1 senior housing facility	$	(526)	45
Seminole Shores Living Center, LLC(4)(5)	1 senior housing facility		(891)	50
		$	(1,417)	

(1) These joint ventures are not consolidated since the Company does not control, through voting rights or other means, the joint ventures. See Note 2 regarding the Company s policy on consolidation.

(2) Represents the carrying value of the Company s investment in the unconsolidated joint venture. See Note 2 regarding the Company s policy for accounting for joint venture interests.

(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: (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%). The

unconsolidated joint ventures were acquired as part of the Company s purchase of Slough Estates USA Inc. on August 1, 2007.

(4) As of March 31, 2009, the Company has guaranteed in the aggregate $4 million of a total of $8 million of notes payable for these joint ventures. No amounts have been recorded related to these guarantees at March 31, 2009.

(5) Negative investment amounts are included in accounts payable and accrued liabilities.

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

	March 31, 2009	**December 31, 2008**
Real estate, net	$ 1,685,968	$ 1,703,308
Other assets, net	189,927	184,297
Total assets	$ 1,875,895	$ 1,887,605
Notes payable	$ 1,160,030	$ 1,172,702
Accounts payable	49,099	39,883
Other partners capital	482,824	488,860
HCP s capital(1)	183,942	186,160
Total liabilities and partners capital	$ 1,875,895	$ 1,887,605

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	Three Months Ended March 31, 2009		2008(2)	
Total revenues	$	46,601	$	46,638
Net income (loss)		(1,146)		2,174
HCP s equity income (loss)		(462)		1,288
Fees earned by HCP		1,438		1,467
Distributions received, net		3,182		3,507

(1) Aggregate basis difference of the Company s investments in these joint ventures of $79 million, as of March 31, 2009, is primarily attributable to real estate and related intangible assets.

(2) Includes the financial information of Arborwood Living Center, LLC and Greenleaf Living Centers, LLC, which were sold on April 3, 2008 and June 12, 2008, respectively.

(8) Intangibles

At March 31, 2009 and December 31, 2008, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles, below market ground lease intangibles and intangible assets related to non-compete agreements, were $666.0 million and $680.0 million, respectively. At March 31, 2009 and December 31, 2008, the accumulated amortization of intangible assets was $183.7 million and $174.0 million, respectively.

At March 31, 2009 and December 31, 2008, below market lease intangibles and above market ground lease intangibles were $290.0 million and $293.4 million, respectively. At March 31, 2009 and December 31, 2008, the accumulated amortization of intangible liabilities was $66.3 million and $60.7 million, respectively.

(9) Other Assets

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

	March 31, 2009		December 31, 2008	
Marketable debt securities	$	235,007	$	228,660
Marketable equity securities		1,387		3,845
Goodwill		50,346		51,746
Straight-line rent assets, net		123,764		112,038
Deferred debt issuance costs, net		22,135		23,512
Other		83,644		73,005
Total other assets	$	516,283	$	492,806

The cost or amortized cost, estimated fair value and gross unrealized gains and losses on marketable securities follows (in thousands):

	Cost(1)	Fair Value	Unrealized Losses
March 31, 2009			
Debt securities	$ 295,195	$ 235,007	$ (60,188)
Equity securities	3,865	1,387	(2,478)
Total investments	$ 299,060	$ 236,394	$ (62,666)
December 31, 2008			
Debt securities	$ 295,138	$ 228,660	$ (66,478)
Equity securities	4,181	3,845	(336)
Total investments	$ 299,319	$ 232,505	$ (66,814)

(1) Represents the original cost basis of the marketable securities reduced by other-than-temporary impairments recorded through earnings, if any.

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Marketable securities with unrealized losses at March 31, 2009 are not considered to be other-than-temporarily impaired as the Company has the intent and ability to hold these investments for a period of time sufficient to allow for an anticipated recovery in fair value. The Company s marketable debt securities accrue interest ranging from 9.25% to 9.625%, and mature between November 2016 and May 2017.

(10) Debt

Bank Line of Credit and Bridge and Term Loans

The Company s revolving line of credit facility with a syndicate of banks provides for an aggregate borrowing capacity of $1.5 billion and matures on August 1, 2011. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 0.325% to 1.00%, depending upon the Company s debt ratings. The Company pays a facility fee on the entire revolving commitment ranging from 0.10% to 0.25%, depending upon its debt ratings. Based on the Company s debt ratings at March 31, 2009, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At March 31, 2009, the Company had $235 million outstanding under this revolving line of credit facility with a weighted-average effective interest rate of 1.50%.

At March 31, 2009, the outstanding balance of the Company s bridge loan was $320 million. The bridge loan had an initial maturity date of July 31, 2008 that has been extended to July 30, 2009 through the exercise of two extension options. This bridge loan accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 0.425% to 1.25%, depending upon the Company s debt ratings (weighted-average effective interest rate of 1.23% at March 31, 2009). Based on the Company s debt ratings at March 31, 2009, the margin on the bridge loan facility was 0.70%.

At March 31, 2009, the outstanding balance of the Company s term loan was $200 million and matures on August 1, 2011. The term loan accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 1.825% to 2.375%, depending upon the Company s debt ratings (weighted-average effective interest rate of 2.96% at March 31, 2009). Based on the Company s debt ratings on March 31, 2009, the margin on the term loan was 2.00%.

The Company s revolving line of credit facility and bridge and term loans 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 agreement (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 65%, (iii) require a Fixed Charge Coverage ratio of 1.75 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of $4.2 billion at March 31, 2009. At March 31, 2009, the Company was in compliance with each of these restrictions and requirements of the revolving line of credit facility and bridge and term loans.

Senior Unsecured Notes

At March 31, 2009, the Company had $3.5 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 2.22% to 7.07%. The weighted-average effective interest rate on the senior unsecured notes at March 31, 2009 was 6.24%. Discounts and premiums are amortized to interest expense over the term of the related debt.

The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. At March 31, 2009, the Company was in compliance with these covenants.

Mortgage Debt

At March 31, 2009, the Company had $1.6 billion in mortgage debt secured by 187 healthcare facilities with a carrying amount of $2.8 billion. Interest rates on the mortgage notes ranged from 0.56% to 8.63% with a weighted average effective rate of 6.0% at March 31, 2009.

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

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Other Debt

At March 31, 2009, the Company had $101 million of non-interest bearing life care bonds at two of its CCRCs and non-interest bearing occupancy fee deposits at another of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds). At March 31, 2009, $47 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $54 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Debt Maturities

The following table summarizes our stated debt maturities and scheduled principal repayments, excluding debt premiums and discounts, at March 31, 2009 (in thousands):

Year	Bank Line of Credit	Bridge and Term Loans	Senior Unsecured Notes	Mortgage Debt	Other Debt(1)	Total
2009 (Nine months)	$	$ 320,000	$	$ 117,811	$ 101,047	$ 538,858
2010			206,421	298,503		504,924
2011	235,000	200,000	300,000	137,573		872,573
2012			250,000	60,922		310,922
2013			550,000	233,293		783,293
Thereafter			2,237,000	751,308		2,988,308
	$ 235,000	$ 520,000	$ 3,543,421	$ 1,599,410	$ 101,047	$ 5,998,878

(1) Other debt represents non-interest bearing Life Care Bonds and occupancy fee deposits at three of the Company s senior housing facilities, which are payable on-demand, under certain conditions.

(11) Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company s business. Regardless of their merits, these matters may force the Company to expend significant financial resources. Except as described in this Note 11, 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 or results of operations. The Company s policy is to accrue legal expenses as they are incurred.

On May 3, 2007, Ventas, Inc. filed a complaint against the Company in the United States District Court for the Western District of Kentucky asserting claims of tortious interference with contract and tortious interference with prospective business advantage. The complaint alleges, among other things, that the Company interfered with Ventas purchase agreement with Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT); that the Company interfered with Ventas prospective business advantage in connection with the Sunrise REIT transaction; and that the Company s actions caused Ventas to suffer damages. As set forth in a statement filed by Ventas on January 20, 2009, Ventas claims damages of $122 million representing the difference between the price it initially agreed to pay for Sunrise REIT and the price it ultimately paid, additional claimed damages of $188 million for alleged financing and other costs and punitive damages. The Company believes that Ventas claims are without merit and intend to vigorously defend against Ventas lawsuit.

As part of the same litigation, the Company filed counterclaims against Ventas as successor to Sunrise REIT, alleging, among other things, that Sunrise REIT (i) fraudulently or negligently induced the Company to participate in a rigged, flawed and unfair auction process, (ii) fraudulently or negligently induced the Company to enter into a confidentiality and standstill agreement that was materially different from the agreement entered into with Ventas, (iii) provided unfair assistance to Ventas, and (iv) changed the rules of the auction at the last minute and such change prevented the Company from bidding. On March 25, 2009, the District Court issued an order dismissing the Company s counterclaims. On April 8, 2009, the Company filed a motion for leave to file amended counterclaims alleging causes of action for fraudulent misrepresentation, fraudulent concealment and negligent misrepresentation in connection with Sunrise REIT s conduct of the auction process. The District Court has not rendered a decision on the Company s motion.

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The Court has set a trial date of August 18, 2009. The Company expects that defending its interests and, if its motion for leave to file amended counterclaims is granted, pursuing the Company s own claims will require it to expend significant funds. The Company is unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact with respect to these matters as of March 31, 2009.

Development Commitments

As of March 31, 2009, the Company was committed under the terms of contracts to complete the construction of properties undergoing development at a remaining aggregate cost of approximately $27 million.

Concentration of Credit Risk

Concentrations of credit risks arise when a number of 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. Management believes the current portfolio is reasonably diversified across healthcare related real estate and does not contain any other significant concentration of credit risks, except as disclosed herein. The Company does not have significant foreign operations.

On December 21, 2007, the Company made an investment in mezzanine loans to HCR ManorCare with an aggregate face value of $1.0 billion, for approximately $900 million. At March 31, 2009, these loans represented approximately 77% of our skilled nursing segment assets and 7% of our total segment assets.

At March 31, 2009, the Company had 80 of its senior housing facilities leased to nine tenants that have been identified as VIE Tenants. These VIE Tenants are thinly capitalized entities that rely on the cash flow generated from the senior housing facilities to pay operating expenses, including rent obligations under their leases. The 80 senior housing facilities leased to the VIE Tenants are operated by Sunrise Senior Living Management, Inc., a wholly-owned subsidiary of Sunrise Senior Living, Inc. (Sunrise). Sunrise is publicly traded and is subject to the informational filing requirements of the Securities and Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC.

To mitigate credit risk of certain senior housing leases, leases are 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.

DownREIT LLCs

In connection with the formation of certain DownREIT LLCs, many members contribute appreciated real estate to the 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 the contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specially 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 after the property was contributed, HCP 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.

Credit Enhancement Guarantee

Certain of the Company s senior housing facilities are collateral for $135 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, were acquired in the Company s merger with CRP. As of March 31, 2009, the facilities had a carrying value of $353 million.

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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 and the insurance for such losses carries high deductibles. Should a significant uninsured loss occur at a property, the Company s assets may become impaired for a period of time.

(12) Equity

Preferred Stock

At March 31, 2009, the Company had two series of preferred stock outstanding, Series E and Series F preferred stock. The Series E and Series F preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of the Company. Holders of each series of preferred stock generally have no voting rights, except under limited conditions, and all holders are entitled to receive cumulative preferential dividends based upon each series respective liquidation preference. To preserve the Company s status as a REIT, each series of preferred stock is subject to certain restrictions on ownership and transfer. Dividends are payable quarterly in arrears on the last day of March, June, September and December. The Series E and Series F preferred stock is currently redeemable at the Company s option.

On February 2, 2009, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends were paid on March 31, 2009 to stockholders of record as of the close of business on March 13, 2009.

On April 23, 2009, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends will be paid on June 30, 2009 to stockholders of record as of the close of business on June 15, 2009.

Common Stock

During the three months ended March 31, 2009 and 2008, the Company issued 34,000 and 174,000 shares of common stock, respectively, under its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company issued 9,000 and 577,000 shares of common stock upon the conversion of DownREIT units during the three months ended March 31, 2009 and 2008, respectively. The Company also issued 74,000 shares upon exercise of stock options during the three months ended March 31, 2008. No stock options were exercised during the three months ending March 31, 2009.

During the three months ended March 31, 2009 and 2008, the Company issued 249,000 and 106,000 shares of restricted stock, respectively, under the Company s 2000 Stock Incentive Plan, as amended, and the Company s 2006 Performance Incentive Plan. The Company also issued 182,000 and 131,000 shares upon the vesting of performance restricted stock units during the three months ended March 31, 2009 and 2008, respectively.

On February 2, 2009, the Company announced that its Board declared a quarterly cash dividend of $0.46 per share. The common stock cash dividend was paid on February 23, 2009 to stockholders of record as of the close of business on February 9, 2009.

On April 23, 2009, the Company announced that its Board declared a quarterly cash dividend of $0.46 per share. The common stock cash dividend will be paid on May 21, 2009 to stockholders of record as of the close of business on May 5, 2009.

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Accumulated Other Comprehensive Income (Loss) (AOCI)

	March 31, 2009	December 31, 2008
	(in thousands)	
AOCI unrealized losses on available-for-sale securities, net	$ (62,666)	$ (66,814)
AOCI unrealized losses on cash flow hedges, net	(11,689)	(11,729