

HCP, INC.  
Form 10-Q  
August 04, 2009  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended June 30, 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**

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**HCP, INC.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**33-0091377**  
(I.R.S. Employer  
Identification No.)

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

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

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

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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, 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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

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

As of July 30, 2009, there were 275,273,367 shares of the registrant's \$1.00 par value common stock outstanding.



Table of Contents

**HCP, INC.**

**INDEX**

**PART I. FINANCIAL INFORMATION**

Item 1.	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Income</u>	4
	<u>Condensed Consolidated Statement of Equity</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	6
	<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4.</u>	<u>Controls and Procedures</u>	46

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	47
<u>Item 1A.</u>	<u>Risk Factors</u>	47
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	48
<u>Item 6.</u>	<u>Exhibits</u>	49
<u>Signatures</u>		

Table of Contents**HCP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	<b>June 30, 2009 (Unaudited)</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Real estate:		
Buildings and improvements	\$ 7,796,873	\$ 7,752,714
Development costs and construction in progress	255,565	224,337
Land	1,550,490	1,550,219
Accumulated depreciation and amortization	(940,544)	(820,441)
Net real estate	8,662,384	8,706,829
Net investment in direct financing leases	648,864	648,234
Loans receivable, net	1,078,418	1,076,392
Investments in and advances to unconsolidated joint ventures	264,346	272,929
Accounts receivable, net of allowance of \$17,929 and \$18,413, respectively	29,535	34,211
Cash and cash equivalents	49,484	57,562
Restricted cash	32,351	35,078
Intangible assets, net	433,874	505,986
Real estate held for sale, net		19,799
Other assets, net	586,594	492,806
Total assets	\$ 11,785,850	\$ 11,849,826
<b>LIABILITIES AND EQUITY</b>		
Bank line of credit	\$ 100,000	\$ 150,000
Term loan	200,000	200,000
Bridge loan		320,000
Senior unsecured notes	3,518,147	3,523,513
Mortgage debt	1,592,712	1,641,734
Other debt	98,984	102,209
Intangible liabilities, net	215,571	232,654
Accounts payable and accrued liabilities	197,295	211,691
Deferred revenue	71,716	60,185
Total liabilities	5,994,425	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; 275,253,104 and 253,601,454 shares issued and outstanding, respectively	275,253	253,601
Additional paid-in capital	5,298,213	4,873,727
Cumulative dividends in excess of earnings	(228,424)	(130,068)
Accumulated other comprehensive loss	(18,819)	(81,162)
Total stockholders' equity	5,611,396	5,201,271
Joint venture partners	8,278	12,912
Non-managing member unitholders	171,751	193,657
Total noncontrolling interests	180,029	206,569
Total equity	5,791,425	5,407,840
Total liabilities and equity	\$ 11,785,850	\$ 11,849,826

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See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Rental and related revenues	\$ 231,728	\$ 213,021	\$ 445,316	\$ 419,926
Tenant recoveries	21,035	20,168	44,699	41,616
Income from direct financing leases	13,204	14,129	26,129	29,103
Investment management fee income	1,369	1,457	2,807	2,924
Total revenues	267,336	248,775	518,951	493,569
<b>Costs and expenses:</b>				
Depreciation and amortization	79,606	77,861	160,143	155,493
Operating	45,205	46,452	92,881	94,673
General and administrative	20,932	18,732	39,923	39,177
Impairments	5,906	1,574	5,906	1,574
Total costs and expenses	151,649	144,619	298,853	290,917
<b>Other income (expense):</b>				
Interest and other income, net	28,732	30,739	53,065	66,061
Interest expense	(75,340)	(85,446)	(152,014)	(181,709)
Total other income (expense)	(46,608)	(54,707)	(98,949)	(115,648)
<b>Income before income taxes and equity income from unconsolidated joint ventures</b>				
Income taxes	(841)	(1,274)	(1,756)	(3,517)
Equity income from unconsolidated joint ventures	1,127	1,221	665	2,509
<b>Income from continuing operations</b>	<b>69,365</b>	<b>49,396</b>	<b>120,058</b>	<b>85,996</b>
<b>Discontinued operations:</b>				
Income before gain on sales of real estate, net of income taxes	1,273	6,320	1,932	15,710
Impairments		(8,141)		(8,141)
Gain on sales of real estate, net of income taxes	30,540	190,505	31,897	200,643
Total discontinued operations	31,813	188,684	33,829	208,212
<b>Net income</b>	<b>101,178</b>	<b>238,080</b>	<b>153,887</b>	<b>294,208</b>
Noncontrolling interests and participating securities share in earnings	(4,111)	(6,907)	(8,252)	(12,913)
Preferred stock dividends	(5,283)	(5,283)	(10,566)	(10,566)
<b>Net income applicable to common shares</b>	<b>\$ 91,784</b>	<b>\$ 225,890</b>	<b>\$ 135,069</b>	<b>\$ 270,729</b>
<b>Basic earnings per common share:</b>				
Continuing operations	\$ 0.23	\$ 0.16	\$ 0.39	\$ 0.28
Discontinued operations	0.12	0.80	0.13	0.92
<b>Net income applicable to common shares</b>	<b>\$ 0.35</b>	<b>\$ 0.96</b>	<b>\$ 0.52</b>	<b>\$ 1.20</b>

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<b>Diluted earnings per common share:</b>					
Continuing operations	\$	0.23	\$	0.16	\$ 0.39
Discontinued operations		0.12		0.80	0.13
Net income applicable to common shares	\$	0.35	\$	0.96	\$ 0.52
<b>Weighted average shares used to calculate earnings per common share:</b>					
Basic		265,422		235,117	259,412
Diluted		265,542		236,099	259,516
<b>Dividends declared per common share</b>	\$	0.460	\$	0.455	\$ 0.92

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Interests	Equity
					Capital	In Excess	Comprehensive	Equity		Equity
						Of Earnings	Income (Loss)			
<b>January 1, 2009</b>	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						146,342		146,342	7,545	153,887
Change in net unrealized gains (losses) on securities:										
Unrealized gains							61,787	61,787		61,787
Less reclassification adjustment realized in net income							(131)	(131)		(131)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							32	32		32
Less reclassification adjustment realized in net income							590	590		590
Change in Supplemental Executive Retirement Plan obligation							44	44		44
Foreign currency translation adjustment							21	21		21
Total comprehensive income								208,685	7,545	216,230
Issuance of common stock, net			21,745	21,745	423,762			445,507	(21,873)	423,634
Repurchase of common stock			(93)	(93)	(2,088)			(2,181)		(2,181)
Amortization of deferred compensation					7,537			7,537		7,537
Preferred dividends						(10,566)		(10,566)		(10,566)
Common dividends (\$0.92 per share)						(234,132)		(234,132)		(234,132)
Distributions to noncontrolling interests									(7,840)	(7,840)
Purchase of noncontrolling					(4,725)			(4,725)	(4,372)	(9,097)

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interests

<b>June 30, 2009</b>	11,820	\$	285,173	275,253	\$	275,253	\$	5,298,213	\$	(228,424)	\$	(18,819)	\$	5,611,396	\$	180,029	\$	5,791,425
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See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 153,887	\$ 294,208
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	160,143	155,493
Discontinued operations	84	6,553
Amortization of above and below market lease intangibles, net	(10,980)	(4,029)
Stock-based compensation	7,537	7,485
Amortization of debt premiums, discounts and issuance costs, net	5,455	6,162
Straight-line rents	(25,759)	(19,533)
Interest accretion	(11,567)	(13,026)
Deferred rental revenue	7,890	13,279
Equity income from unconsolidated joint ventures	(665)	(2,509)
Distributions of earnings from unconsolidated joint ventures	2,589	2,073
Gain on sales of real estate	(31,897)	(200,643)
Marketable securities (gains) losses, net	(293)	2,782
Derivative losses, net	154	2,360
Impairments	5,906	9,715
Changes in:		
Accounts receivable	4,676	12,972
Other assets	(7,594)	5,399
Accounts payable and accrued liabilities	(9,469)	(6,047)
Net cash provided by operating activities	250,097	272,694
<b>Cash flows from investing activities:</b>		
Acquisitions and development of real estate	(39,319)	(72,884)
Lease commissions and tenant and capital improvements	(18,826)	(32,359)
Proceeds from sales of real estate, net	52,281	512,883
Contributions to unconsolidated joint ventures		(2,826)
Distributions in excess of earnings from unconsolidated joint ventures	4,428	6,182
Proceeds from the sale of marketable securities	4,800	10,700
Proceeds from the sales of interests in unconsolidated joint ventures		2,855
Principal repayments on loans receivable and direct financing leases	4,727	2,835
Investments in loans receivable	(16)	(2,190)
Decrease in restricted cash	2,727	4,040
Net cash provided by investing activities	10,802	429,236
<b>Cash flows from financing activities:</b>		
Net repayments under bank line of credit	(50,000)	(951,700)
Repayments of bridge loan	(320,000)	(200,000)
Repayments of mortgage debt	(51,060)	(29,945)
Issuance of mortgage debt		258,726
Repurchase of senior unsecured notes	(7,735)	
Settlement of cash flow hedge		5,180
Debt issuance costs		(5,784)

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Repurchase of common stock	(2,181)	
Net proceeds from the issuance of common stock and exercise of options	423,634	572,973
Dividends paid on common and preferred stock and participating securities	(244,698)	(217,019)
Purchase of noncontrolling interests	(9,097)	
Distributions to noncontrolling interests	(7,840)	(13,841)
Net cash used in financing activities	(268,977)	(581,410)
Net increase (decrease) in cash and cash equivalents	(8,078)	120,520
Cash and cash equivalents, beginning of period	57,562	96,269
Cash and cash equivalents, end of period	\$ 49,484	\$ 216,789

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

**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 and six months ended June 30, 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*

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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 it is determined to be 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 June 30, 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.

Table of Contents

At June 30, 2009, the Company had 80 properties leased to a total of nine tenants ( VIE tenants ) and a loan to a borrower where each tenant and borrower 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 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	\$ 750,246	Lease intangibles, net and straight-line rent receivables	\$ 7,455
VIE tenants DFLs(2)	654,049	Net investment in DFLs	214,327
Senior secured loans	80,246	Loans receivable, net	80,246
Mezzanine loans	926,316	Loans receivable, net	926,316

(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 properties to new tenants. The Company's maximum loss exposure related to loans to VIEs represents the current period carrying amounts.

(2) Direct financing leases ( DFLs ).

See Notes 6 and 11 for additional description of the nature, purpose and activities of the Company's VIEs and 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

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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 lives 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).

Table of Contents

*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 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 that is 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 associated 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 \$138 million and \$112 million, net of allowances, at June 30, 2009 and December 31, 2008, respectively. If the Company determines that collectibility of straight-line rents is

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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 June 30, 2009 and December 31, 2008, respectively, the Company had an allowance of \$53 million and \$40 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.

Table of Contents

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.

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 estimated fair value of tangible assets of an acquired property is based on the value of the property as if it was vacant.

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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

Table of Contents

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 Company capitalizes costs based on the net carrying value of the existing property under redevelopment plus the cost for the construction and improvement incurred in connection with the redevelopment. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The Company considers costs incurred in conjunction with re-leasing properties, including 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.

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 an impairment has occurred. Potential impairment indicators include a significant decline in real estate valuations, restructuring plans or a decline in the Company's market capitalization below its carrying 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 ). 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.

*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.

Table of Contents

*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 cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with the Company's related assertions.

The Company 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 sheets at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria of hedge accounting under SFAS No. 133 are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss) whereas the change in fair value of the ineffective portion is recognized in earnings. For derivatives designated in qualifying fair value hedging relationships, the change in fair value of the effective portion of the derivatives offsets the change in fair value of the hedged item in interest expense 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 inception of the hedging instrument and on a quarterly basis thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting the designated risks 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 records the appropriate adjustment to earnings based on the current fair value of the derivative.

*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

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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.

Table of Contents

*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 loss is recognized in earnings.

*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, and, as required, applied the presentation and disclosure requirements 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 June 30, 2009, there were 4.3 million non-managing member units outstanding in six limited liability companies ( LLC ), for 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

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common stock (subject to certain adjustments, such as stock splits and reclassifications). At June 30, 2009, the carrying and market values of the 4.3 million DownREIT units were \$171.8 million and \$125.3 million, respectively. The market value of DownREIT units correlates to the changes in market value of our common stock and not the market value of the respective assets owned by the DownREIT LLCs.

### *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.

Table of Contents

*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.

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*.

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 the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads, 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 its credit risk and counterparty's credit risk on derivatives and other liabilities measured at fair value. The Company has elected the mid-market pricing expedient when determining fair value.

*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 Financial Accounting Standard ( 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 is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption. The adoption of FSP FAS 107-1 on June 30, 2009 did not have a material impact on the Company's consolidated financial position or results of operations.

## Table of Contents

In April 2009, the FASB issued FSP FAS 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 ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 on June 30, 2009 did not have a material impact on the Company's 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 ending after June 15, 2009 and shall be applied prospectively. The adoption of FSP FAS 157-4 on June 30, 2009 did not have a material impact on the Company's consolidated financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS No. 165 ). SFAS No. 165 provides general guidelines to account for the disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. These guidelines are consistent with current accounting requirements, but clarify the period, circumstances, and disclosures for properly identifying and accounting for subsequent events. SFAS No. 165 is effective for interim periods and fiscal years ending after June 15, 2009. The adoption of SFAS No. 165 on June 30, 2009 did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ). SFAS No. 167 requires enterprises to perform a more qualitative approach to determining whether or not a variable interest entity will need to be consolidated on a quarterly basis. This evaluation will be based on an enterprise's ability to direct and influence the activities of a variable interest entity that most significantly impact its economic performance. SFAS No. 167 is effective for interim periods and fiscal years beginning after November 15, 2009. Early adoption is not permitted. The Company is currently evaluating the impact of SFAS No. 167 on its consolidated financial position and results of operations.

In June 2009, the FASB Accounting Standards Codification (the Codification) was issued in the form of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162* ( SFAS No. 168 ). Upon issuance, the Codification became the single source of authoritative, nongovernmental US GAAP. The Codification reorganized U.S. GAAP pronouncements into accounting topics, which are displayed using a single structure. Certain SEC guidance is also included in the Codification and will follow a similar topical structure in separate SEC sections. SFAS No. 168 is effective for interim periods and fiscal years ending after September 15, 2009. The adoption of SFAS No. 168 and the Codification did not have a material impact on the Company's 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 condensed consolidated 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.

Table of Contents

**(3) Real Estate Property Investments**

During the six months ended June 30, 2009, the Company funded an aggregate of \$55 million for construction, tenant and other capital projects primarily in the life science segment.

During the six months ended June 30, 2008, the Company acquired a senior housing facility for \$11 million and funded an aggregate of \$92 million for construction, tenant and capital improvement 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 June 30, 2009, the Company sold two hospitals for approximately \$46 million and recognized a gain on sales of real estate of \$31 million. The hospitals sold included the Company's hospital located in Los Gatos, California, for \$45 million, which resulted in a gain on sale of real estate of \$31 million. During the six months ended June 30, 2009, the Company sold nine properties for \$52 million and recognized gain on sales of real estate of \$32 million, primarily from the hospital and medical office segments.

During the three months ended June 30, 2008, the Company sold 40 properties for approximately \$483 million and recognized gain on sales of real estate of approximately \$191 million. During the six months ended June 30, 2008, the Company sold 44 properties for approximately \$513 million and recognized gain on sales of real estate of approximately \$201 million. The Company's sales of properties during the six months ended June 30, 2008 were made from the following segments: (i) 61% hospital, (ii) 19% skilled nursing, (iii) 17% medical office and (iv) 3% senior housing.

*Properties Held for Sale*

At December 31, 2008, the Company held for sale nine properties with an aggregate carrying amount of \$20 million. No properties were held for sale at June 30, 2009.

*Results from Discontinued Operations*

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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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Rental and related revenues	\$ 1,226	\$ 10,502	\$ 2,009	\$ 28,111
Other revenues	236		236	24
	1,462	10,502	2,245	28,135
Depreciation and amortization expenses	23	1,827	84	6,553
Operating expenses		1,830		5,085
Other costs and expenses	166	525	229	787
Income before gain on sales of real estate, net of income taxes	\$ 1,273	\$ 6,320	\$ 1,932	\$ 15,710
Impairments	\$	\$ 8,141	\$	\$ 8,141
Gain on sales of real estate	\$ 30,540	\$ 190,505	\$ 31,897	\$ 200,643
Number of properties held for sale		16		16
Number of properties sold	2	40	9	44
Number of properties included in discontinued operations	2	56	9	60

Table of Contents
**(5) Net Investment in Direct Financing Leases**

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

	June 30, 2009	December 31, 2008
Minimum lease payments receivable	\$ 1,348,924	\$ 1,373,283
Estimated residual values	467,248	467,248
Unearned income	(1,167,308)	(1,192,297)
Net investment in direct financing leases	\$ 648,864	\$ 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 \$55 million at June 30, 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 June 30, 2009, no allowance has been provided based on the value of the collateral underlying the DFLs. At June 30, 2009, the carrying value of these two DFLs was \$35 million.

**(6) Loans Receivable**

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

	June 30, 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		778	778		7,055	7,055
Other	70,427	78,050	148,477	71,224	76,725	147,949
Unamortized discounts, fees and costs		(70,728)	(70,728)		(78,262)	(78,262)
Loan loss allowance					(241)	(241)
	\$ 70,427	\$ 1,007,991	\$ 1,078,418	\$ 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 period 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. 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 was extended to December 31, 2010. At June 30, 2009 and December 31, 2008, the carrying value of this loan was \$80 million and \$79 million, respectively, including accrued interest of \$3 million. The Company issued a notice of default in July 2009, for the borrower's failure to make two interest payments during the three months ended June 30, 2009. The Company expects to collect all amounts due under the loan agreement based on the value of the collateral and guarantees supporting the loan.

## Table of Contents

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 June 30, 2009, the carrying amount of these loans was \$926 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 June 30, 2009 (dollars in thousands):

Entity(1)	Properties	Investment(2)	Ownership %
HCP Ventures II	25 senior housing facilities	\$ 139,851	35
HCP Ventures III, LLC	13 medical office buildings ( MOBs )	11,501	30
HCP Ventures IV, LLC	54 MOBs and 4 hospitals	42,989	20
HCP Life Science(3)	4 life science facilities	63,735	50 - 63
Suburban Properties, LLC	1 MOB	3,875	67
Advances to unconsolidated joint ventures, net		2,395	
		\$ 264,346	
Edgewood Assisted Living Center, LLC(4)(5)	1 senior housing facility	\$ (875)	45
Seminole Shores Living Center, LLC(4)(5)	1 senior housing facility	(451)	50
		\$ (1,326)	

(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 June 30, 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 June 30, 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):

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	June 30, 2009	December 31, 2008
Real estate, net	\$ 1,673,694	\$ 1,703,308
Other assets, net	190,518	184,297
Total assets	\$ 1,864,212	\$ 1,887,605
Notes payable	\$ 1,166,261	\$ 1,172,702
Accounts payable	41,744	39,883
Other partners' capital	475,029	488,860
HCP's capital(1)	181,178	186,160
Total liabilities and partners' capital	\$ 1,864,212	\$ 1,887,605

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(1) Aggregate basis difference of the Company's investments in these joint ventures of \$79 million, as of June 30, 2009, is primarily attributable to real estate and related intangible assets.

Table of Contents

	Three Months Ended June 30,(1)		Six Months Ended June 30,(1)	
	2009	2008	2009	2008
Total revenues	\$ 45,998	\$ 46,102	\$ 92,600	\$ 92,416
Net income (loss)	75	1,623	(1,095)	3,793
HCP's equity income	1,127	1,221	665	2,509
Fees earned by HCP	1,369	1,457	2,807	2,924
Distributions received, net	3,835	4,748	7,017	8,255

(1) 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 June 30, 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 \$617 million and \$680 million, respectively. At June 30, 2009 and December 31, 2008, the accumulated amortization of intangible assets was \$183 million and \$174 million, respectively.

At June 30, 2009 and December 31, 2008, below market lease intangibles and above market ground lease intangibles were \$289 million and \$294 million, respectively. At June 30, 2009 and December 31, 2008, the accumulated amortization of intangible liabilities was \$73 million and \$61 million, respectively.

On October 5, 2006, the Company acquired CRP in a merger and through the purchase method of accounting it allocated \$35 million of above-market lease intangibles related to 15 senior housing facilities, that are operated by Sunrise Senior Living, Inc. In June 2009, in a subsequent review of the related calculations of the relative fair value of these lease intangibles, the Company noted valuation errors, which resulted in an aggregate overstatement of the above-market lease intangible assets and an understatement of building and improvements of \$28 million. In the periods from October 5, 2006 through March 31, 2009, these errors resulted in an understatement of rental and related revenues and depreciation expense of approximately \$6 million and \$2 million, respectively. The Company recorded the related corrections in the three months ended June 30, 2009, and determined that such misstatements to the Company's results of operations or financial position during the periods from October 5, 2006 through June 30, 2009, were immaterial.

**(9) Other Assets**

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

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	June 30, 2009	December 31, 2008
Marketable debt securities	\$ 300,106	\$ 228,660
Marketable equity securities	3,990	3,845
Goodwill	50,346	51,746
Straight-line rent assets, net	137,872	112,038
Deferred debt issuance costs, net	20,963	23,512
Other	73,317	73,005
Total other assets	\$ 586,594	\$ 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
<b>June 30, 2009</b>			
Debt securities	\$ 305,553	\$ 300,106	\$ (5,447)
Equity securities	3,701	3,990	289
Total investments	\$ 309,254	\$ 304,096	\$ (5,158)

Table of Contents

	Cost(1)	Fair Value	Unrealized Losses
<b>December 31, 2008</b>			
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 adjusted for discount accretion and other-than-temporary impairments recorded through earnings, if any.

Marketable securities with unrealized losses at June 30, 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. In addition, it is not likely that the Company will be required to sell its marketable debt securities prior to the recovery of their amortized cost basis.

At June 30, 2009, \$286 million of the Company's marketable debt securities accrue interest at 9.625% and mature in November 2016 and \$20 million accrue interest at 9.25% and mature in May 2017. The issuers of these notes may elect to pay interest in cash or by issuing additional notes for all or a portion of the interest payments. In November 2008, the issuer of the Company's 9.625% debt securities elected to make interest payments by issuing additional notes, and in May 2009, the Company received \$14 million of additional debt securities in lieu of its cash interest payment. In May 2009, the issuer of the Company's 9.625% debt securities elected to make its next interest payment in cash.

During the three and six months ended June 30, 2009 and 2008, the Company sold debt securities with a cost basis of \$4 million and \$10 million, which resulted in gains of approximately \$0.8 million and \$0.7 million, respectively. During the three and six months ended June 30, 2008, the Company recognized a \$3.5 million loss related to an other-than-temporary impairment on marketable equity securities with a carrying value of \$7.3 million. Realized gains and losses and other-than-temporary impairment losses related to available-for-sale marketable securities are included in interest and other income, net in each respective period.

**(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 June 30, 2009, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At June 30, 2009, the Company had \$100 million outstanding under this revolving line of credit facility with a weighted-average effective interest rate of 1.31%.

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At June 30, 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 2.78% at June 30, 2009). Based on the Company's debt ratings at June 30, 2009, the margin on the term loan was 2.00%.

The Company's revolving line of credit 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 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 \$4.5 billion at June 30, 2009. At June 30, 2009, the Company was in compliance with each of these restrictions and requirements of the revolving line of credit facility and term loan.

On May 8, 2009, the Company repaid the remaining \$320 million outstanding balance under its bridge loan credit facility with proceeds received from the issuance of shares of common stock.

Table of Contents

*Senior Unsecured Notes*

At June 30, 2009, the Company had \$3.5 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 1.53% to 7.07%. The weighted-average effective interest rate on the senior unsecured notes at June 30, 2009 was 6.13%. 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 June 30, 2009, the Company was in compliance with these covenants.

*Mortgage Debt*

At June 30, 2009, the Company had \$1.6 billion in mortgage debt secured by 186 healthcare facilities with a carrying amount of \$2.8 billion. Interest rates on the mortgage notes ranged from 0.36% to 8.63% with a weighted average effective rate of 5.97% at June 30, 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.

*Other Debt*

At June 30, 2009, the Company had \$99 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 June 30, 2009, \$45 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 June 30, 2009 (in thousands):

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Year	Bank Line of Credit	Term Loan	Senior Unsecured Notes	Mortgage Debt	Other Debt(1)	Total
2009 (Six months)	\$	\$	\$	\$	107,276	\$ 98,984 \$ 206,260
2010			206,421	298,503		504,924
2011	100,000	200,000	292,265	137,573		729,838
2012			250,000	60,922		310,922
2013			550,000	233,293		783,293
Thereafter			2,237,000	751,308		2,988,308
	\$ 100,000	\$ 200,000	\$ 3,535,686	\$ 1,588,875	\$ 98,984	\$ 5,523,545

(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.

Table of Contents

On May 3, 2007, Ventas, Inc. ( "Ventas" ) filed a complaint against the Company in the United States District Court for the Western District of Kentucky 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 Ventas' court filings, Ventas claims damages of approximately \$100 million representing the difference between the price it initially agreed to pay for Sunrise REIT and the price it ultimately paid, additional claimed damages for alleged financing and other costs, and punitive damages. The Company believes that Ventas' claims are without merit and intends to vigorously defend against Ventas' lawsuit.

As part of the same litigation, the Company filed counterclaims against Ventas as successor to Sunrise REIT. 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. On May 26, 2009, the District Court denied the Company's motion.

On May 14, 2009, the Company moved for summary judgment on Ventas' claims, and Ventas moved for partial summary judgment on elements of its claims and HCP's affirmative defenses. On July 16, 2009, the Court granted the parties' summary judgment motions in part and denied them in part. Among other things, the court dismissed Ventas' claim of tortious interference with contract and dismissed Ventas' claimed damages for alleged financing and other costs.

The Court has set a trial date of August 18, 2009. The Company expects that defending its interests will require it to expend significant funds. The Company is unable to estimate probability of loss or the ultimate aggregate amount of loss or financial impact with respect to these matters as of June 30, 2009.

*Development Commitments*

As of June 30, 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 \$18.3 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.

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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 June 30, 2009, these loans represented approximately 77% of our skilled nursing segment assets and 7% of our total segment assets.

At June 30, 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.

On June 18, 2009, the Company announced that the management agreements on 15 communities operated by Sunrise, which are leased by VIE Tenants, have been terminated effective October 1, 2009, for Sunrise's failure to achieve certain performance thresholds. The Company intends to enter into new arrangements with senior housing operators for the 15 communities, reducing the Sunrise-managed communities in the Company's portfolio to 75 from the original 101 communities we acquired in the 2006 CRP transaction.

On June 29, 2009, the Company, together with three of its tenants, filed complaints against Sunrise based on Sunrise's defaults under management and related agreements covering 64 of the remaining 75 Sunrise-managed communities owned by the Company, of which 44 are leased by VIE Tenants. The complaints allege, among other things, that Sunrise systematically breached various contractual and fiduciary duties. In addition to equitable relief and monetary damages relating to the defaults, the Company is seeking judicial confirmation of rights to terminate the agreements on the 64 communities.

Table of Contents

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 \$134 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 investments in DFLs, were acquired in the Company's merger with CRP. As of June 30, 2009, the facilities had a carrying value of \$354 million.

*Environmental Costs*

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

*General Uninsured Losses*

The Company obtains various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. The Company attempts to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of

extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, the Company has a large number of properties that are exposed to earthquake, flood and windstorm occurrences and the insurances for such losses carry 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 June 30, 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.

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### Table of Contents

The following table lists the Series E cumulative redeemable preferred stock cash dividends made by the Company during the six months ended June 30, 2009:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Amount Per Share</b>	<b>Dividend Payable Date</b>
February 2	March 16	\$ 0.45313	March 31
April 23	June 15	\$ 0.45313	June 30

The following table lists the Series F cumulative redeemable preferred stock cash dividends made by the Company during the six months ended June 30, 2009:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Amount Per Share</b>	<b>Dividend Payable Date</b>
February 2	March 16	\$ 0.44375	March 31
April 23	June 15	\$ 0.44375	June 30

On July 29, 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 September 30, 2009 to stockholders of record as of the close of business on September 15, 2009.

### *Common Stock*

During the six months ended June 30, 2009 and 2008, the Company issued 73,000 and 285,000 shares of common stock, respectively, under its Dividend Reinvestment and Stock Purchase Plan ( "DRIP" ). The Company issued 525,000 and 1.8 million shares of common stock upon the conversion of DownREIT units during the six months ended June 30, 2009 and 2008, respectively. The Company also issued 481,000 shares upon exercise of stock options during the six months ended June 30, 2008. No stock options were exercised during the six months ending June 30, 2009.

During the six months ended June 30, 2009 and 2008, the Company issued 291,000 and 138,000 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 six months ended June 30, 2009 and 2008, respectively.

On May 8, 2009, the Company completed a \$440 million public offering of 20.7 million shares of common stock at a price per share of \$21.25. The Company received net proceeds of \$422 million, which were used to repay all amounts of indebtedness outstanding under the bridge loan credit facility with the remainder used for general corporate purposes.

The following table lists the common stock cash dividends made by the Company during the six months ended June 30, 2009:

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Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
February 2	February 9	\$ 0.46	February 23
April 23	May 5	\$ 0.46	May 21

On July 29, 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 August 19, 2009 to stockholders of record as of the close of business on August 6, 2009.

## *Accumulated Other Comprehensive Income (Loss) ( AOCI )*

	June 30, 2009	December 31, 2008
	(in thousands)	
AOCI unrealized losses on available-for-sale securities, net	\$ (5,158)	\$ (66,814)
AOCI unrealized losses on cash flow hedges, net	(11,107)	(11,729)
Supplemental Executive Retirement Plan minimum liability	(1,777)	(1,821)
Cumulative foreign currency translation adjustment	(777)	(798)
Total accumulated other comprehensive loss	\$ (18,819)	\$ (81,162)

Table of Contents*Noncontrolling Interests*

On March 30, 2009, the Company purchased for \$9 million the non-controlling interests in three senior housing joint ventures with a carrying amount of \$4 million. The \$5 million representing the excess of the payment above the carrying amount of the noncontrolling interest was charged to additional paid-in capital.

*Total Comprehensive Income*

The following table provides a reconciliation of comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 101,178	\$ 238,080	\$ 153,887	\$ 294,208
Other comprehensive income (loss)	58,650	47,699	62,343	(6,096)
Total comprehensive income	\$ 159,828	\$ 285,779	\$ 216,230	\$ 288,112

Substantially all of other comprehensive income for the three and six months ended June 30, 2009 related to the change in the estimated fair value of the Company's available-for-sale marketable debt securities. Substantially all of other comprehensive income for the three months ended June 30, 2008 related to the change in the estimated fair value of two forward-starting interest rate swap contracts, which were settled in June 2008. See additional discussions of derivative instruments and available-for-sale marketable debt securities in Notes 14 and 9, respectively.

**(13) Segment Disclosures**

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, the Company invests primarily in single operator or tenant properties through acquisition and development of real estate, secured financing and marketable debt securities of operators in these sectors. Under the medical office segment, the Company invests through acquisition of MOBs that are primarily leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described under Summary of Significant Accounting Policies (see Note 2). There were no intersegment sales or transfers during the six months ended June 30, 2009 and 2008. The Company evaluates performance based upon property net operating income from continuing operations ( NOI ) of the combined properties in each segment.

Non-segment assets consist primarily of real estate held for sale and corporate assets including cash, restricted cash, accounts receivable, net and deferred financing costs. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company's performance measure. See Note 11 for other information regarding concentrations of credit risk.

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

For the three months ended June 30, 2009:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	\$ 79,777	\$	\$ 13,204	\$ 738	\$ 93,719	\$ 91,981	\$ 250
Life science	53,488	9,523		1	63,012	51,755	
Medical office	66,077	11,048		630	77,755	44,906	
Hospital	22,899	464			23,363	22,633	11,921
Skilled nursing	9,487				9,487	9,487	15,673
Total segments	231,728	21,035	13,204	1,369	267,336	220,762	27,844
Non-segment							888
Total	\$ 231,728	\$ 21,035	\$ 13,204	\$ 1,369	\$ 267,336	\$ 220,762	\$ 28,732

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## Table of Contents

For the three months ended June 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	\$ 69,453	\$	\$ 14,129	\$ 793	\$ 84,375	\$ 81,034	\$ 286
Life science	46,300	8,285		1	54,586	44,493	
Medical office	65,723	11,417		663	77,803	44,311	
Hospital	22,546	466			23,012	22,029	11,686
Skilled nursing	8,999				8,999	8,999	20,801
Total segments	213,021	20,168	14,129	1,457	248,775	200,866	32,773
Non-segment							(2,034)
Total	\$ 213,021	\$ 20,168	\$ 14,129	\$ 1,457	\$ 248,775	\$ 200,866	\$ 30,739

For the six months ended June 30, 2009:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	\$ 148,789	\$	\$ 26,129	\$ 1,521	\$ 176,439	\$ 171,217	\$ 576
Life science	105,534	20,616		2	126,152	103,458	
Medical office	131,426	23,086		1,284	155,796	89,506	
Hospital	41,179	997			42,176	40,694	22,704
Skilled nursing	18,388				18,388	18,388	31,335
Total segments	445,316	44,699	26,129	2,807	518,951	423,263	54,615
Non-segment							(1,550)
Total	\$ 445,316	\$ 44,699	\$ 26,129	\$ 2,807	\$ 518,951	\$ 423,263	\$ 53,065

For the six months ended June 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	\$ 140,225	\$	\$ 29,103	\$ 1,589	\$ 170,917	\$ 163,941	\$ 602
Life science	89,529	17,667		2	107,198	85,503	
Medical office	130,914	22,996		1,333	155,243	88,114	
Hospital	41,483	953			42,436	40,639	22,270
Skilled nursing	17,775				17,775	17,775	43,985
Total segments	419,926	41,616	29,103	2,924	493,569	395,972	66,857
Non-segment							(796)
Total	\$ 419,926	\$ 41,616	\$ 29,103	\$ 2,924	\$ 493,569	\$ 395,972	\$ 66,061

(1) Net Operating Income from Continuing Operations ( NOI ) is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate. The Company defines NOI as rental revenues, including tenant recoveries and income from direct financing leases, less property-level operating expenses. NOI excludes investment management fee income, depreciation and amortization, general and administrative expenses, interest and other income, net, interest expense, income taxes, equity income from unconsolidated joint

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ventures and discontinued operations. The Company believes NOI provides investors relevant and useful information because it measures the operating performance of the Company's real estate at the property level on an unleveraged basis. The Company uses NOI to make decisions about resource allocations and assess property-level performance. The Company believes that net income is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income as defined by GAAP since it does not reflect the aforementioned excluded items. Further, the Company's definition of NOI may not be comparable to the definition used by other real estate investment trusts, as those companies may use different methodologies for calculating NOI.

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## Table of Contents

The following is a reconciliation from NOI to reported net income, the most direct comparable financial measure calculated and presented in accordance with GAAP (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Net operating income from continuing operations</b>	\$ 220,762	\$ 200,866	\$ 423,263	\$ 395,972
Investment management fee income	1,369	1,457	2,807	2,924
Depreciation and amortization	(79,606)	(77,861)	(160,143)	(155,493)
General and administrative	(20,932)	(18,732)	(39,923)	(39,177)
Impairments	(5,906)	(1,574)	(5,906)	(1,574)
Interest and other income, net	28,732	30,739	53,065	66,061
Interest expense	(75,340)	(85,446)	(152,014)	(181,709)
Income taxes	(841)	(1,274)	(1,756)	(3,517)
Equity income from unconsolidated joint ventures	1,127	1,221	665	2,509
Total discontinued operations	31,813	188,684	33,829	208,212
<b>Net income</b>	\$ 101,178	\$ 238,080	\$ 153,887	\$ 294,208

The Company's total assets by segment were:

Segments	June 30, 2009	December 31, 2008
Senior housing	\$ 4,436,022	\$ 4,441,689
Life science	3,577,048	3,545,913
Medical office	2,286,542	2,281,103
Hospital	1,105,918	1,033,206
Skilled nursing	1,199,121	1,191,091
Gross segment assets	12,604,651	12,493,002
Accumulated depreciation and amortization	(1,050,690)	(933,651)
Net segment assets	11,553,961	11,559,351
Real estate held for sale, net		19,799
Non-segment assets	231,889	270,676
<b>Total assets</b>	<b>\$ 11,785,850</b>	<b>\$ 11,849,826</b>

On October 5, 2006, simultaneous with the closing of the Company's merger with CRP, the Company also merged with CNL Retirement Corp. (CRC). CRP was a REIT that invested primarily in senior housing and medical office buildings. Under the purchase method of accounting, the assets and liabilities of CRC were recorded at their relative fair values, with \$51.7 million paid in excess of the estimated fair value of CRC recorded as goodwill. The CRC goodwill amount was allocated in proportion to the assets of the Company's reporting units (property sectors) subsequent to the CRP acquisition.

At June 30, 2009, goodwill was allocated to segment assets as follows: (i) senior housing \$30.5 million, (ii) medical office \$11.4 million, (iii) hospital \$5.1 million, and (iv) skilled nursing \$3.3 million. Due to a decrease in our market capitalization during the first quarter of 2009, we performed an interim assessment of goodwill. In connection with this review, the Company recognized an impairment charge of \$1.4 million, included in interest and other income, net, for the goodwill allocated to the life science segment.

**(14) Derivative Instruments**

The Company uses derivative instruments to mitigate the affects of interest rate fluctuations on specific forecasted transactions and recognized obligations. The Company does not use derivative instruments for speculative or trading purposes.

The primary risks associated with derivative instruments are market and credit risk. Market risk is defined as the potential for loss in value of the derivative instruments due to adverse changes in market prices (interest rates). Utilizing derivative instruments allows the Company to effectively manage the risk of increasing interest rates with respect to the potential effects these fluctuations could have on future earnings, changes in fair value of recognized obligations, and forecasted cash flows.

Table of Contents

Credit risk is the risk that one of the parties to a derivative contract fails to perform or meet their financial obligation. The Company does not obtain collateral associated with its derivative instruments, but monitors the credit standing of its counterparties on a regular basis. Should a counterparty fail to perform, the Company would incur a financial loss to the extent that the associated derivative contract was in an asset position. At June 30, 2009, the Company does not anticipate non-performance by the counterparties to its outstanding derivative contracts.

The Company has three interest rate swap contracts outstanding at June 30, 2009, which hedge fluctuations in interest payments on variable rate secured debt. At June 30, 2009, these interest rate swap contracts had an aggregate notional amount of \$45.6 million and estimated fair value of \$2.3 million included in accounts payable and accrued liabilities. During the three and six months ended June 30, 2009, there was no ineffective portion related to the hedging relationship.

On June 12, 2009, the Company executed an interest rate swap contract (pay float and receive fixed), which is designated as hedging the changes in fair value of fixed-rate senior unsecured notes due to fluctuations in the underlying benchmark interest rate. The fair value hedge terminates in September 2011, has a notional amount of \$250 million, and hedges approximately 86% of the \$292 million of outstanding senior unsecured notes maturing in September 2011. The estimated fair value of the contract at June 30, 2009 was \$0.8 million and is included in other assets, net. During the six months ended June 30, 2009, there was no ineffective portion related to the hedge.

During October and November 2007, the Company entered into two forward-starting interest rate swap contracts with notional amounts aggregating \$900 million and settled the contracts during the 3 month period ended June 30, 2008. The interest rate swap contracts were designated as qualifying, cash flow hedging relationships, to hedge the Company's exposure to fluctuations in the benchmark interest rate component of interest payments on forecasted, unsecured, fixed-rate debt expected to be issued in 2010. At June 30, 2009, the Company expects that the hedged forecasted transactions remain probable of occurring.

The following table summarizes the Company's outstanding interest rate swap contracts as of June 30, 2009 (dollars in thousands):

Date Entered	Effective Date	Maturity Date	Fixed Rate	Floating Rate Index	Notional Amount	Fair Value
July 13, 2005	July 19, 2005	July 15, 2020	3.82%	BMA Swap Index	\$ 45,600	\$ (2,292)
June 12, 2009	June 15, 2009	September 15, 2011	5.95%	1 Month LIBOR	\$ 250,000	\$ 845

**(15) Supplemental Cash Flow Information**

	Six Months Ended June 30,	
	2009	2008
	(in thousands)	
<i>Supplemental cash flow information:</i>		
Interest paid, net of capitalized interest and other	\$ 147,686	\$ 179,678
Taxes paid	2,101	3,508
<i>Supplemental schedule of non-cash investing activities:</i>		
Capitalized interest	12,347	16,900

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Accrued construction costs	790	2,295
Loan received upon real estate disposition	251	
<i>Supplemental schedule of non-cash financing activities:</i>		
Mortgages assumed with real estate acquisitions		4,892
Restricted stock issued	291	138
Vesting of restricted stock units	182	131
Cancellation of restricted stock	(30)	(29)
Conversion of non-managing member units into common stock	21,873	63,895
Unrealized gains (losses) on available-for-sale securities and derivatives designated as cash flow hedges	61,885	(11,525)

Table of Contents**(16) Earnings Per Common Share**

The following table illustrates the computation of basic and diluted earnings per share (dollars in thousands, except per share and share amounts):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Numerator</b>				
Income from continuing operations	\$ 69,365	\$ 49,396	\$ 120,058	\$ 85,996
Noncontrolling interests and participating securities share in continuing operations	(4,111)	(6,658)	(8,252)	(12,664)
Preferred stock dividends	(5,283)	(5,283)	(10,566)	(10,566)
Income from continuing operations applicable to common shares	59,971	37,455	101,240	62,766
Discontinued operations	31,813	188,684	33,829	208,212
Noncontrolling interests and participating securities share in discontinued operations		(249)		(249)
Net income applicable to common shares	\$ 91,784	\$ 225,890	\$ 135,069	\$ 270,729
<b>Denominator</b>				
Basic weighted average common shares	265,422	235,117	259,412	225,945
Dilutive stock options and restricted stock	120	982	104	800
Diluted weighted average common shares	265,542	236,099	259,516	226,745
<b>Basic earnings per common share</b>				
Income from continuing operations	\$ 0.23	\$ 0.16	\$ 0.39	\$ 0.28
Discontinued operations	0.12	0.80	0.13	0.92
Net income applicable to common stockholders	\$ 0.35	\$ 0.96	\$ 0.52	\$ 1.20
<b>Diluted earnings per common share</b>				
Income from continuing operations	\$ 0.23	\$ 0.16	\$ 0.39	\$ 0.28
Discontinued operations	0.12	0.80	0.13	0.91
Net income applicable to common shares	\$ 0.35	\$ 0.96	\$ 0.52	\$ 1.19

Restricted stock and certain of the Company's performance restricted stock units are considered participating securities which require the use of the two-class method when computing basic and diluted earnings per share. For the three months ended June 30, 2009 and 2008, earnings representing nonforfeitable dividends of \$0.4 million and \$0.5 million, respectively, were allocated to the participating securities. For the six months ended June 30, 2009 and 2008, earnings representing nonforfeitable dividends of \$0.7 million and \$1.1 million, respectively, were allocated to the participating securities.

Diluted earnings per common share is calculated by including the effect of dilutive securities. Options to purchase approximately 6.8 million and 0.5 million shares of common stock that had an exercise price in excess of the average market price of the common stock during the three months ended June 30, 2009 and 2008, respectively, were not included because they are anti-dilutive. Restricted stock and performance restricted stock units convertible into 0.9 million shares and 0.2 million shares, respectively, of common stock during the three months ended June 30, 2009 and 2008, respectively, were not included because they are anti-dilutive. Additionally, 5.9 million shares issuable upon conversion of 4.3 million DownREIT units during the three months ended June 30, 2009, were not included since they are anti-dilutive. During the three months ended June 30, 2008, 8.3 million shares issuable upon conversion of 5.9 million DownREIT units were not included since they were anti-dilutive.



Table of Contents**(17) Fair Value Measurements**

The following tables illustrate the Company's fair value measurements of its financial assets and liabilities measured at fair value in the Company's condensed consolidated financial statements. The second table includes the associated unrealized and realized gains and losses, as well as purchases, sales, issuances, exchanges, settlements (net) or transfers for financial instruments classified as Level 3 instruments within the fair value hierarchy. Recognized gains and losses are recorded in interest and other income, net on the Company's condensed consolidated statements of income.

The following is a summary of fair value measurements of financial assets and liabilities at June 30, 2009 (in thousands):

Financial Instrument	Fair Value	Level 1	Level 2	Level 3
Marketable debt securities	\$ 300,106	\$ 283,506	\$ 16,600	\$
Marketable equity securities	3,990	3,990		
Interest rate swaps, net(1)	(1,447)		(1,447)	
Warrants(1)	2,235			2,235
	\$ 304,884	\$ 287,496	\$ 15,153	\$ 2,235

(1) Interest rate swaps and common stock warrants are valued using observable and unobservable market assumptions, as well as standardized derivative pricing models.

The following is a reconciliation of fair value measurements classified as Level 3 at June 30, 2009 (in thousands):

	Warrants
December 31, 2008	\$ 1,460
Total gains (realized and unrealized):	
Included in earnings	185
Included in other comprehensive income	
Purchases, issuances, exchanges and settlements, net	590
Transfers in and/or out of Level 3	
June 30, 2009	\$ 2,235

**(18) Disclosures About Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, restricted cash, receivables, payables, and accrued liabilities are reasonable estimates of fair value because of the short maturities of these instruments. Fair values for loans receivable, bank line of credit, bridge and term loans, mortgage debt and other debt are estimates based on rates currently prevailing for similar instruments of similar maturities. The fair values of the interest rate swaps and warrants were determined based on observable market assumptions and standardized derivative pricing models. The fair values

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of the senior unsecured notes, marketable equity and debt securities were determined based on market quotes.

	June 30, 2009						December 31, 2008					
	Carrying Amount			Fair Value			Carrying Amount			Fair Value		
	(in thousands)											
Loans receivable, net	\$	1,078,418		\$	1,048,071		\$	1,076,392		\$	981,128	
Marketable debt securities		300,106			300,106			228,660			228,660	
Marketable equity securities		3,990			3,990			3,845			3,845	
Warrants		2,235			2,235			1,460			1,460	
Bank line of credit		100,000			100,000			150,000			150,000	
Bridge and term loans		200,000			200,000			520,000			520,000	
Senior unsecured notes		3,518,147			3,208,027			3,523,513			2,384,488	
Mortgage debt		1,592,712			1,573,130			1,641,734			1,538,057	
Other debt		98,984			98,984			102,209			102,209	
Interest rate swaps-assets		845			845							
Interest rate swaps-liabilities		2,292			2,292			2,324			2,324	

Table of Contents

**(19) Impairments**

During the three and six months ended June 30, 2009, as a result of the anticipated termination of the Sunrise management agreements on 15 senior housing communities effective October 1, 2009, intangible assets on 12 of 15 of these communities were determined to be impaired resulting in a charge of \$5.9 million. During the three and six months ended June 30, 2008, the Company recognized impairments of \$9.7 million as follows: (i) \$1.6 million related to two senior housing facilities as a result of a decrease in expected cash flows and (ii) \$8.1 million, included in discontinued operations, related to the decrease in expected cash flows and anticipated dispositions of two senior housing properties and one hospital.

**(20) Subsequent Event**

On August 3, 2009, the Company purchased a \$720 million participation in first mortgage debt of HCR ManorCare at a discount for approximately \$590 million. The \$720 million participation bears interest at LIBOR plus 1.25% and represents 45% of the \$1.6 billion most senior tranche of HCR ManorCare's mortgage debt incurred as part of the financing for The Carlyle Group's acquisition of Manor Care, Inc. in December 2007. The mortgage debt matures in January 2012, with a one-year extension available at the borrower's option subject to certain conditions, and is secured by a first lien on 331 facilities located in 30 states. The Company obtained favorable financing to fund 72% of the purchase price, resulting in a net cash payment by HCP of \$165 million.

The Company evaluated subsequent events through August 4, 2009, which is the date the condensed consolidated financial statements were issued.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Cautionary Language Regarding Forward-Looking Statements**

Statements in this Quarterly Report on Form 10-Q that are not historical factual statements are forward-looking statements. We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. Forward-looking statements include, among other things, statements regarding our and our officers' intent, belief or expectations as identified by the use of words such as may, will, project, expect, believe, intend, anticipate, forecast, plan, estimate, could, would, should and other comparable and derivative terms or the negatives thereof. In addition, we, through our officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, while forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under Part I, Item 1A. Risk Factors in the Company's Annual report on Form 10-K for the fiscal year ended December 31, 2008, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

- (a) Changes in national and local economic conditions, including a prolonged recession;
- (b) Continued volatility in the capital markets, including changes in interest rates and the availability and cost of capital;
- (c) The ability of the Company to manage its indebtedness level and changes in the terms of such indebtedness;
- (d) Changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations of our operators, tenants and borrowers;
- (e) The potential impact of existing and future litigation matters, including related developments;
- (f) Competition for tenants and borrowers, including with respect to new leases and mortgages and the renewal or rollover of existing leases;
- (g) The ability of the Company to reposition its properties on the same or better terms if existing leases are not renewed or the Company exercises its right to replace an existing operator or tenant upon default;
- (h) Availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;
- (i) The ability of our operators, tenants and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us;
- (j) The financial weakness of some operators and tenants, including potential bankruptcies and downturns in their businesses, which results in uncertainties regarding our ability to continue to realize the full benefit of such operators' and/or tenants' leases;
- (k) The risk that we will not be able to sell or lease properties that are currently vacant, at all or at competitive rates;
- (l) The financial, legal and regulatory difficulties of significant operators of our properties, including Sunrise Senior Living, Inc. and its subsidiaries ( Sunrise );
- (m)

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The risk that we may not be able to integrate acquired businesses successfully or achieve the operating efficiencies and other benefits of acquisitions within expected time-frames or at all, or within expected cost projections;

- (n) The ability to obtain financing necessary to consummate acquisitions or on favorable terms; and
- (o) Changes in the reimbursement available to our tenants and borrowers by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage.

Table of Contents

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

The information set forth in this Item 2 is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations. We will discuss and provide our analysis in the following order:

- Executive Summary
- 2009 Transaction Overview
- Dividends
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Inflation
- Recent Accounting Pronouncements

## Executive Summary

We are a self-administered REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States. We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At June 30, 2009, our portfolio of investments, excluding assets held for sale but including properties owned by our Investment Management Platform, consisted of interests in 682 facilities. Our Investment Management Platform represents the following joint ventures: (i) HCP Ventures II, (ii) HCP Ventures III, LLC, (iii) HCP Ventures IV, LLC, and (iv) the HCP Life Science ventures.

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

Our strategy contemplates acquiring and developing properties on terms that are favorable to us. We attempt to structure transactions that are tax-advantaged and mitigate risks in our underwriting process. Generally, we prefer larger, more complex private transactions that leverage our management team's experience and our infrastructure. We seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not primarily dependent on Medicaid reimbursement for their revenues. For the six months ended June 30, 2009 and the year ended December 31, 2008, we estimate, in each period, that approximately 7% of our tenants' and operators' revenues were derived from Medicaid, based on information provided by our tenants and operators.

We follow a disciplined approach to enhancing the value of our existing portfolio, including ongoing evaluation of potential disposition of properties that no longer fit our strategy. During the six months ended June 30, 2009, we sold nine properties for \$52 million.

We primarily generate revenue by leasing healthcare properties under long-term leases. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for substantial recovery of operating expenses; however, some of our medical office and life science leases are structured as gross or modified gross leases. Accordingly, for such medical office buildings (MOBs) and life science facilities we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. Our growth depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given the underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

Table of Contents

The slowdown in the economy, decline in the availability of financing from the capital markets, and widened credit spreads have affected, or may in the future adversely affect, the businesses of our tenants, operators and borrowers to varying degrees. Such conditions may further impact their ability to meet their obligations to us and, in certain cases, could lead to additional restructurings, disruptions, or bankruptcies of our tenants, operators and/or borrowers. These market conditions could also adversely affect the amount of revenue we report, require us to increase our allowances for losses, result in impairment charges and valuation allowances that decrease our net income and equity, and reduce our cash flows from operations. In addition, these conditions or events could impair our credit rating and our ability to raise additional capital, require us to seek alternative operators or tenants, and finance or refinance debt secured by properties they operate or where they are tenants.

Access to external capital on favorable terms is critical to the success of our strategy. Generally, we attempt to match the long-term duration of most of our investments with long-term fixed-rate financing. At June 30, 2009, 14% of our consolidated debt is at variable interest rates, which includes \$300 million outstanding under our revolving line of credit facility and term loan. We intend to maintain an investment grade rating on our senior unsecured debt securities and manage various capital ratios and amounts within appropriate parameters.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as to fund future acquisitions and development through the issuance of additional securities or secured debt. As of July 30, 2009, we had a credit rating of Baa3 (stable) from Moody's, BBB (stable) from S&P and BBB (positive) from Fitch on our senior unsecured debt securities, and Ba1 (stable) from Moody's, BBB- (stable) from S&P and BBB- (positive) from Fitch on our preferred equity securities. Our ability to continue to access capital could be impacted by various factors including general market conditions and the continuing slowdown in the economy, interest rates, credit ratings on our securities, and any changes to these ratings, the market price of our capital stock, the performance of our portfolio, tenants, borrowers and operators, including any restructurings, disruptions or bankruptcies of our tenants, borrowers and operators, the perception of our potential future earnings and cash distributions, any unwillingness on the part of lenders to make loans to us and any deterioration in the financial position of lenders that might make them unable to meet their obligations to us.

**2009 Transaction Overview**

*Investment Transactions*

During the six months ended June 30, 2009, we purchased the remaining interests in three senior housing joint ventures for \$9 million, which included \$14 million of real estate encumbered by \$5 million of mortgage debt, and funded \$55 million for construction and other capital projects primarily in our life science segment.

During the six months ended June 30, 2009, we sold nine properties with an aggregate value of \$52 million primarily from our hospital and medical office segments, including our Los Gatos, California hospital for \$45 million and recognized gains of \$30.5 million. During the six months ended June 30, 2009, we also sold marketable debt securities of \$5 million.

On August 3, 2009, we purchased a \$720 million participation in first mortgage debt of HCR ManorCare at a discount for approximately \$590 million. The \$720 million participation bears interest at LIBOR plus 1.25% and represents 45% of the \$1.6 billion most senior tranche of HCR ManorCare's mortgage debt incurred as part of the financing for The Carlyle Group's acquisition of Manor Care, Inc. in December 2007. The mortgage debt matures in January 2012, with a one-year extension available at the borrower's option subject to certain conditions, and is secured

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by a first lien on 331 facilities located in 30 states. We obtained favorable financing to fund 72% of the purchase price, resulting in a net cash payment by HCP of \$165 million.

### *Financing Transactions*

On May 8, 2009, we completed a \$440 million public offering of 20.7 million shares of our common stock at a price per share of \$21.25. We received net proceeds of \$422 million, which were used to repay all amounts of indebtedness outstanding under our bridge loan credit facility with the remainder used for general corporate purposes.

On June 12, 2009, we entered into an interest rate swap contract (pay float and receive fixed) with a notional amount of \$250 million that terminates in September 2011. This interest rate swap contract reduces our net floating rate asset exposure, which increased as a result of the repayment of our floating rate bridge loan credit facility.

Table of Contents

*Other Events*

On June 18, 2009, we announced that the management agreements on 15 communities operated by Sunrise have been terminated effective October 1, 2009, for Sunrise's failure to achieve certain performance thresholds. The termination of the agreements does not require the payment of a termination fee by us or our tenants. We intend to enter into new arrangements with senior housing operators for the 15 communities, reducing the Sunrise-managed communities in the Company's portfolio to 75 from the original 101 communities we acquired in the 2006 CNL Retirement Properties, Inc. transaction. We expect these arrangements to improve the operating margins of the communities in a manner similar to our successful transition of 11 former Sunrise communities to Emeritus Corporation in December 2008. On June 30, 2009, we recognized impairments of \$6 million, or \$0.02 per diluted share, related to intangible assets associated with 12 of the 15 communities.

On June 29, 2009, we, together with three of our tenants, filed complaints against Sunrise based on Sunrise's defaults under management and related agreements covering 64 of the remaining 75 Sunrise-managed communities owned by the Company. The complaints allege, among other things, that Sunrise systematically breached various contractual and fiduciary duties. In addition to equitable relief and monetary damages relating to the defaults, we are seeking judicial confirmation of rights to terminate the agreements on the 64 communities.

**Dividends**

On July 29, 2009, we announced that our Board declared a quarterly common stock cash dividend of \$0.46 per share. The common stock dividend will be paid on August 19, 2009 to stockholders of record as of the close of business on August 6, 2009.

**Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ) requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain.

**Results of Operations**

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, we invest primarily in single operator or tenant properties through the acquisition and development of real estate, secured financing, mezzanine financing and investment in marketable debt securities of operators in these sectors. Under the medical office segment, we invest through acquisition and secured financing

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in MOBs that are leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Condensed Consolidated Financial Statements).

## Table of Contents

Our financial results for the three and six months ended June 30, 2009 and 2008 are summarized as follows:

### Comparison of the Three Months Ended June 30, 2009 to the Three Months Ended June 30, 2008

#### Rental and related revenues

Segments	Three Months Ended June 30,			Change			
	2009	2008	\$				
	(dollars in thousands)				%		
Senior housing	\$	79,777	\$	69,453	\$	10,324	15%
Life science		53,488		46,300		7,188	16
Medical office		66,077		65,723		354	1
Hospital		22,899		22,546		353	2
Skilled nursing		9,487		8,999		488	5
Total	\$	231,728	\$	213,021	\$	18,707	9%

- *Senior housing.* Senior housing rental and related revenues for the three months ended June 30, 2009 included \$6.4 million resulting from an adjustment to the purchase price allocation of certain assets acquired in 2006. No similar adjustments were recognized for the three months ended June 30, 2008. As a result of the transfer of an 11-property senior housing portfolio to Emeritus Corporation on December 1, 2008, we recognized an increase of \$2.7 million primarily related to straight-line rents during the three months ended June 30, 2009.

- *Life science.* Life science rental and related revenues increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.

#### Tenant recoveries

Segments	Three Months Ended June 30,			Change			
	2009	2008	\$				
	(dollars in thousands)				%		
Life science	\$	9,523	\$	8,285	\$	1,238	15%
Medical office		11,048		11,417		(369)	(3)
Hospital		464		466		(2)	
Total	\$	21,035	\$	20,168	\$	867	4%

- *Life science.* Life science tenant recoveries increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.

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- *Medical office.* Medical office tenant recoveries decreased primarily as a result of assets placed in redevelopment during 2008.

### *Income from direct financing leases*

Income from DFLs decreased \$0.9 million to \$13.2 million for the three months ended June 30, 2009. The decrease was primarily due to two DFLs that were placed on non-accrual status and accounted for on a cost-recovery basis beginning in October 2008. We expect that income from DFLs to remain lower in 2009 as compared to 2008 as a result of these two DFLs.

### *Depreciation and amortization expense*

Depreciation and amortization expense increased \$1.7 million to \$79.6 million for the three months ended June 30, 2009. Depreciation and amortization expense for the three month ended June 30, 2009 included \$2.0 million resulting from an adjustment to the purchase price allocation of certain assets acquired in 2006. No similar adjustments were made for the three months ended June 30, 2008.

Table of Contents*Operating expenses*

Segments	Three Months Ended June 30,		Change	
	2009	2008	\$	%
	(dollars in thousands)			
Senior housing	\$ 1,000	\$ 2,548	\$ (1,548)	(61)%
Life science	11,256	10,092	1,164	12
Medical office	32,219	32,829	(610)	(2)
Hospital	730	983	(253)	(26)
Total	\$ 45,205	\$ 46,452	\$ (1,247)	(3)%

Operating expenses are predominantly related to MOB and life science properties where we incur the expenses and recover all or a portion of those expenses from the tenants. The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses.

- *Senior housing.* The decrease in senior housing operating expenses primarily relates to a decrease in facility-level operating expenses for two senior housing properties that were previously vacant and re-leased on a triple-net basis during 2009.
- *Life science.* Life science operating expenses increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.
- *Medical office.* Medical office operating expenses decreased primarily as a result of a decrease in occupancy levels due to lease expirations.

*General and administrative expenses*

General and administrative expenses increased \$2.2 million to \$20.9 million for the three months ended June 30, 2009. The increase in general and administrative expenses was primarily due to an increase in legal fees associated with litigation matters. The information set forth under the heading *Legal Proceedings* of Note 11 to the Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

*Impairments*

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During the three months ended June 30, 2009, we recognized impairments of \$5.9 million related to lease intangible assets on 12 of our senior housing facilities as a result of the anticipated termination of the Sunrise management agreements effective October 1, 2009. During the three months ended June 30, 2008, we recognized impairments of \$9.7 million as follows: (i) \$1.6 million related to two senior housing facilities as a result of a decrease in expected cash flows and (ii) \$8.1 million, included in discontinued operations, related to the decrease in expected cash flows and anticipated dispositions of two of our senior housing properties and one hospital.

### *Interest and other income, net*

For the three months ended June 30, 2009, interest and other income, net decreased \$2.0 million to \$28.7 million. This decrease was primarily related to: (i) a \$5.6 million decrease in interest earned on variable rate loans related to a decline in the London Interbank Offered Rate ( LIBOR ), (ii) a gain of \$1.4 million related to the sales of noncontrolling interests in two joint ventures in 2008 and (iii) a decrease in interest income earned from cash and cash equivalents. The decrease was partially offset by: (i) a hedging ineffectiveness charge of \$2.4 million upon the settlement of two forward-starting interest rate swap contracts in June 2008 and (ii) a \$3.5 million of other-than-temporary impairments on marketable equity securities in June 2008.

For a more detailed description of our mezzanine loan and marketable security investments, see Note 6 and Note 9, respectively, of the Condensed Consolidated Financial Statements and Item 3. *Quantitative and Qualitative Disclosures About Market Risk*.

Table of Contents*Interest expense*

Interest expense decreased \$10.1 million to \$75.3 million for the three months ended June 30, 2009. The decrease was primarily due to (i) \$10.8 million from a decrease in the average outstanding balance under our bridge and term loans and line of credit facility, and (ii) a \$2.4 million decrease resulting from the repayment of \$300 million senior unsecured floating rate notes in September 2008. This decrease in interest expense was partially offset by a \$4.1 million increase in interest expense from the net impact of mortgage debt placed on senior housing assets in 2008 and the repayment of mortgage debt related to contractual maturities.

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

	As of June 30,	
	2009	2008
<b>Balance:</b>		
Fixed rate	\$ 4,751,601	\$ 4,938,803
Variable rate	771,944	1,670,196
Total	\$ 5,523,545	\$ 6,608,999
<b>Percent of total debt:</b>		
Fixed rate	86%	75%
Variable rate	14	25
Total	100%	100%
<b>Weighted average interest rate at end of period:</b>		
Fixed rate	6.36%	6.25%
Variable rate	2.91%	3.56%
Total weighted average rate	5.87%	5.57%

*Income taxes*

For the three months ended June 30, 2009, income taxes decreased \$0.4 million to \$0.8 million. This decrease is primarily due to increased interest expense related to increased borrowings by various taxable REIT subsidiaries and lower interest earned due to a decline in LIBOR rates from a portion of one of our mezzanine loan investments held in a taxable REIT subsidiary.

*Discontinued operations*

The decrease of \$156.9 million in income from discontinued operations to \$31.8 million for the three months ended June 30, 2009 compared to \$188.7 million for the comparable period in the prior year is primarily due to a decrease in gains on real estate dispositions of \$160.0 million. During the three months ended June 30, 2009 and 2008, we sold two properties for \$46 million and 40 properties for \$483 million, respectively.

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### *Noncontrolling interests and participating securities share in earnings*

For the three months ended June 30, 2009, noncontrolling interests and participating securities share in earnings decreased \$2.8 million, to \$4.1 million. This decrease is primarily due to the conversions of 3.3 million of our noncontrolling interest DownREIT units into 4.2 million shares of our common stock from January 1, 2008 to June 30, 2009.

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## Table of Contents

### *Comparison of the Six Months Ended June 30, 2009 to the Six Months Ended June 30, 2008*

#### *Rental and related revenues.*

Segments	Six Months Ended June 30,		Change	
	2009	2008	\$	%
	(dollars in thousands)			
Senior housing	\$ 148,789	\$ 140,225	\$ 8,564	6%
Life science	105,534	89,529	16,005	18
Medical office	131,426	130,914	512	
Hospital	41,179	41,483	(304)	(1)
Skilled nursing	18,388	17,775	613	3
Total	\$ 445,316	\$ 419,926	\$ 25,390	6%

- *Senior housing.* Senior housing rental and related revenues for the six months ended June 30, 2009 includes \$6.4 million resulting from an adjustment to the purchase price allocation of certain assets acquired in 2006. No similar adjustments or additional rents were made in the six months ended June 30, 2008. As a result of the transfer of an 11-property senior housing portfolio to Emeritus Corporation on December 1, 2008, we recognized an increase of \$5.5 million primarily related to straight-line rents during the six months ended June 30, 2009. The increase was partially offset by additional rents from property level expense credits of \$2.8 million related to our properties operated by Sunrise received in the six months ended June 30, 2008. No similar additional rents were received during the six months ended June 30, 2009.

- *Life science.* Life science rental and related revenues increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.

#### *Tenant recoveries*

Segments	Six Months Ended June 30,		Change	
	2009	2008	\$	%
	(dollars in thousands)			
Life science	\$ 20,616	\$ 17,667	\$ 2,949	17%
Medical office	23,086	22,996	90	
Hospital	997	953	44	5
Total	\$ 44,699	\$ 41,616	\$ 3,083	7%

- *Life science.* Life science tenant recoveries increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.

#### *Income from direct financing leases*

Income from DFLs decreased \$3.0 million to \$26.1 million for the six months ended June 30, 2009. The decrease was primarily due to two DFLs that were placed on non-accrual status and accounted for on a cost-recovery basis beginning October 2008. We expect income from DFLs will remain lower in 2009 as compared to 2008 as a result of these two DFLs.

*Depreciation and amortization expense*

Depreciation and amortization expense increased \$4.7 million to \$160.1 million for the six months ended June 30, 2009. Approximately (i) \$2.8 million of the increase relates to development assets placed in service during 2008, (ii) \$2.3 million relates to the purchase in September 2008 of Tenet Healthcare Corporation's (Tenet) controlling interest in Health Care Property Partners (HCPP), a joint venture between HCP and an affiliate of Tenet, and (iii) \$2.0 million resulting from an adjustment to the purchase price allocation of certain assets acquired in 2006. The increase in depreciation and amortization expense was partially offset by \$2.0 million due to the impact of properties which were taken out of service and placed into redevelopment during 2008 and 2009.

Table of Contents*Operating expenses*

Segments	Six Months Ended June 30,		Change	
	2009	2008	\$	%
	(dollars in thousands)			
Senior housing	\$ 3,701	\$ 5,387	\$ (1,686)	(31)%
Life science	22,692	21,693	999	5
Medical office	65,006	65,796	(790)	(1)
Hospital	1,482	1,797	(315)	(18)
Total	\$ 92,881	\$ 94,673	\$ (1,792)	(2)%

Operating expenses are predominantly related to MOB and life science properties where we incur the expenses and recover all or a portion of those expenses from the tenants. The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses.

- *Senior housing.* The decrease in senior housing operating expenses primarily relates to a decrease in facility-level operating expenses for two senior housing properties that were previously vacant and re-leased on a triple-net basis during 2009.
- *Life science.* Life science tenant recoveries increased primarily as a result of an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.
- *Medical office.* Medical office operating expenses decreased primarily as a result of a decrease in occupancy levels due to lease expirations.

*General and administrative expenses*

General and administrative expenses increased \$0.7 million to \$39.9 million for the six months ended June 30, 2009. The increase in general and administrative expenses was primarily due to an increase in legal fees associated with litigation matters offset by decreased compensation related expenses. The information set forth under the heading *Legal Proceedings* of Note 11 to the Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

*Impairments*

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During the six months ended June 30, 2009, we recognized impairments of \$5.9 million related to lease intangible assets on 12 of our senior housing facilities as a result of the anticipated termination of the Sunrise management agreements effective October 1, 2009. During the six months ended June 30, 2008, we recognized impairments of \$9.7 million as follows: (i) \$1.6 million related to two senior housing facilities as a result of a decrease in expected cash flows and (ii) \$8.1 million, included in discontinued operations, related to the decrease in expected cash flows and anticipated dispositions of two of our senior housing properties and one hospital.

### *Interest and other income, net*

For the six months ended June 30, 2009, interest and other income, net decreased \$13.0 million, to \$53.1 million. This decrease was primarily related to: (i) a \$13.5 million decrease in interest earned on variable rate loans related to a decline in the London Interbank Offered Rate ( LIBOR ), (ii) \$1.4 million related to the sales of noncontrolling interests in two joint ventures in 2008 and (iii) a decrease in interest income earned from cash and cash equivalents. The decrease was partially offset by: (i) a hedging ineffectiveness charge of \$2.4 million upon the settlement of two forward-starting interest rate swap contracts that was settled in June 2008 and (ii) a \$3.5 million of other-than-temporary impairment on marketable equity securities.

For a more detailed description of our mezzanine loan and marketable security investments, see Note 6 and Note 9, respectively, of the Condensed Consolidated Financial Statements and Item 3. *Quantitative and Qualitative Disclosures About Market Risk*.

Table of Contents

*Interest expense*

Interest expense decreased \$29.7 million to \$152.0 million for the six months ended June 30, 2009. The decrease was primarily due to (i) \$33.6 million from a decrease in the average outstanding balance under our bridge and term loans and line of credit facility, and (ii) \$6.6 million decrease resulting from the repayment of \$300 million senior unsecured floating rate notes in September 2008. This decrease in interest expense was partially offset by a \$10 million increase in interest expense from the net impact of mortgage debt placed on senior housing assets in 2008 and the repayment of mortgage debt related to contractual maturities.

*Income taxes*

For the six months ended June 30, 2009, income taxes decreased \$1.8 million to \$1.8 million. This decrease is primarily due to increased interest expense related to increased borrowings by various taxable REIT subsidiaries and lower interest earned due to a decline in LIBOR rates from a portion of one of our mezzanine loan investments held in a taxable REIT subsidiary.

*Equity income from unconsolidated joint ventures*

For the six months ended June 30, 2009, equity income from unconsolidated joint ventures decreased \$1.8 million to \$0.7 million. This decrease is primarily due to a change in the expected useful life of certain intangible assets of one of our unconsolidated joint ventures that resulted in lower equity income due to higher amounts of amortization expense.

*Discontinued operations*

The decrease of \$174.4 million in income from discontinued operations to \$33.8 million for the six months ended June 30, 2009 compared to \$208.2 million for the comparable period in the prior year is primarily due to a decrease in gains on real estate dispositions of \$168.7 million, and a decline in operating income from discontinued operations of \$13.8 million. During the six months ended June 30, 2009 and 2008, we sold nine properties for \$52 million and 44 properties for \$513 million, respectively. Discontinued operations for the six months ended June 30, 2009 included nine properties compared to 60 properties for the six months ended June 30, 2008.

*Noncontrolling interests and participating securities*

For the six months ended June 30, 2009, noncontrolling interests and participating securities share in earnings decreased \$4.7 million, to \$8.3 million. This decrease is primarily due to the conversions of 3.3 million of our noncontrolling interest DownREIT units into 4.2 million shares of our common stock from January 1, 2008 to June 30, 2009.

## Liquidity and Capital Resources

Our principal liquidity needs are to (i) fund normal operating expenses, (ii) meet debt service requirements, including \$107.3 million of our mortgage debt maturing in the remainder of 2009, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make minimum distributions required to maintain our REIT qualification under the Code. We believe these needs will be satisfied using cash flows generated by operations, provided by financing activities and from sales of assets during the next twelve months.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as to fund future acquisitions and development through the issuance of additional securities or secured debt. As of July 30, 2009, we had a credit rating of Baa3 (stable) from Moody's, BBB (stable) from S&P and BBB (positive) from Fitch on our senior unsecured debt securities, and Ba1 (stable) from Moody's, BBB- (stable) from S&P and BBB- (positive) from Fitch on our preferred equity securities. During 2008, there was a decline in the availability of financing from the capital markets and widening credit spreads. Our ability to continue to access capital could be impacted by various factors including general market conditions and the continuing slowdown in the economy, interest rates, credit ratings on our securities, and any changes to these ratings, the market price of our capital stock, the performance of our portfolio, tenants, borrowers and operators, including any restructurings, disruptions or bankruptcies of our tenants, borrowers and operators, the perception of our potential future earnings and cash distributions, any unwillingness on the part of lenders to make loans to us and any deterioration in the financial position of lenders that might make them unable to meet their obligations to us.

Table of Contents

Net cash provided by operating activities was \$250 million and \$273 million for the six months ended June 30, 2009 and 2008, respectively. Cash flows from operations reflect fluctuations in receivables, payables, accruals and deferred revenue, partially offset by increased revenues. Our cash flows from operations are dependent upon the occupancy level of multi-tenant buildings, rental rates on leases, our tenants performance on their lease obligations, the level of operating expenses and other factors.

Net cash provided by investing activities was \$11 million during the six months ended June 30, 2009 and principally reflects the net effect of: (i) \$39 million used to fund development of real estate, and (ii) \$52 million received from the sales of facilities. During the six months ended June 30, 2009 and 2008, we used \$19 million and \$32 million, respectively, to fund lease commissions and tenant and capital improvements.

Net cash used in financing activities was \$269 million for the six months ended June 30, 2009 and principally reflects the net effects of: (i) repayment of our bridge loan credit facility of \$320 million, (ii) net repayments under our bank line of credit of \$50 million, (iii) payments of common and preferred dividends aggregating \$245 million and (iv) repayment of our mortgage debt and senior unsecured notes aggregating \$59 million. The amount of cash used in financing activities was partially offset by net proceeds of \$424 million from the issuances of common stock. In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income to our stockholders. Accordingly, we intend to continue to make regular quarterly distributions to holders of our common and preferred stock.

At June 30, 2009, we held approximately \$27.6 million in deposits and \$32.8 million in irrevocable letters of credit from commercial banks securing tenants lease obligations and borrowers loan obligations. We may draw upon the letters of credit or depository accounts if there are defaults under the related leases or loans. Amounts available under letters of credit could change based upon facility operating conditions and other factors; and such changes may be material.

*Debt*

*Bank Line of Credit and Bridge and Term Loans*

Our 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 our debt ratings. We pay a facility fee on the entire revolving commitment ranging from 0.10% to 0.25%, depending upon our debt ratings. Based on our debt ratings on June 30, 2009, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At June 30, 2009, we had \$100 million outstanding under this revolving line of credit facility with a weighted-average effective interest rate of 1.31%.

At June 30, 2009, the outstanding balance of our 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 our debt ratings (weighted-average effective interest rate of 2.78% at June 30, 2009). Based on our debt ratings at June 30, 2009, the margin on the term loan was 2.00%.

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Our revolving line of credit facility and term loan contain certain financial restrictions and other customary requirements. 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 \$4.5 billion at June 30, 2009. At June 30, 2009, we were in compliance with each of these restrictions and requirements of our revolving line of credit facility and term loan.

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

On May 8, 2009, we repaid the remaining \$320 million outstanding balance under our bridge loan credit facility with proceeds received from the issuance of shares of common stock.

Table of Contents

*Senior Unsecured Notes*

At June 30, 2009, we had \$3.5 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 1.53% to 7.07% with a weighted average effective interest rate of 6.13% at June 30, 2009. 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 June 30, 2009, we were in compliance with these covenants.

*Mortgage Debt*

At June 30, 2009, we had \$1.6 billion in mortgage debt secured by 186 healthcare facilities with a carrying amount of \$2.8 billion. Interest rates on the mortgage notes ranged from 0.36% to 8.63% with a weighted average effective interest rate of 5.97% at June 30, 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.

*Other Debt*

At June 30, 2009, we had \$99 million of non-interest bearing life care bonds at two of our CCRCs and non-interest bearing occupancy fee deposits at another of our senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds ). At June 30, 2009, \$45 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.

*Derivative Instruments*

On June 12, 2009, we entered into an interest rate swap contract (pay float and receive fixed) with a notional amount of \$250 million that terminates on September 15, 2011. This interest rate swap contract reduces our net floating rate asset exposure, which had increased as a result of the repayment of our floating rate bridge loan credit facility. The estimated fair value of the contract at June 30, 2009 was \$0.8 million and is included in other assets, net.

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We have three interest rate swap contracts outstanding at June 30, 2009, which hedge fluctuations in interest payments on variable rate secured debt. At June 30, 2009, these interest rate swap contracts had an aggregate notional amount of \$45.6 million and an estimated fair value of \$2.3 million included in accounts payable and accrued liabilities.

For a more detailed description of our derivative financial instruments, see Note 14 of the Condensed Consolidated Financial Statements and Item 3. *Quantitative and Qualitative Disclosures About Market Risk*.

### *Debt Maturities*

The following table summarizes our stated debt maturities and scheduled principal repayments, excluding debt premiums and discounts, at June 30, 2009 (in thousands):

Year	Amount
2009 (Six months)	\$ 206,260
2010	504,924
2011	729,838
2012	310,922
2013	783,293
Thereafter	2,988,308
	\$ 5,523,545

Table of Contents

We have a prospectus on file with the SEC as part of a registration statement on Form S-3, using a shelf registration process which expires in September 2009. Under this shelf process, we may sell from time to time any combination of the securities in one or more offerings. The securities described in the prospectus include common stock, preferred stock and debt securities. Each time we sell securities under the shelf registration, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered and of the offering. We may offer and sell the securities pursuant to this prospectus from time to time in one or more of the following ways: through underwriters or dealers, through agents, directly to purchasers or through a combination of any of these methods of sales. Proceeds from the sale of these securities may be used for general corporate purposes, which may include repayment of indebtedness, working capital and potential acquisitions.

*Equity*

During the six months ended June 30, 2009, we issued approximately 73,000 shares of our common stock under our Dividend Reinvestment and Stock Purchase Plan, at an average price per share of \$20.21, for aggregate proceeds of \$1.5 million. At June 30, 2009, equity totaled \$5.8 billion and our equity securities had a market value of \$6.2 billion.

On May 8, 2009, we completed a \$440 million public offering of 20.7 million shares of our common stock at a price per share of \$21.25. We received net proceeds of \$422 million, which were used to repay all amounts of indebtedness outstanding under our bridge loan credit facility with the remainder used for general corporate purposes.

At June 30, 2009, there were a total of 4.3 million DownREIT units outstanding in six limited liability companies in which we are 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 DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). For the six months ended June 30, 2009, we issued 525,000 shares of our common stock upon the conversion of 525,000 DownREIT units.

**Off-Balance Sheet Arrangements**

We own interests in certain unconsolidated joint ventures, including HCP Ventures II, HCP Ventures III, LLC and HCP Ventures IV LLC, as described under Note 7 to the Condensed Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 11 to the Condensed Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described below under Contractual Obligations.

**Contractual Obligations**

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The following table summarizes our material contractual payment obligations and commitments at June 30, 2009 (in thousands):

	<b>Total</b>	<b>Less than One Year</b>	<b>2010-2011</b>	<b>2012-2013</b>	<b>More than Five Years</b>
Senior unsecured notes and mortgage debt	\$ 5,124,561	\$ 107,276	\$ 934,762	\$ 1,094,215	\$ 2,988,308
Revolving line of credit	100,000		100,000		
Term loans	200,000		200,000		
Other debt(1)	98,984	98,984			
Ground and other operating leases	179,735	1,776	6,745	6,937	164,277
Development commitments(2)	18,290	14,278	4,012		
Interest	1,672,828	153,617	558,618	458,620	501,973
Total	\$ 7,394,398	\$ 375,931	\$ 1,804,137	\$ 1,559,772	\$ 3,654,558

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

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

Table of Contents

**Inflation**

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

**Recent Accounting Pronouncements**

See Note 2 to the Condensed Consolidated Financial Statements for the impact of recent accounting pronouncements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Interest Rate Risk.* At June 30, 2009, we were exposed to market risks related to fluctuations in interest rates on approximately \$1.0 billion of variable rate mezzanine loans receivable and a \$83 million investment in leased assets where the rental payments fluctuate with changes in LIBOR. Our exposure to income fluctuations related to our variable rate investments is partially offset by (i) \$100 million of variable rate line of credit borrowings, (ii) \$200 million of variable rate term financing, (iii) \$197.1 million of variable rate mortgage notes payable, excluding \$45.6 million variable rate mortgage notes which have been hedged through interest rate swap contracts, and (iv) \$275 million of variable rate senior unsecured notes, including \$250 million of fixed rate notes, which have been hedged through an interest rate swap contract (pay float and receive fixed). Of our consolidated debt of \$5.5 billion at June 30, 2009, \$772.1 million or 14% is effectively at variable interest rates.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt, loans receivable and debt securities unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no change in the outstanding balance as of June 30, 2009, net interest income would improve by approximately \$3.1 million, or \$0.01 per common share on a diluted basis. Assuming a 50 basis point decrease in interest rates under the above circumstances and taking into consideration that the index underlying many of our arrangements is currently below 50 basis points and is not expected to go below zero, net interest income would decline by \$1.6 million.

We use derivative financial instruments in the normal course of business to manage or hedge interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are recorded on the balance sheet at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. See Note 14 to the Condensed Consolidated Financial Statements for further information in this regard.

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On June 12, 2009, we entered into an interest rate swap contract (pay float and receive fixed) with a notional amount of \$250 million that terminates in September 2011. This interest rate swap contract reduces our net floating rate asset exposure, which had increased as a result of the repayment of our floating rate bridge loan credit facility. The estimated fair value of the contract at June 30, 2009 was \$0.8 million and is included in other assets, net.

At June 30, 2009, we had three interest rate swap contracts outstanding which are designated in qualifying cash flow hedging relationships. At June 30, 2009, these interest rate swap contracts had an aggregate notional amount of \$45.6 million and an estimated fair value of \$2.3 million included in accounts payable and accrued liabilities. The derivative contracts mature in July 2020.

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## Table of Contents

To illustrate the effect of movements in the interest rate markets, we performed a market sensitivity analysis on the noted hedging instruments. We applied various basis point spreads, to the underlying interest rates of the derivative portfolio in order to determine the instruments' change in fair value. The following table summarizes the analysis performed (dollars in thousands):

Date Entered	Maturity Date	Effects of Change in Interest Rates			
		+50 Basis Points	-50 Basis Points	+100 Basis Points	-100 Basis Points
July 13, 2005	July 15, 2020	\$ 1,918	\$ (2,374)	\$ 4,064	\$ (4,520)
	September 15,				
June 12, 2009	2011	(2,790)	2,843	(5,606)	5,659

**Market Risk.** We are directly and indirectly affected by changes in the equity and bond markets. We have investments in marketable debt and equity securities classified as available-for-sale. Gains and losses on these securities are recognized in income when realized and losses are recognized when an other-than-temporary decline in value is identified. The initial indicator of an other-than-temporary decline in value for marketable equity securities is a sustained decline in market price below the carrying value for that investment. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our cost; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the stock or bond price, if any. At June 30, 2009, the fair value and cost, or the new basis for those securities where a realized loss was recorded, of marketable equity securities was \$4.0 million and \$3.7 million, respectively, and the fair value and cost of marketable debt securities was \$300 million and \$306 million, respectively.

## **Item 4. Controls and Procedures**

**Disclosure Controls and Procedures.** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

As required by Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2009. Based upon that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

*Changes in Internal Control Over Financial Reporting.* There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information set forth under the heading "Legal Proceedings" of Note 11 to the Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

On June 29, 2009, the Company, together with three of its tenants (collectively, the "Tenants"), filed complaints in the Delaware Court of Chancery against Sunrise Senior Living, Inc. and three of its subsidiaries (collectively "Sunrise"). A complaint was also filed on behalf of the Company and one of its Tenants on July 24, 2009 in the United States District Court for the Eastern District of Virginia. The complaints are based on Sunrise's defaults under management and related agreements governing Sunrise's operation of 64 Company-owned facilities, 62 of which are leased to the Tenants and two of which are leased directly to Sunrise. The complaints generally allege that Sunrise systematically breached various contractual and fiduciary duties by, among other things, (i) failing to maintain licenses necessary to the facilities' operation; (ii) demonstrating a conscious disregard for the facilities' budgets and other controls over expenditures related to the facilities; (iii) failing to provide various marketing and financial reports necessary for the Company's and the Tenants' monitoring of Sunrise's performance; (iv) retaining funds for Sunrise's own benefit, and/or the benefit of its affiliates, that were properly due to the Tenants; (v) charging the facilities for inappropriate overhead and similar corporate-level pass-through expenses that should have been borne by Sunrise and/or its affiliates; and (vi) obstructing the Company's and the Tenants' contractually-prescribed audits of Sunrise's operation of the facilities. The Company also alleges that Sunrise's policies constitute a breach of fiduciary duties to the Company and the Tenants. The Company and Tenants are generally seeking judicial confirmation of Sunrise's material defaults of the management agreements and the Company's and Tenants' rights to terminate the agreements for the 64 communities, and associated injunctive relief requiring Sunrise to vacate the facilities after cooperating in the transition of the facilities to another operator. In addition, the Company and Tenants are seeking monetary damages related to the defaults. With regard to two Company-owned facilities in the State of New York, the Company and the relevant Tenant also seek judicial confirmation of the impossibility of the parties' performance under the applicable management agreements due to the passage and implementation of new state legislation and related regulations.

A trial date has not been set by either court. The Company expects that enforcing its rights will require it to expend significant funds. There can be no assurance that HCP or its Tenants will prevail in its claims against Sunrise.

**Item 1A. Risk Factors**

There are no material changes to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a)

None.

**(b)**

None.

Table of Contents

(c)

The table below sets forth information with respect to purchases of our common stock made by us or on our behalf or by any affiliated purchaser, as such term is defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, during the quarter ended June 30, 2009.

Period Covered	Total Number Of Shares Purchased(1)	Average Price Paid Per Share	Total Number Of Shares (Or Units) Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares (Or Units) That May Yet Be Purchased Under The Plans Or Programs
April 1-30, 2009	1,225	\$ 21.52		
May 1-31, 2009	358	22.39		
June 1-30, 2009	152	20.49		
Total	1,735	21.61		

- (1) Represents restricted shares withheld under our Amended and Restated 2000 Stock Incentive Plan, as amended, and our 2006 Performance Incentive Plan (collectively, the Incentive Plans), to offset tax withholding obligations that occur upon vesting of restricted shares. Our Incentive Plans provide that the value of the shares withheld shall be the closing price of our common stock on the date the relevant transaction occurs.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held its Annual Meeting of Stockholders on April 23, 2009. At the Annual Meeting, there were present in person or by proxy 222,414,791 shares of our common stock, representing approximately 87.58% of the total outstanding eligible votes. The proposals considered at the Annual Meeting were voted on as follows:

1. The following directors were elected to one year terms of office expiring at the 2010 Annual Meeting of Stockholders and until their successors are duly elected and qualified and received the number of votes set forth opposite their names. There were no broker non-votes.

Directors	Affirmative Votes	Against or Withheld
Robert R. Fanning, Jr.	217,902,480	4,512,311
James F. Flaherty III	218,426,450	3,988,341
Christine N. Garvey	218,865,740	3,549,051
David B. Henry	218,922,810	3,491,981
Lauralee E. Martin	218,006,097	4,408,694
Michael D. McKee	217,847,053	4,567,738
Harold M. Messmer, Jr.	217,833,397	4,581,394
Peter L. Rhein	217,827,881	4,586,910
Kenneth B. Roath	218,920,152	3,494,639

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Richard M. Rosenberg	219,355,647	3,059,144
Joseph P. Sullivan	219,554,719	2,860,072

2. Amendments to HCP's 2006 Performance Incentive Plan were approved by the Company's stockholders. The amendments received 145,141,109 votes in favor and 41,319,278 votes against. There were 34,970,258 broker non-votes and 984,148 abstentions.

3. A proposal to ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009 was approved by the Company's stockholders. The proposal received 18,523,840 votes in favor and 3,449,152 votes against. There were 411,799 abstentions and no broker non-votes.

Table of Contents

**Item 6. Exhibits**

- 2.1 Share Purchase Agreement, dated as of June 3, 2007, by and between HCP and SEGRO plc (incorporated herein by reference to Exhibit 2.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed June 6, 2007).
- 3.1 Articles of Restatement of HCP (incorporated by reference herein to Exhibit 3.1 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
- 3.2 Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed September 25, 2006).
- 3.2.1 Amendment No. 1 to Fourth Amended and Restated Bylaws of HCP (incorporated by reference herein to Exhibit 3.2.1 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
- 4.1 Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.2 to HCP's Registration Statement on Form S-3/A (Registration No. 333-86654), filed May 21, 2002).
- 4.2 Form of Fixed Rate Note (incorporated herein by reference to Exhibit 4.2 to HCP's Registration Statement on Form S-3 (Registration No. 33-27671), filed March 20, 1989).
- 4.3 Form of Floating Rate Note (incorporated herein by reference to Exhibit 4.3 to HCP's Registration Statement on Form S-3 (Registration No. 33-27671), filed March 20, 1989).
- 4.4 Registration Rights Agreement, dated as of January 20, 1999, by and between HCP and Boyer Castle Dale Medical Clinic, L.L.C. (incorporated herein by reference to Exhibit 4.9 to HCP's Annual Report on Form 10-K (File No. 1-08895) for the year ended December 31, 1998). This Exhibit is identical in all material respects to 13 other documents except the parties thereto. The parties to these other documents, other than HCP, were Boyer Centerville Clinic Company, L.C., Boyer Elko, L.C., Boyer Desert Springs, L.C., Boyer Grantsville Medical, L.C., Boyer-Ogden Medical Associates, LTD., Boyer Ogden Medical Associates No. 2, LTD., Boyer Salt Lake Industrial Clinic Associates, LTD., Boyer-St. Mark's Medical Associates, LTD., Boyer McKay-Dee Associates, LTD., Boyer St. Mark's Medical Associates #2, LTD., Boyer Iomega, L.C., Boyer Springville, L.C., and Boyer Primary Care Clinic Associates, LTD. #2.
- 4.5 Indenture, dated as of January 15, 1997, by and between American Health Properties, Inc. (a company that merged with and into HCP) and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.1 to American Health Properties, Inc.'s Current Report on Form 8-K (File No. 1-08895), filed January 21, 1997).
- 4.6 First Supplemental Indenture, dated as of November 4, 1999, by and between HCP and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.4 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended September 30, 1999).
- 4.7 Registration Rights Agreement, dated as of August 17, 2001, by and among HCP, Boyer Old Mill II, L.C., Boyer- Research Park Associates, LTD., Boyer Research Park Associates VII, L.C., Chimney Ridge, L.C., Boyer-Foothill Associates, LTD., Boyer Research Park Associates VI, L.C., Boyer Stansbury II, L.C., Boyer Rancho Vistoso, L.C., Boyer-Alta View Associates, LTD., Boyer Kaysville Associates, L.C., Boyer Tatum Highlands Dental Clinic, L.C., Amarillo Bell Associates, Boyer Evanston, L.C., Boyer Denver Medical, L.C., Boyer Northwest Medical Center Two, L.C., and Boyer Caldwell Medical, L.C. (incorporated herein by reference to Exhibit 4.12 to HCP's Annual Report on Form 10-K405 (File No. 1-08895) for the year ended December 31, 2001).
- 4.8 Officers' Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.5% Senior Notes due February 15, 2006 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed February 21, 1996).
- 4.9 Officers' Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 67/8% Mandatory Par Put Remarketed Securities due June 8, 2015 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed July 21, 1998).



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### Table of Contents

- 4.10 Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.45% Senior Notes due June 25, 2012 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed June 25, 2002).
- 4.11 Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.00% Senior Notes due March 1, 2015 (incorporated herein by reference to Exhibit 3.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed February 28, 2003).
- 4.12 Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 55/8% Senior Notes due May 1, 2017 (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 1-08895), filed April 27, 2005).
- 4.13 Registration Rights Agreement, dated as of October 1, 2003, by and among HCP, Charles Crews, Charles A. Elcan, Thomas W. Hulme, Thomas M. Klaritch, R. Wayne Price, Glenn T. Preston, Janet Reynolds, Angela M. Playle, James A. Croy, John Klaritch as Trustee of the 2002 Trust F/B/O Erica Ann Klaritch, John Klaritch as Trustee of the 2002 Trust F/B/O Adam Joseph Klaritch, John Klaritch as Trustee of the 2002 Trust F/B/O Thomas Michael Klaritch, Jr. and John Klaritch as Trustee of the 2002 Trust F/B/O Nicholas James Klaritch (incorporated herein by reference to Exhibit 4.16 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended September 30, 2003).
- 4.14 Amended and Restated Dividend Reinvestment and Stock Purchase Plan, amended as of October 30, 2008 (incorporated herein by reference to HCP's Registration Statement on Form S-3 (Registration No. 333-137225), dated September 8, 2006).
- 4.15 Specimen of Stock Certificate representing the 7.25% Series E Cumulative Redeemable Preferred Stock, par value \$1.00 per share (incorporated herein by reference to Exhibit 4.1 of HCP's Registration Statement on Form 8-A12B (File No. 1-08895), filed on September 12, 2003).
- 4.16 Specimen of Stock Certificate representing the 7.1% Series F Cumulative Redeemable Preferred Stock, par value \$1.00 per share (incorporated herein by reference to Exhibit 4.1 of HCP's Registration Statement on Form 8-A12B (File No. 1-08895), filed on December 2, 2003).
- 4.17 Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 1-08895), filed November 20, 2003).
- 4.18 Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP's Current Report on Form 8-K (File No. 1-08895), filed November 20, 2003).
- 4.19 Registration Rights Agreement, dated as of July 22, 2005, by and among HCP, William P. Gallaher, Trustee for the William P. & Cynthia J. Gallaher Trust, Dwayne J. Clark, Patrick R. Gallaher, Trustee for the Patrick R. & Cynthia M. Gallaher Trust, Jeffrey D. Civian, Trustee for the Jeffrey D. Civian Trust dated August 8, 1986, Jeffrey Meyer, Steven L. Gallaher, Richard Coombs, Larry L. Wasem, Joseph H. Ward, Jr., Trustee for the Joseph H. Ward, Jr. and Pamela K. Ward Trust, Borue H. O'Brien, William R. Mabry, Charles N. Elsbree, Trustee for the Charles N. Elsbree Jr. Living Trust dated February 14, 2002, Gary A. Robinson, Thomas H. Persons, Trustee for the Persons Family Revocable Trust under trust dated February 15, 2005, Glen Hammel, Marilyn E. Montero, Joseph G. Lin, Trustee for the Lin Revocable Living Trust, Ned B. Stein, John Gladstein, Trustee for the John & Andrea Gladstein Family Trust dated February 11, 2003, John Gladstein, Trustee for the John & Andrea Gladstein Family Trust dated February 11, 2003, Francis Connelly, Trustee for the The Francis J & Shannon A Connelly Trust, Al Coppin, Trustee for the Al Coppin Trust, Stephen B. McCullagh, Trustee for the Stephen B. & Pamela McCullagh Trust dated October 22, 2001, and Larry L. Wasem SEP IRA (incorporated herein by reference to Exhibit 4.24 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2005).
- 4.20 Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as trustee, setting forth the terms of HCP's Fixed Rate Medium-Term Notes and Floating Rate Medium-Term Notes (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).

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### Table of Contents

- 4.21 Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).
- 4.22 Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP's Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).
- 4.23 Form of 5.95% Notes Due 2011 (incorporated herein by reference to Exhibit 4.2 to HCP's Current Report on Form 8-K (File No. 1-08895), filed September 19, 2006).
- 4.24 Form of 6.30% Notes Due 2016 (incorporated herein by reference to Exhibit 4.3 to HCP's Current Report on Form 8-K (File No. 1-08895), filed September 19, 2006).
- 4.25 Form of 5.65% Senior Notes Due 2013 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed December 4, 2006).
- 4.26 Form of 6.00% Senior Notes Due 2017 (incorporated herein by reference to Exhibit 4.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed January 22, 2007).
- 4.27 Officers' Certificate (including Form of 6.70% Senior Notes Due 2018 as Annex A thereto), dated October 15, 2007, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Trust Company, N.A., as successor trustee to The Bank of New York, establishing a series of securities entitled 6.70% Senior Notes due 2018 (incorporated by reference herein to Exhibit 4.29 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
- 4.28 Acknowledgment and Consent, dated as of May 11, 2007, by and among Zions First National Bank, KC Gardner Company, L.C., HCPI/Utah, LLC, Gardner Property Holdings, L.C. and HCP (incorporated herein by reference to Exhibit 4.29 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2007).
- 4.29 Acknowledgment and Consent, dated as of May 11, 2007, by and among Zions First National Bank, KC Gardner Company, L.C., HCPI/Utah II, LLC, Gardner Property Holdings, L.C. and HCP (incorporated herein by reference to Exhibit 4.30 to HCP's Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2007).
- 10.1 Form of director 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with four-year installment vesting.\*
- 10.2 Resignation and Consulting Agreement, dated as of June 1, 2009, by and between HCP and George P. Doyle.\*
- 10.3 Letter Agreement, dated as of June 2, 2009, by and between HCP and Scott A. Anderson.\*
- 31.1 Certification by James F. Flaherty III, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
- 31.2 Certification by Thomas M. Herzog, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
- 32.1 Certification by James F. Flaherty III, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
- 32.2 Certification by Thomas M. Herzog, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.

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\* Management Contract or Compensatory Plan or Arrangement.  
Filed herewith.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 4, 2009

HCP, Inc.

(Registrant)

/s/ JAMES F. FLAHERTY III  
James F. Flaherty III  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ THOMAS M. HERZOG  
Thomas M. Herzog  
*Executive Vice President-*  
*Chief Financial Officer and Treasurer*  
*(Principal Financial Officer)*

/s/ SCOTT A. ANDERSON  
Scott A. Anderson  
*Senior Vice President-*  
*Chief Accounting Officer*  
*(Principal Accounting Officer)*

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