

HCP, INC.  
Form 10-Q  
August 02, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended June 30, 2011.**

**OR**

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

**For the transition period from            to**

**Commission file number 1-08895**

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## HCP, INC.

(Exact name of registrant as specified in its charter)

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

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

**3760 Kilroy Airport Way, Suite 300**  
**Long Beach, 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   
Non-accelerated Filer   
(Do not check if a smaller reporting company)

Accelerated Filer   
Smaller Reporting Company

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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 27, 2011, there were 407,179,224 shares of the registrant's \$1.00 par value common stock outstanding.**

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|  | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| Real estate:   |                          |                              |
| Buildings and improvements   | \$ 8,986,880             | \$ 8,209,806                 |
| Development costs and construction in progress   | 156,198                  | 144,116                      |
| Land   | 1,731,589                | 1,573,984                    |
| Accumulated depreciation and amortization  | (1,392,002)              | (1,251,142)                  |
| Net real estate  | 9,482,665                | 8,676,764                    |
| Net investment in direct financing leases  | 6,649,852                | 609,661                      |
| Loans receivable, net  | 110,980                  | 2,002,866                    |
| Investments in and advances to unconsolidated joint ventures   | 224,625                  | 195,847                      |
| Accounts receivable, net of allowance of \$1,190 and \$5,150, respectively   | 24,273                   | 34,504                       |
| Cash and cash equivalents  | 276,205                  | 1,036,701                    |
| Restricted cash  | 44,170                   | 36,319                       |
| Intangible assets, net   | 400,438                  | 316,375                      |
| Other assets, net  | 479,850                  | 422,886                      |
| Total assets   | \$ 17,693,058            | \$ 13,331,923                |
| <b>LIABILITIES AND EQUITY</b>  |                          |                              |
| Bank line of credit  | \$                       | \$                           |
| Senior unsecured notes   | 5,706,998                | 3,318,379                    |
| Mortgage debt  | 1,780,665                | 1,235,779                    |
| Other debt   | 89,466                   | 92,187                       |
| Intangible liabilities, net  | 137,848                  | 148,072                      |
| Accounts payable and accrued liabilities   | 589,818                  | 313,806                      |
| Deferred revenue   | 66,995                   | 77,653                       |
| Total liabilities  | 8,371,790                | 5,185,876                    |
| Commitments and contingencies  |                          |                              |
| Preferred stock, \$1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of \$25.00 per share | 285,173                  | 285,173                      |
| Common stock, \$1.00 par value: 750,000,000 shares authorized; 407,120,455 and 370,924,887 shares issued and outstanding, respectively                 | 407,120                  | 370,925                      |
| Additional paid-in capital   | 9,328,607                | 8,089,982                    |
| Cumulative dividends in excess of earnings   | (861,539)                | (775,476)                    |
| Accumulated other comprehensive loss   | (13,833)                 | (13,237)                     |
| Total stockholders' equity   | 9,145,528                | 7,957,367                    |
| Joint venture partners   | 4,715                    | 14,935                       |
| Non-managing member unitholders  | 171,025                  | 173,745                      |
| Total noncontrolling interests   | 175,740                  | 188,680                      |
| Total equity   | 9,321,268                | 8,146,047                    |

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|                              |    |            |    |            |
|------------------------------|----|------------|----|------------|
| Total liabilities and equity | \$ | 17,693,058 | \$ | 13,331,923 |
|------------------------------|----|------------|----|------------|

See accompanying Notes to Condensed Consolidated Financial Statements.

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## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

|  | Three Months Ended June 30, |                  | Six Months Ended June 30, |                   |
|--|-----------------------------|------------------|---------------------------|-------------------|
|  | 2011                        | 2010             | 2011                      | 2010              |
| <b>Revenues:</b>   |                             |                  |                           |                   |
| Rental and related revenues  | \$ 261,573                  | \$ 230,368       | \$ 517,736                | \$ 454,638        |
| Tenant recoveries  | 22,441                      | 22,068           | 45,885                    | 43,829            |
| Income from direct financing leases  | 143,662                     | 11,995           | 157,057                   | 24,210            |
| Interest income  | 60,526                      | 36,156           | 98,622                    | 71,422            |
| Investment management fee income   | 504                         | 1,290            | 1,111                     | 2,598             |
| Total revenues   | 488,706                     | 301,877          | 820,411                   | 596,697           |
| <b>Costs and expenses:</b>   |                             |                  |                           |                   |
| Depreciation and amortization  | 90,052                      | 77,700           | 181,472                   | 155,634           |
| Interest expense   | 105,129                     | 72,745           | 213,705                   | 148,697           |
| Operating  | 46,621                      | 45,416           | 93,467                    | 91,503            |
| General and administrative   | 34,872                      | 20,525           | 56,824                    | 45,449            |
| Impairment recoveries  |                             |                  |                           | (11,900)          |
| Total costs and expenses   | 276,674                     | 216,386          | 545,468                   | 429,383           |
| Other income, net  | 7,518                       | 181              | 17,830                    | 494               |
| <b>Income before income taxes and equity income from unconsolidated joint ventures</b> |                             |                  |                           |                   |
| Income taxes   | (248)                       | (571)            | (285)                     | (943)             |
| Equity income from unconsolidated joint ventures                                       | 14,950                      | 2,486            | 15,748                    | 3,869             |
| <b>Income from continuing operations</b>   | <b>234,252</b>              | <b>87,587</b>    | <b>308,236</b>            | <b>170,734</b>    |
| <b>Discontinued operations:</b>  |                             |                  |                           |                   |
| Income before gain on sales of real estate, net of income taxes                        |                             | 943              |                           | 1,897             |
| Gain on sales of real estate, net of income taxes                                      |                             | 65               |                           | 65                |
| Total discontinued operations  |                             | 1,008            |                           | 1,962             |
| <b>Net income</b>  | <b>234,252</b>              | <b>88,595</b>    | <b>308,236</b>            | <b>172,696</b>    |
| Noncontrolling interests share in earnings   | (5,493)                     | (3,494)          | (9,384)                   | (6,559)           |
| <b>Net income attributable to HCP, Inc.</b>  | <b>228,759</b>              | <b>85,101</b>    | <b>298,852</b>            | <b>166,137</b>    |
| Preferred stock dividends  | (5,283)                     | (5,283)          | (10,566)                  | (10,566)          |
| Participating securities share in earnings   | (483)                       | (353)            | (1,347)                   | (1,270)           |
| <b>Net income applicable to common shares</b>  | <b>\$ 222,993</b>           | <b>\$ 79,465</b> | <b>\$ 286,939</b>         | <b>\$ 154,301</b> |
| <b>Basic earnings per common share:</b>  |                             |                  |                           |                   |
| Continuing operations  | \$ 0.55                     | \$ 0.27          | \$ 0.74                   | \$ 0.52           |
| Discontinued operations  |                             |                  |                           |                   |
| Net income applicable to common shares   | \$ 0.55                     | \$ 0.27          | \$ 0.74                   | \$ 0.52           |
| <b>Diluted earnings per common share:</b>  |                             |                  |                           |                   |

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|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Continuing operations   | \$ | 0.55    | \$ | 0.27    | \$ | 0.73    | \$ | 0.52    |
| Discontinued operations   |    |         |    |         |    |         |    |         |
| Net income applicable to common shares                                      | \$ | 0.55    | \$ | 0.27    | \$ | 0.73    | \$ | 0.52    |
| <b>Weighted-average shares used to calculate earnings per common share:</b> |    |         |    |         |    |         |    |         |
| Basic   |    | 406,193 |    | 294,880 |    | 389,249 |    | 294,056 |
| Diluted   |    | 411,710 |    | 296,037 |    | 391,100 |    | 295,067 |
| <b>Dividends declared per common share</b>                                  |    |         |    |         |    |         |    |         |
|   | \$ | 0.48    | \$ | 0.465   | \$ | 0.96    | \$ | 0.93    |

See accompanying Notes to Condensed Consolidated Financial Statements.



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## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

|  | Preferred Stock |            | Common Stock |            | Additional   | Cumulative   | Accumulated   | Total        | Total          | Total        |
|--|-----------------|------------|--------------|------------|--------------|--------------|---------------|--------------|----------------|--------------|
|  | Shares          | Amount     | Shares       | Amount     | Paid-In      | Dividends    | Other         | Stockholder  | Noncontrolling | Equity       |
|  |                 |            |              |            | Capital      | In Excess    | Comprehensive | Equity       | Interests      | Equity       |
|  |                 |            |              |            |              | Of Earnings  | Income (Loss) |              |                |              |
| <b>January 1, 2011</b>                                       | 11,820          | \$ 285,173 | 370,925      | \$ 370,925 | \$ 8,089,982 | \$ (775,476) | \$ (13,237)   | \$ 7,957,367 | \$ 188,680     | \$ 8,146,047 |
| Comprehensive income:  |                 |            |              |            |              |              |               |              |                |              |
| Net income   |                 |            |              |            |              | 298,852      |               | 298,852      | 9,384          | 308,236      |
| Change in net unrealized gains on securities:                |                 |            |              |            |              |              |               |              |                |              |
| Unrealized gains   |                 |            |              |            |              |              | 1,331         | 1,331        |                | 1,331        |
| Change in net unrealized gains (losses) on cash flow hedges: |                 |            |              |            |              |              |               |              |                |              |
| Unrealized losses  |                 |            |              |            |              |              | (1,041)       | (1,041)      |                | (1,041)      |
| Less reclassification adjustment realized in net income      |                 |            |              |            |              |              | (1,218)       | (1,218)      |                | (1,218)      |
| Change in Supplemental Executive Retirement Plan obligation  |                 |            |              |            |              |              | 66            | 66           |                | 66           |
| Foreign currency translation adjustment                      |                 |            |              |            |              |              | 266           | 266          |                | 266          |
| Total comprehensive income                                   |                 |            |              |            |              |              |               | 298,256      | 9,384          | 307,640      |
| Issuance of common stock, net                                |                 |            | 35,691       | 35,691     | 1,236,276    |              |               | 1,271,967    | (2,599)        | 1,269,368    |
| Repurchase of common stock                                   |                 |            | (131)        | (131)      | (4,678)      |              |               | (4,809)      |                | (4,809)      |
| Exercise of stock options                                    |                 |            | 635          | 635        | 16,381       |              |               | 17,016       |                | 17,016       |
| Amortization of deferred compensation                        |                 |            |              |            | 10,205       |              |               | 10,205       |                | 10,205       |
| Preferred dividends  |                 |            |              |            |              | (10,566)     |               | (10,566)     |                | (10,566)     |
| Common dividends (\$0.96 per share)                          |                 |            |              |            |              | (374,349)    |               | (374,349)    |                | (374,349)    |
| Purchase of noncontrolling interests                         |                 |            |              |            | (19,559)     |              |               | (19,559)     | (14,059)       | (33,618)     |
| Distributions to noncontrolling interests                    |                 |            |              |            |              |              |               |              | (7,166)        | (7,166)      |
| Noncontrolling interest in acquired assets                   |                 |            |              |            |              |              |               |              | 1,500          | 1,500        |
| <b>June 30, 2011</b>   | 11,820          | \$ 285,173 | 407,120      | \$ 407,120 | \$ 9,328,607 | \$ (861,539) | \$ (13,833)   | \$ 9,145,528 | \$ 175,740     | \$ 9,321,268 |

See accompanying Notes to Condensed Consolidated Financial Statements.



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## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Continued)

(In thousands)

(Unaudited)

|  | Preferred Stock |            | Common Stock |            | Additional   | Cumulative   | Accumulated   | Total         | Total          | Total        |
|--|-----------------|------------|--------------|------------|--------------|--------------|---------------|---------------|----------------|--------------|
|  | Shares          | Amount     | Shares       | Amount     | Paid-In      | Dividends    | Other         | Stockholders' | Noncontrolling | Equity       |
|  |                 |            |              |            | Capital      | In Excess    | Comprehensive | Equity        | Interests      |              |
|  |                 |            |              |            |              | Of Earnings  | Income (Loss) |               |                |              |
| <b>January 1, 2010</b>                                       | 11,820          | \$ 285,173 | 293,548      | \$ 293,548 | \$ 5,719,400 | \$ (515,450) | \$ (2,134)    | \$ 5,780,537  | \$ 178,072     | \$ 5,958,609 |
| Comprehensive income:  |                 |            |              |            |              |              |               |               |                |              |
| Net income   |                 |            |              |            |              | 166,137      |               | 166,137       | 6,559          | 172,696      |
| Change in net unrealized gains (losses) on securities:       |                 |            |              |            |              |              |               |               |                |              |
| Unrealized losses  |                 |            |              |            |              |              | (1,938)       | (1,938)       |                | (1,938)      |
| Less reclassification adjustment realized in net income      |                 |            |              |            |              |              | (22)          | (22)          |                | (22)         |
| Change in net unrealized gains (losses) on cash flow hedges: |                 |            |              |            |              |              |               |               |                |              |
| Unrealized losses  |                 |            |              |            |              |              | (934)         | (934)         |                | (934)        |
| Less reclassification adjustment realized in net income      |                 |            |              |            |              |              | 535           | 535           |                | 535          |
| Change in Supplemental Executive Retirement Plan obligation  |                 |            |              |            |              |              | 65            | 65            |                | 65           |
| Foreign currency translation adjustment                      |                 |            |              |            |              |              | (124)         | (124)         |                | (124)        |
| Total comprehensive income                                   |                 |            |              |            |              |              |               | 163,719       | 6,559          | 170,278      |
| Issuance of common stock, net                                |                 |            | 14,496       | 14,496     | 431,423      |              |               | 445,919       | (4,423)        | 441,496      |
| Repurchase of common stock                                   |                 |            | (145)        | (145)      | (4,045)      |              |               | (4,190)       |                | (4,190)      |
| Exercise of stock options                                    |                 |            | 140          | 140        | 3,143        |              |               | 3,283         |                | 3,283        |
| Amortization of deferred compensation                        |                 |            |              |            | 7,688        |              |               | 7,688         |                | 7,688        |
| Preferred dividends  |                 |            |              |            |              | (10,566)     |               | (10,566)      |                | (10,566)     |
| Common dividends (\$0.93 per share)                          |                 |            |              |            |              | (274,187)    |               | (274,187)     |                | (274,187)    |
| Distributions to noncontrolling interests                    |                 |            |              |            |              |              |               |               | (8,195)        | (8,195)      |
| Sale of noncontrolling interests                             |                 |            |              |            |              |              |               |               | 8,395          | 8,395        |
| Other  |                 |            |              |            |              |              |               |               | 709            | 709          |
| <b>June 30, 2010</b>   | 11,820          | \$ 285,173 | 308,039      | \$ 308,039 | \$ 6,157,609 | \$ (634,066) | \$ (4,552)    | \$ 6,112,203  | \$ 181,117     | \$ 6,293,320 |

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See accompanying Notes to Condensed Consolidated Financial Statements.

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## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2011                      | 2010       |
| <b>Cash flows from operating activities:</b>  |                           |            |
| Net income  | \$ 308,236                | \$ 172,696 |
| 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   | 181,472                   | 155,634    |
| Discontinued operations   |                           | 1,249      |
| Amortization of above and below market lease intangibles, net                       | (2,093)                   | (3,708)    |
| Stock-based compensation  | 10,205                    | 7,688      |
| Amortization of debt premiums, discounts and issuance costs, net                    | 18,402                    | 5,304      |
| Straight-line rents   | (32,912)                  | (21,695)   |
| Interest accretion  | (41,858)                  | (30,742)   |
| Deferred rental revenues  | (1,077)                   | (2,022)    |
| Equity income from unconsolidated joint ventures                                    | (15,748)                  | (3,869)    |
| Distributions of earnings from unconsolidated joint ventures                        | 1,569                     | 3,648      |
| Gain upon consolidation of joint venture  | (7,769)                   | (65)       |
| Marketable securities gains, net  |                           | (35)       |
| Gain upon settlement of loans receivable  | (22,812)                  |            |
| Derivative (gains) losses, net  | (3,308)                   | 723        |
| Impairment recoveries   |                           | (11,900)   |
| Changes in:   |                           |            |
| Accounts receivable, net  | 8,822                     | 4,456      |
| Other assets  | (4,010)                   | 1,375      |
| Accounts payable and accrued liabilities  | 35,696                    | (2,640)    |
| Net cash provided by operating activities   | 432,815                   | 276,097    |
| <b>Cash flows from investing activities:</b>  |                           |            |
| Cash used in the HCR ManorCare Acquisition, net of cash acquired                    | (3,801,624)               |            |
| Cash used in the HCP Ventures II purchase, net of cash acquired                     | (135,550)                 |            |
| Other acquisitions and development of real estate                                   | (148,032)                 | (157,176)  |
| Leasing costs and tenant and capital improvements                                   | (20,940)                  | (16,545)   |
| Purchase of an interest in and contributions to unconsolidated joint ventures       | (95,000)                  | (264)      |
| Distributions in excess of earnings from unconsolidated joint ventures              | 1,558                     | 1,723      |
| Proceeds from the sale of securities  |                           | 242        |
| Principal repayments on loans receivable  | 303,720                   | 25,586     |
| Investments in loans receivable   | (360,932)                 | (8,081)    |
| Increase in restricted cash   | (7,851)                   | (6,817)    |
| Net cash used in investing activities   | (4,264,651)               | (161,332)  |
| <b>Cash flows from financing activities:</b>  |                           |            |
| Repayment of term loan  |                           | (200,000)  |
| Repayments of mortgage debt   | (141,684)                 | (87,720)   |
| Issuance of senior unsecured notes  | 2,400,000                 |            |
| Debt issuance costs   | (42,852)                  |            |
| Net proceeds from the issuance of common stock and exercise of options              | 1,281,575                 | 440,589    |
| Dividends paid on common and preferred stock  | (384,915)                 | (284,753)  |
| Sale (purchase) of noncontrolling interests   | (33,618)                  | 8,395      |
| Distributions to noncontrolling interests   | (7,166)                   | (7,275)    |

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|   |            |           |
|---|------------|-----------|
| Net cash provided by (used in) financing activities | 3,071,340  | (130,764) |
| Net decrease in cash and cash equivalents           | (760,496)  | (15,999)  |
| Cash and cash equivalents, beginning of period      | 1,036,701  | 112,259   |
| Cash and cash equivalents, end of period            | \$ 276,205 | \$ 96,260 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**HCP, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Business**

HCP, Inc., an S&P 500 company, together with its consolidated entities (collectively, HCP or the Company), invests primarily in real estate serving the healthcare industry in the United States ( U.S. ). The Company is a self-administered, Maryland real estate investment trust ( REIT ) organized in 1985. The Company is headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. The Company's portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital.

**(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. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures or variable interest entities ( VIEs ) that it controls through voting rights or other means. All material intercompany transactions and balances have been eliminated upon consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ( SEC ).

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 the related operating results reclassified from continuing to discontinued operations on the condensed consolidated income statements (see Note 5).

*Recent Accounting Pronouncements*

In April 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ( ASC 2011-02 ). The amendments in this update clarify, among other things, the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The Company does not expect the adoption of ASC 2011-05 on July 1, 2011 to have an impact on its consolidated financial position or results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* ( ASC 2011-05 ). The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The Company does not expect the adoption of ASC 2011-05 on January 1, 2012 to have an impact on its consolidated financial position or results of operations.

**(3) HCR ManorCare Acquisition**

On April 7, 2011, the Company completed its acquisition of substantially all of the real estate assets of HCR ManorCare, Inc. ( HCR ManorCare ), for a purchase price of \$6 billion ( HCR ManorCare Acquisition ). The purchase price consisted of the following: (i) \$4 billion in cash consideration; and (ii) \$2 billion representing the fair value of the Company's former HCR ManorCare



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debt investments that were settled as part of this acquisition. Through this transaction, the Company acquired 334 HCR ManorCare post-acute, skilled nursing and assisted living facilities. The facilities are located in 30 states, with the highest concentrations in Ohio, Pennsylvania, Florida, Illinois and Michigan. A wholly-owned subsidiary of HCR ManorCare will continue to operate the assets pursuant to a long-term triple-net master lease agreement supported by a guaranty from HCR ManorCare. Additionally, the Company exercised its option to purchase an interest in the operations of HCR ManorCare for \$95 million that represented a 9.9% equity interest at closing.

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

|  | April 7, 2011 |
|--|---------------|
| Payment of aggregate cash consideration, net of cash acquired        | \$ 3,801,624  |
| HCP's loan investments in HCR ManorCare's debt settled at fair value | 1,990,406     |
| Assumed HCR ManorCare accrued liabilities at fair value              | 224,932       |
| Total purchase consideration   | \$ 6,016,962  |
| Legal, accounting and other fees and costs(2)                        | \$ 26,839     |

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

(2) Represents estimated fees and costs of \$15.5 million and \$11.3 million that were expensed and included in general and administrative expense and interest expense, respectively. These charges are directly attributable to the transaction and represent non-recurring costs.

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

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

In connection with the HCR ManorCare Acquisition, the Company entered into a credit agreement for a 365-day bridge loan facility (from funding to maturity) in an aggregate amount of up to \$3.3 billion. On March 22, 2011, the Company delivered notice to the lenders under the bridge loan facility that it had terminated the bridge loan facility in accordance with its terms effective March 25, 2011. Consequently, in March 2011 the Company incurred a charge of \$11.3 million related to the write-off of unamortized loan fees associated with this bridge loan commitment that is included in interest expense for the six months ended June 30, 2011.

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The related assets and liabilities of HCR ManorCare are included in the condensed consolidated financial statements from the date of acquisition, April 7, 2011.

### *Pro Forma Results of Operations*

The following unaudited pro forma consolidated results of operations assume that the HCR ManorCare Acquisition, including the Company's equity interest in the operations of HCR ManorCare, was completed as of January 1 for each of the periods presented below (in thousands, except per share amounts):

|                                    | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                    | 2011                        | 2010       | 2011                      | 2010       |
| Revenues                           | \$ 472,767                  | \$ 413,226 | \$ 913,117                | \$ 820,186 |
| Net income                         | 219,335                     | 187,336    | 409,372                   | 370,881    |
| Net income applicable to HCP, Inc. | 213,842                     | 183,842    | 399,988                   | 364,322    |
| Basic earnings per common share    | \$ 0.51                     | \$ 0.48    | \$ 0.96                   | \$ 0.95    |
| Diluted earnings per common share  | 0.51                        | 0.48       | 0.96                      | 0.95       |

Table of Contents**(4) Other Real Estate Property Investments**

A summary of real estate acquisitions for the six months ended June 30, 2011 follows (in thousands):

| Segment        | Cash Paid  | Consideration | Noncontrolling | Assets Acquired |             |
|----------------|------------|---------------|----------------|-----------------|-------------|
|                |            | Debt Assumed  |                | Interest        | Real Estate |
| Life science   | \$ 84,047  | \$ 48,252     | \$             | \$ 126,610      | \$ 5,689    |
| Medical office | 29,743     |               | 1,500          | 26,191          | 5,052       |
|                | \$ 113,790 | \$ 48,252     | \$ 1,500       | \$ 152,801      | \$ 10,741   |

See discussion of the purchase and consolidation of HCP Ventures II in Note 8.

During the six months ended June 30, 2011, the Company funded an aggregate of \$54 million for construction, tenant and other capital improvement projects, primarily in its life science and medical office segments. During the six months ended June 30, 2011, two of the Company's life science facilities located in South San Francisco were placed in service representing 88,000 square feet.

During the six months ended June 30, 2010, the Company purchased five senior housing facilities for aggregate cash consideration of \$110 million. The fair value of the acquired assets was allocated as follows: (i) \$96.7 million for buildings and improvements; (ii) \$13.1 million for land; and (iii) \$0.4 million for intangible assets.

During the six months ended June 30, 2010, the Company funded an aggregate of \$61 million for construction, tenant and other capital improvement projects, primarily in the life science segment. During the six months ended June 30, 2010, three of the Company's life science facilities located in South San Francisco were placed into service representing 329,000 square feet.

**(5) Discontinued Operations**

There were no properties classified as held for sale and reported as discontinued operations as of or during the three or six months ended June 30, 2011.

The following table summarizes operating income from discontinued operations (dollars in thousands):

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|  | Three Months Ended<br>June 30, 2010 |       | Six Months Ended<br>June 30, 2010 |       |
|--|-------------------------------------|-------|-----------------------------------|-------|
| Rental and related revenues                              | \$                                  | 1,142 | \$                                | 3,121 |
| Depreciation and amortization expenses                   |                                     | 212   |                                   | 1,249 |
| Operating expenses                                       |                                     | 45    |                                   | 69    |
| Other income, net  |                                     | (58)  |                                   | (94)  |
| Income, net of income taxes                              | \$                                  | 943   | \$                                | 1,897 |
| Gain on sales of real estate, net of income taxes        |                                     | 65    |                                   | 65    |
| Number of properties held for sale                       |                                     | 13    |                                   | 13    |
| Number of properties sold                                |                                     | 1     |                                   | 1     |
| Number of properties included in discontinued operations |                                     | 14    |                                   | 14    |

**(6) Net Investment in Direct Financing Leases**

The components of net investment in direct financing leases ( DFLs ) consist of the following (dollars in thousands):

|   | June 30,<br>2011 |              | December 31,<br>2010 |             |
|---|------------------|--------------|----------------------|-------------|
| Minimum lease payments receivable             | \$               | 26,000,472   | \$                   | 1,266,129   |
| Estimated residual values                     |                  | 4,010,514    |                      | 409,270     |
| Less unearned income                          |                  | (23,361,134) |                      | (1,065,738) |
| Net investment in direct financing leases     | \$               | 6,649,852    | \$                   | 609,661     |
| Properties subject to direct financing leases |                  | 361          |                      | 27          |

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On April 7, 2011, the Company completed the acquisition of 334 HCR ManorCare properties subject to a single master lease that the Company classified as a DFL. See discussion of the \$6 billion HCR ManorCare Acquisition in Note 3.

Lease payments previously due to the Company relating to three land-only DFLs, along with the land, were subordinate to and served as collateral for first mortgage construction loans entered into by Erickson Retirement Communities and its affiliate entities ( Erickson ) to fund development costs related to the properties. On October 19, 2009, Erickson filed for bankruptcy protection, which included a plan of reorganization. In December 2009, the Company concluded that it was appropriate to reduce the carrying value of these assets to a nominal amount. In February 2010, the Company entered into a settlement agreement with Erickson which was subsequently approved by the bankruptcy court. In April 2010, the reorganization was completed, which resulted in the Company (i) retaining deposits held by the Company with balances of \$5 million and (ii) receiving an additional \$9.6 million. As a result of the April 2010 subsequent event, in the three months ended March 31, 2010, the Company recognized aggregate income of \$11.9 million in impairment recoveries, which represented the reversal of a portion of the allowances established pursuant to the previous December 2009 impairment charges related to its investments in the three DFLs and participation interest in the senior construction loan.

**(7) Loans Receivable**

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

|                                       | June 30, 2011       |               |            | December 31, 2010   |               |              |
|---------------------------------------|---------------------|---------------|------------|---------------------|---------------|--------------|
|                                       | Real Estate Secured | Other Secured | Total      | Real Estate Secured | Other Secured | Total        |
| Mezzanine                             | \$                  | \$ 90,229     | \$ 90,229  | \$                  | \$ 1,144,485  | \$ 1,144,485 |
| Other                                 | 26,777              |               | 26,777     | 1,030,454           |               | 1,030,454    |
| Unamortized discounts, fees and costs | (1,540)             | (1,089)       | (2,629)    | (107,549)           | (61,127)      | (168,676)    |
| Allowance for loan losses             |                     | (3,397)       | (3,397)    |                     | (3,397)       | (3,397)      |
|                                       | \$ 25,237           | \$ 85,743     | \$ 110,980 | \$ 922,905          | \$ 1,079,961  | \$ 2,002,866 |

*HCR ManorCare Loans*

On December 21, 2007, the Company made an investment in mezzanine loans having an aggregate par value of \$1.0 billion at a discount of \$100 million, which resulted in an acquisition cost of \$900 million. These interest-only loans paid interest on their par values at a floating rate of one-month London Interbank Offered Rate ( LIBOR ) plus 4.0%. At December 31, 2010, the carrying value of these loans was \$953 million.

On August 3, 2009, the Company purchased a \$720 million participation in the first mortgage debt of HCR ManorCare at a discount of \$130 million, which resulted in an acquisition cost of \$590 million. At December 31, 2010, the carrying value of the participations in this loan was \$639 million. In connection with the HCR ManorCare Acquisition prefunding activities, on January 31, 2011, the Company purchased an additional \$360 million participation in the first mortgage debt of HCR ManorCare. The \$1.08 billion participations paid interest at LIBOR plus 1.25%.

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

### *Genesis HealthCare Loans*

In September and October 2010 the Company purchased participations in a senior loan and mezzanine note of Genesis HealthCare (Genesis) with par values of \$277.6 million and \$50.0 million, respectively, each at a discount for \$249.9 million and \$40.0 million, respectively.

The Genesis senior loan paid interest on the par value at LIBOR (subject to a current floor of 1.5% increasing to 2.5% by maturity) plus a spread of 4.75% increasing to 5.75% by maturity. The senior loan was secured by all of Genesis' assets. The mezzanine note paid interest on the par value at LIBOR plus a spread of 7.50%. In addition to the coupon interest payments, the mezzanine note required the payment of a termination fee, of which the Company's share prior to the early repayment of this loan was \$2.3 million. The mezzanine note was subordinate to the senior loan and secured by an indirect pledge of equity ownership in Genesis' assets.

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

Table of Contents*Cirrus Group, LLC Loan*

The Company holds an interest-only, senior secured term loan made to an affiliate of the Cirrus Group, LLC ( Cirrus ). The loan had a maturity date of December 31, 2008, with a one-year extension period at the option of the borrower, subject to certain terms and conditions, under which amounts were borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships. The loan is collateralized by all of the assets of the borrower (comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by the Company or HCP Ventures IV, LLC, an unconsolidated joint venture of the Company) and is supported in part by limited guarantees made by certain post and current principals of Cirrus. Recourse under certain of these guarantees is limited to the guarantors' respective interests in certain entities owning real estate that are pledged to secure such guarantees. At December 31, 2008, the borrower did not meet the conditions necessary to exercise its extension option and did not repay the loan upon maturity. On April 22, 2009, new terms for extending the maturity date of the loan were agreed to, including the payment of a \$1.1 million extension fee, and the maturity date was extended to December 31, 2010. In July 2009, the Company issued a notice of default for the borrower's failure to make interest payments. In December 2009, the Company determined that the loan was impaired and recognized a provision for loan loss of \$4.3 million. This provision for loan loss resulted from discussions that began in December 2009 to restructure the loan. Effective January 1, 2011, the Company placed the loan on cost-recovery status, under which accrual of interest income is suspended and any payments received from the borrower are applied to reduce the recorded investment in the loan, as the amount and timing of payments from this loan have become less certain. Through July 2011, the Company has made various attempts to restructure the loan; however, currently there is no indication from the guarantors of the loan that they will approve the terms and conditions of a proposed loan restructure. However, the Company continues to believe that the value of the collateral supporting the loan exceeds the amount due. Cirrus is in the process of marketing certain of the collateral assets for sale as a means of paying off the loan. Should the borrower be unsuccessful in selling the collateral assets and other sources of repayment are inadequate, the Company could be required to further modify this loan or take possession of the collateral, either of which could result in additional impairment charges. At June 30, 2011 and December 31, 2010, the carrying value of this loan, including accrued interest of \$6.0 million and \$7.2 million, respectively, was \$91.7 million and \$93.1 million, respectively. During the three and six months ended June 30, 2011, the Company received cash payments from the borrower of \$0.2 million and \$1.2 million, respectively.

**(8) Investments in and Advances to Unconsolidated Joint Ventures***HCP Ventures II*

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

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

|   | <b>January 14, 2011</b> |
|---|-------------------------|
| Cash paid for HCP Ventures II's partnership interest  | \$ 135,550              |
| Fair value of HCP's 35% interest in HCP Ventures II (carrying value of \$65,223 at closing) | 72,992                  |
| Total purchase consideration  | \$ 208,542              |
| Estimated fees and costs  |                         |

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

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(1) The Company recognized a gain of approximately \$8 million, included in other income, net, which represents the fair value of the Company's 35% interest in HCP Ventures II in excess of its carrying value on the acquisition date.

(2) Represents estimated fees and costs that were expensed and included in general and administrative expenses. These charges are directly attributable to the transaction and represent non-recurring costs.

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



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In accordance with the accounting guidance applicable to acquisitions of the partner's ownership interests that result in consolidation of previously unconsolidated entities, the Company recorded all of the assets and liabilities of HCP Ventures II at their fair value as of the acquisition date, January 14, 2011. The Company utilized relevant market data and valuation techniques to allocate the acquisition date fair value for HCP Ventures II. Relevant market data and valuation techniques included, but were not limited to, market data comparables for capitalization and discount rates, credit spreads and property specific cash flows assumptions. The capitalization and discount rates as well as credit spread assumptions utilized in the Company's valuation model were based on information that it believes to be within a reasonable range of current market data. The following table summarizes the fair values of the HCP Ventures II assets acquired and liabilities assumed as of the acquisition date of January 14, 2011 (in thousands):

|                                  |                   |
|----------------------------------|-------------------|
| <b>Assets acquired</b>           |                   |
| Buildings and improvements       | \$ 683,033        |
| Land                             | 80,180            |
| Cash                             | 2,585             |
| Restricted cash                  | 1,861             |
| Intangible assets                | 78,293            |
| <b>Total assets acquired</b>     | <b>\$ 845,952</b> |
| <b>Liabilities assumed</b>       |                   |
| Mortgage debt                    | \$ 635,182        |
| Other liabilities                | 2,228             |
| <b>Total liabilities assumed</b> | <b>637,410</b>    |
| <b>Net assets acquired</b>       | <b>\$ 208,542</b> |

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

*Summary of Unconsolidated Joint Venture Information*

The Company owns interests in the following entities which are accounted for under the equity method at June 30, 2011 (dollars in thousands):

| Entity(1)                                      | Properties/Segment               | Investment(2) | Ownership% |
|--|----------------------------------|---------------|------------|
| HCRMC Operations, LLC                          | post-acute/skilled nursing       | \$ 96,136     | 9.9(3)     |
| HCP Ventures III, LLC                          | 13 medical office                | 9,359         | 30         |
| HCP Ventures IV, LLC                           | 54 medical office and 4 hospital | 36,793        | 20         |
| HCP Life Science(4)                            | 4 life science                   | 66,058        | 50-63      |
| Horizon Bay Hyde Park, LLC                     | 1 senior housing                 | 7,694         | 75         |
| Suburban Properties, LLC                       | 1 medical office                 | 8,368         | 67         |
| Advances to unconsolidated joint ventures, net |                                  | 217           |            |
|  |                                  | \$ 224,625    |            |
| Edgewood Assisted Living Center, LLC(5)        | 1 senior housing                 | \$ (297)      | 45         |
| Seminole Shores Living Center, LLC(5)          | 1 senior housing                 | (809)         | 50         |
|  |                                  | \$ (1,106)    |            |

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- (1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2010 in the Company's Annual Report on Form 10-K filed with the SEC 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 to the Consolidated Financial Statements for the year ended December 31, 2010 in the Company's Annual Report on Form 10-K filed with the SEC regarding the Company's policy for accounting for joint venture interests.
- (3) Subject to dilution of certain equity awards, the ownership percentage is approximately 9.3%. See discussion of the HCR ManorCare Acquisition in Note 3.
- (4) 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%).
- (5) As of June 30, 2011, the Company has guaranteed in the aggregate \$4 million of a total of \$8 million of mortgage debt for these joint ventures. No amounts have been recorded related to these guarantees at June 30, 2011. Negative investment amounts are included in accounts payable and accrued liabilities in the Company's condensed consolidated financial statements.

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

|  | <b>June 30,<br/>2011(1)</b> | <b>December 31,<br/>2010(1)(2)</b> |
|--|-----------------------------|------------------------------------|
| Real estate, net                               | \$ 3,830,031                | \$ 1,633,209                       |
| Goodwill                                       | 3,495,500                   |                                    |
| Other assets, net                              | 3,070,286                   | 131,714                            |
| <b>Total assets</b>                            | <b>\$ 10,395,817</b>        | <b>\$ 1,764,923</b>                |
| Capital lease obligations and other debt       | \$ 6,513,100                | \$                                 |
| Mortgage debt                                  | 500,631                     | 1,148,839                          |
| Accounts payable                               | 943,188                     | 32,120                             |
| Other partners' capital                        | 2,190,037                   | 415,697                            |
| HCP's capital(3)                               | 248,861                     | 168,267                            |
| <b>Total liabilities and partners' capital</b> | <b>\$ 10,395,817</b>        | <b>\$ 1,764,923</b>                |

(1) Includes the financial information of HCRMC Operations, LLC, in which the Company acquired an interest for \$95 million that represented a 9.9% equity interest at closing.

(2) Includes the financial information of HCP Ventures II, which was consolidated on January 14, 2011.

(3) The combined basis difference of the Company's investments in these joint ventures of \$26 million, as of June 30, 2011, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease related net intangibles.

|                               | <b>Three Months Ended June 30,(1)</b> |             | <b>Six Months Ended June 30,(1)</b> |             |
|-------------------------------|---------------------------------------|-------------|-------------------------------------|-------------|
|                               | <b>2011(2)</b>                        | <b>2010</b> | <b>2011(2)</b>                      | <b>2010</b> |
| Total revenues                | \$ 1,032,420                          | \$ 46,959   | \$ 1,059,309                        | \$ 92,803   |
| Net income (loss)             | (26,439)                              | 3,492       | (26,062)                            | 4,383       |
| HCP's share in earnings(3)    | 14,950                                | 2,486       | 15,748                              | 3,869       |
| Fees earned by HCP            | 504                                   | 1,290       | 1,111                               | 2,598       |
| Distributions received by HCP | 2,158                                 | 3,147       | 3,127                               | 5,371       |

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

(2) Includes the financial information of HCRMC Operations, LLC, in which the Company acquired an interest for \$95 million that represented a 9.9% equity interest at closing.

(3) The Company's joint venture interest in HCRMC Operations, LLC is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP's ownership in HCRMC Operations, LLC. Further, the Company's share of earnings from HCRMC Operations, LLC (equity income) increases for the corresponding reduction of related lease expense recognized at the HCRMC Operations, LLC level.

### **(9) Intangibles**

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At June 30, 2011 and December 31, 2010, intangible lease assets, including lease-up intangibles, above market tenant lease intangibles, below market ground lease intangibles and intangible assets related to non-compete agreements, were \$586.5 million and \$511.4 million, respectively. At June 30, 2011 and December 31, 2010, the accumulated amortization of intangible assets was \$186.1 million and \$195.0 million, respectively.

At June 30, 2011 and December 31, 2010, below market lease and above market ground lease intangible liabilities were \$220.6 million and \$233.5 million, respectively. At June 30, 2011 and December 31, 2010, the accumulated amortization of intangible liabilities was \$82.8 million and \$85.4 million, respectively.

### (10) Other Assets

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

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| Straight-line rent assets, net of allowance of \$42,356 and \$35,190, respectively | \$ 239,308       | \$ 206,862           |
| Leasing costs, net   | 85,826           | 86,676               |
| Deferred debt issuance costs, net  | 39,650           | 23,541               |
| Goodwill   | 50,346           | 50,346               |
| Marketable equity securities   | 23,780           |                      |
| Other  | 40,940           | 55,461               |
| Total other assets   | \$ 479,850       | \$ 422,886           |

In June 2011, the Company purchased approximately \$22.4 million of marketable equity securities.

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**(11) Debt**

*Bank Line of Credit and Term Loan*

The Company's revolving line of credit facility provides for an aggregate borrowing capacity of \$1.5 billion and matures on March 11, 2015, with a one-year committed extension option. The Company has the right to increase the commitments under the revolving line of credit facility by an aggregate amount of up to \$500 million, subject to customary conditions. Borrowings under this revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends on the Company's debt ratings. The Company pays a facility fee on the entire revolving commitment that depends upon its debt ratings. Based on the Company's debt ratings at June 30, 2011, the margin on the revolving line of credit facility was 1.50% and the facility fee was 0.30%. At June 30, 2011 and December 31, 2010, the Company had no amounts drawn under this revolving line of credit facility. At June 30, 2011, \$112.7 million of aggregate letters of credit were also outstanding against the revolving line of credit facility, including a \$103 million letter of credit as a result of the Ventas, Inc. ( Ventas ) litigation. For further information regarding the Ventas litigation, see Note 12.

The Company's revolving line of credit facility contains 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 60%, (iii) require a minimum Fixed Charge Coverage ratio of 1.5 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of \$8.0 billion at June 30, 2011. At June 30, 2011, the Company was in compliance with each of these restrictions and requirements of the revolving line of credit facility.

*Senior Unsecured Notes*

At June 30, 2011, the Company had senior unsecured notes outstanding with an aggregate principal balance of \$5.7 billion. Interest rates on the notes ranged from 1.15% to 7.07%. The weighted-average effective interest rate on the senior unsecured notes at June 30, 2011 was 5.64%. Discounts and premiums are amortized to interest expense over the term of the related notes. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at June 30, 2011.

On January 24, 2011, the Company issued \$2.4 billion of senior unsecured notes as follows: (i) \$400 million of 2.70% notes due 2014; (ii) \$500 million of 3.75% notes due 2016; (iii) \$1.2 billion of 5.375% notes due 2021; and (iv) \$300 million of 6.75% notes due 2041. The notes have a weighted average maturity of 10.3 years and a weighted average yield of 4.83%. The net proceeds from this offering totaled \$2.37 billion and were used to fund a portion of the HCR ManorCare Acquisition (see Note 3 for additional information).

*Mortgage Debt*

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At June 30, 2011, the Company had \$1.8 billion in aggregate principal amount of mortgage debt outstanding that is secured by 144 healthcare facilities that had a carrying value of \$2.8 billion. Interest rates on the mortgage debt ranged from 1.89% to 8.85% with a weighted-average effective rate of 6.11% at June 30, 2011.

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 real estate assets.

### *Other Debt*

At June 30, 2011, the Company had \$89.5 million of non-interest bearing life care bonds at two of its continuing care retirement communities 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, 2011, \$33.8 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and \$55.7 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Table of Contents*Debt Maturities*

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at June 30, 2011 (in thousands):

| Year                          | Senior<br>Unsecured<br>Notes | Mortgage<br>Debt | Total(1)     |
|-------------------------------|------------------------------|------------------|--------------|
| 2011 (Six months)             | \$ 292,265                   | \$ 19,291        | \$ 311,556   |
| 2012                          | 250,000                      | 73,515           | 323,515      |
| 2013                          | 550,000                      | 366,895          | 916,895      |
| 2014                          | 487,000                      | 183,234          | 670,234      |
| 2015                          | 400,000                      | 301,530          | 701,530      |
| Thereafter                    | 3,750,000                    | 850,804          | 4,600,804    |
|                               | 5,729,265                    | 1,795,269        | 7,524,534    |
| (Discounts) and premiums, net | (22,267)                     | (14,604)         | (36,871)     |
|                               | \$ 5,706,998                 | \$ 1,780,665     | \$ 7,487,663 |

(1) Excludes \$89 million of other debt that represents the Life Care Bonds at three of the Company's senior housing facilities that have no scheduled maturities.

**(12) Commitments and Contingencies***Legal Proceedings*

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company's business. Regardless of their merits, these matters may force the Company to expend significant financial resources. Except as described herein, the Company is not aware of any other legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company's business, prospects, financial condition or results of operations. The Company's policy is to accrue legal expenses as they are incurred.

On May 3, 2007, Ventas 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 alleged, 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 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.

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Ventas sought approximately \$300 million in compensatory damages plus punitive damages. On July 16, 2009, the District Court dismissed Ventas' claim that HCP interfered with Ventas' purchase agreement with Sunrise REIT, dismissed claims for compensatory damages based on alleged financing and other costs, and allowed Ventas' claim of interference with prospective advantage to proceed to trial. Ventas' claim was tried before a jury between August 18, 2009 and September 4, 2009. During the trial, the District Court dismissed Ventas' claim for punitive damages. On September 4, 2009, the jury returned a verdict in favor of Ventas in the amount of approximately \$102 million in compensatory damages. The District Court entered a judgment against the Company in that amount on September 8, 2009.

On September 22, 2009, the Company filed a motion for judgment as a matter of law or for a new trial. Also on September 22, 2009, Ventas filed a motion seeking approximately \$20 million in prejudgment interest and approximately \$4 million in additional damages to account for changes in currency exchange rates. The District Court denied both parties' post-trial motions on November 17, 2009. The Company filed a notice of appeal to the United States Court of Appeals for the Sixth Circuit on November 17, 2009; Ventas filed a notice of appeal on November 25, 2009. The Company sought to have the judgment against it reversed. In the cross-appeal, Ventas sought reversal of the District Court's exclusion of Ventas' claim for punitive damages, additional damages due to currency and stock-price fluctuations, and pre-judgment interest. Oral argument before the Court of Appeals was heard on March 10, 2011.



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On May 17, 2011, the Court of Appeals held that the District Court had erred by not submitting Ventas' claim for punitive damages to the jury, but affirmed the District Court's judgment in all other respects. It remanded the case to the District Court for a trial on the issue of Ventas' claim against the Company for punitive damages. On May 31, 2011, the Company filed a petition seeking rehearing of the decision of the Court of Appeals, which petition was denied on July 5, 2011. The Company intends to continue vigorously defending against Ventas' lawsuit.

The District Court has set a trial date of February 21, 2012 on the issue of Ventas' claim for punitive damages. The Company expects that defending its interests will require it to expend significant funds. While the Company recognized \$102 million as a provision for litigation expense during the three months ended September 30, 2009, due to the September 8, 2009 judgment in favor of Ventas the Company is unable to estimate the probability of additional loss or the ultimate aggregate amount of additional loss or financial impact with respect to Ventas' claim for punitive damages as of June 30, 2011.

*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.

The following table provides information regarding the Company's concentration with respect to certain operators; the information provided is presented for the gross assets and revenues that are associated with certain operators as percentages of the respective segment's and total Company's gross assets and revenues:

*Segment Concentrations:*

| Operators                                   | Senior Housing Gross Assets |                   |                                  | Senior Housing Revenues |                                |               |
|---|-----------------------------|-------------------|----------------------------------|-------------------------|--------------------------------|---------------|
|   | June 30, 2011               | December 31, 2010 | Three Months Ended June 30, 2011 | June 30, 2010           | Six Months Ended June 30, 2011 | June 30, 2010 |
| HCR ManorCare(1)                            | 13%                         |                   | 12%                              |                         | 7%                             |               |
| Emeritus Corporation (Emeritus)(2)          | 18%                         | 25%               | 24%                              | 17%                     | 25%                            | 17%           |
| Sunrise Senior Living, Inc. (Sunrise)(2)(3) | 22%                         | 30%               | 19%                              | 35%                     | 20%                            | 35%           |

| Operators        | Post-Acute/Skilled Nursing Gross Assets |                   |                                  | Post-Acute/Skilled Nursing Revenues |                                |               |
|------------------|---|-------------------|----------------------------------|-------------------------------------|--------------------------------|---------------|
|                  | June 30, 2011                           | December 31, 2010 | Three Months Ended June 30, 2011 | June 30, 2010                       | Six Months Ended June 30, 2011 | June 30, 2010 |
| HCR ManorCare(1) | 94%                                     | 75%               | 76%                              | 75%                                 | 73%                            | 74%           |

*Total Company Concentrations:*

| Operators        | Total Company Gross Assets |                      |  | Total Company Revenues |                  |                  |                  |
|------------------|----------------------------|----------------------|--|------------------------|------------------|------------------|------------------|
|                  | June 30,<br>2011           | December 31,<br>2010 | Three Months Ended<br>June 30,<br>2011 | June 30,<br>2010       | June 30,<br>2011 | June 30,<br>2010 | June 30,<br>2010 |
| HCR ManorCare(1) | 34%                        | 12%                  | 28%                                    | 9%                     | 21%              | 9%               |                  |
| Emeritus(2)      | 6%                         | 8%                   | 6%                                     | 5%                     | 7%               | 5%               |                  |
| Sunrise(2)(3)    | 7%                         | 10%                  | 5%                                     | 10%                    | 6%               | 10%              |                  |

(1) On April 7, 2011, the Company completed the acquisition of HCR ManorCare's real estate assets, which included the settlement of the Company's HCR ManorCare debt investments, see Notes 5 and 7 for additional information.

(2) 27 properties formerly operated by Sunrise were transitioned to Emeritus effective November 1, 2010.

(3) Certain of our properties are leased to tenants who have entered into management contracts with Sunrise to operate the respective property on their behalf. To determine our concentration of revenues generated from properties operated by Sunrise, we aggregate revenue from these tenants with revenue generated from the two properties that are leased directly to Sunrise.

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

Table of Contents*DownREIT LLCs*

In connection with the formation of certain DownREIT limited liability companies ( LLCs ), members may contribute appreciated real estate to a DownREIT LLC in exchange for DownREIT units. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if a contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specifically allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Internal Revenue Code of 1986, as amended ( make-whole payments ). These make-whole payments include a tax gross-up provision.

*Credit Enhancement Guarantee*

Certain of the Company's senior housing facilities serve as collateral for \$125 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of \$368 million as of June 30, 2011.

**(13) Equity***Preferred Stock*

At June 30, 2011, 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 are currently redeemable at the Company's option.

The following table lists the Series E cumulative redeemable preferred stock cash dividends paid and declared by the Company during the six months ended June 30, 2011:

| <b>Declaration Date</b> | <b>Record Date</b> | <b>Amount<br/>Per Share</b> | <b>Dividend<br/>Payable Date</b> |
|-------------------------|--------------------|-----------------------------|----------------------------------|
| January 27              | March 15           | \$ 0.45313                  | March 31                         |
| April 28                | June 15            | \$ 0.45313                  | June 30                          |

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The following table lists the Series F cumulative redeemable preferred stock cash dividends paid and declared by the Company during the six months ended June 30, 2011:

| Declaration Date | Record Date | Amount<br>Per Share | Dividend<br>Payable Date |
|------------------|-------------|---------------------|--------------------------|
| January 27       | March 15    | \$ 0.44375          | March 31                 |
| April 28         | June 15     | \$ 0.44375          | June 30                  |

On July 28, 2011, 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, 2011 to stockholders of record as of the close of business on September 15, 2011.

### *Common Stock*

The following table lists the common stock cash dividends paid and declared by the Company during the six months ended June 30, 2011:

| Declaration Date | Record Date | Amount<br>Per Share | Dividend<br>Payable Date |
|------------------|-------------|---------------------|--------------------------|
| January 27       | February 10 | \$ 0.48             | February 23              |
| April 28         | May 9       | \$ 0.48             | May 24                   |

On July 28, 2011, the Company announced that its Board declared a quarterly cash dividend of \$0.48 per share. The common stock cash dividend will be paid on August 23, 2011 to stockholders of record as of the close of business on August 8, 2011.

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On December 20, 2010, the Company completed a \$1.472 billion public offering of 46 million shares of common stock at a price of \$32.00 per share. The Company received total net proceeds of \$1.413 billion, which it used, together with proceeds from its January 2011 senior unsecured notes offering, March 2011 common stock offerings and the reinvestment of proceeds from the repayment of the Company's existing HCR ManorCare debt investments, to finance the HCR ManorCare Acquisition.

In March 2011, the Company completed a \$1.273 billion public offering of 34.5 million shares of common stock at a price of \$36.90 per share. The Company received total net proceeds of \$1.235 billion, which it used, together with proceeds from its December 2010 equity offering, January 2011 senior unsecured notes offering and the reinvestment of proceeds from the repayment of the Company's existing HCR ManorCare debt investments, to finance the HCR ManorCare Acquisition.

The following is a summary of the Company's other common stock issuances:

|  | Six Months Ended June 30, |      |
|--|---------------------------|------|
|  | 2011                      | 2010 |
|  | (shares in thousands)     |      |
| Dividend Reinvestment and Stock Purchase Plan ( DRIP ) | 968                       | 447  |
| Conversion of DownREIT units                           | 30                        | 121  |
| Exercise of stock options                              | 635                       | 140  |
| Restricted stock awards(1)                             |                           | 202  |
| Vesting of restricted stock units(1)                   | 228                       | 265  |

(1) Issued under the Company's 2006 Performance Incentive Plan.

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

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

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| AOCI unrealized losses on cash flow hedges, net            | \$ (12,571)      | \$ (10,312)          |
| AOCI unrealized gain on available-for-sale securities, net | 1,331            |                      |
| Supplemental Executive Retirement Plan minimum liability   | (2,233)          | (2,299)              |
| Cumulative foreign currency translation adjustment         | (360)            | (626)                |
| Total accumulated other comprehensive loss                 | \$ (13,833)      | \$ (13,237)          |

*Noncontrolling Interests*

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At June 30, 2011, there were 4.2 million non-managing member units outstanding in five DownREIT LLCs, for which the Company is the managing member. At June 30, 2011, the carrying and fair values of these DownREIT units were \$171.0 million and \$218.1 million, respectively.

### *Total Comprehensive Income*

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

|                                   | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|-----------------------------------|-----------------------------|-----------|---------------------------|------------|
|                                   | 2011                        | 2010      | 2011                      | 2010       |
| Net income                        | \$ 234,252                  | \$ 88,595 | \$ 308,236                | \$ 172,696 |
| Other comprehensive income (loss) | 175                         | (4,146)   | (596)                     | (2,418)    |
| Total comprehensive income        | \$ 234,427                  | \$ 84,449 | \$ 307,640                | \$ 170,278 |

Table of Contents**(14) Segment Disclosures**

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the senior housing, post-acute/skilled nursing, life science and hospital segments, the Company invests primarily in single operator or tenant properties, through the acquisition and development of real estate or through investment in debt issued by operators in these sectors. Under the medical office segment, the Company invests through the acquisition of medical office buildings ( MOBs ) that are primarily leased under gross or modified gross leases, which are generally to multiple tenants and require a greater level of property management. The accounting policies of the segments are the same as those described in Note 2 to the Condensed Consolidated Financial Statements for the year ended December 31, 2010 in the Company's Annual Report on Form 10-K filed with the SEC. There were no intersegment sales or transfers during the six months ended June 30, 2011 and 2010. The Company evaluates performance based upon property net operating income from continuing operations ( NOI ) and interest income of the combined investments in each segment.

Non-segment assets consist primarily of real estate held for sale and corporate assets including cash, restricted cash, accounts receivable, net, marketable equity securities 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 12 for other information regarding concentrations of credit risk.

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

For the three months ended June 30, 2011:

| Segments           | Rental and Related Revenues | Tenant Recoveries | Income From DFLs | Interest Income | Investment Management Fee Income | Total Revenues | NOI(1)     |
|--------------------|-----------------------------|-------------------|------------------|-----------------|----------------------------------|----------------|------------|
| Senior housing     | \$ 100,507                  | \$                | \$ 29,624        | \$ 7            | \$                               | \$ 130,138     | \$ 129,356 |
| Post-acute/skilled | 9,507                       |                   | 114,038          | 60,189          |                                  | 183,734        | 123,491    |
| Life science       | 61,631                      | 9,896             |                  |                 | 1                                | 71,528         | 58,937     |
| Medical office     | 68,247                      | 11,937            |                  |                 | 503                              | 80,687         | 48,204     |
| Hospital           | 21,681                      | 608               |                  | 330             |                                  | 22,619         | 21,067     |
| Total              | \$ 261,573                  | \$ 22,441         | \$ 143,662       | \$ 60,526       | \$ 504                           | \$ 488,706     | \$ 381,055 |

For the three months ended June 30, 2010:

| Segments           | Rental and Related Revenues | Tenant Recoveries | Income From DFLs | Interest Income | Investment Management Fee | Total Revenues | NOI(1)    |
|--------------------|-----------------------------|-------------------|------------------|-----------------|---------------------------|----------------|-----------|
| Senior housing     | \$ 75,072                   | \$                | \$ 11,995        | \$ 159          | \$ 688                    | \$ 87,914      | \$ 86,310 |
| Post-acute/skilled | 9,299                       |                   |                  | 28,279          |                           | 37,578         | 9,248     |
| Life science       | 59,109                      | 9,597             |                  |                 | 1                         | 68,707         | 56,951    |
| Medical office     | 65,224                      | 11,889            |                  |                 | 601                       | 77,714         | 44,836    |

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|          |    |         |    |        |    |        |    |        |    |        |    |         |    |         |
|----------|----|---------|----|--------|----|--------|----|--------|----|--------|----|---------|----|---------|
| Hospital |    | 21,664  |    | 582    |    | 7,718  |    | 29,964 |    | 21,670 |    |         |    |         |
| Total    | \$ | 230,368 | \$ | 22,068 | \$ | 11,995 | \$ | 36,156 | \$ | 1,290  | \$ | 301,877 | \$ | 219,015 |

For the six months ended June 30, 2011:

| Segments           | Rental and Related Revenues | Tenant Recoveries | Income From DFLs | Interest Income | Investment Management Fees | Total Revenues | NOI(1)     |
|--------------------|-----------------------------|-------------------|------------------|-----------------|----------------------------|----------------|------------|
| Senior housing     | \$ 199,558                  | \$                | \$ 43,019        | \$ 7            | \$ 70                      | \$ 242,654     | \$ 240,812 |
| Post-acute/skilled | 18,947                      |                   | 114,038          | 97,880          |                            | 230,865        | 132,911    |
| Life science       | 123,248                     | 20,704            |                  |                 | 2                          | 143,954        | 118,524    |
| Medical office     | 135,920                     | 23,980            |                  |                 | 1,039                      | 160,939        | 95,889     |
| Hospital           | 40,063                      | 1,201             |                  | 735             |                            | 41,999         | 39,075     |
| Total              | \$ 517,736                  | \$ 45,885         | \$ 157,057       | \$ 98,622       | \$ 1,111                   | \$ 820,411     | \$ 627,211 |



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For the six months ended June 30, 2010:

| Segments           | Rental and Related Revenues | Tenant Recoveries | Income From DFLs | Interest Income | Investment Management Fees | Total Revenues | NOI(1)     |
|--------------------|-----------------------------|-------------------|------------------|-----------------|----------------------------|----------------|------------|
| Senior housing     | \$ 147,415                  | \$                | \$ 24,210        | \$ 285          | \$ 1,388                   | \$ 173,298     | \$ 169,939 |
| Post-acute/skilled | 18,569                      |                   |                  | 55,886          |                            | 74,455         | 18,469     |
| Life science       | 117,734                     | 19,247            |                  |                 | 2                          | 136,983        | 113,643    |
| Medical office     | 130,411                     | 23,482            |                  |                 | 1,208                      | 155,101        | 90,299     |
| Hospital           | 40,509                      | 1,100             |                  | 15,251          |                            | 56,860         | 38,824     |
| Total              | \$ 454,638                  | \$ 43,829         | \$ 24,210        | \$ 71,422       | \$ 2,598                   | \$ 596,697     | \$ 431,174 |

(1) The Company defines NOI as rental revenues, including tenant recoveries and income from direct financing leases, less property level operating expenses. NOI excludes interest income, investment management fee income, depreciation and amortization, interest expense, general and administrative expenses, impairments, impairment recoveries, other income, net, income taxes, equity income from unconsolidated joint ventures and discontinued operations.

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

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2011                        | 2010       | 2011                      | 2010       |
| <b>Net operating income from continuing operations</b> | \$ 381,055                  | \$ 219,015 | \$ 627,211                | \$ 431,174 |
| Interest income  | 60,526                      | 36,156     | 98,622                    | 71,422     |
| Investment management fee income                       | 504                         | 1,290      | 1,111                     | 2,598      |
| Depreciation and amortization                          | (90,052)                    | (77,700)   | (181,472)                 | (155,634)  |
| Interest expense                                       | (105,129)                   | (72,745)   | (213,705)                 | (148,697)  |
| General and administrative                             | (34,872)                    | (20,525)   | (56,824)                  | (45,449)   |
| Impairment recoveries                                  |                             |            |                           | 11,900     |
| Other income, net                                      | 7,518                       | 181        | 17,830                    | 494        |
| Income taxes   | (248)                       | (571)      | (285)                     | (943)      |
| Equity income from unconsolidated joint ventures       | 14,950                      | 2,486      | 15,748                    | 3,869      |
| Total discontinued operations                          |                             | 1,008      |                           | 1,962      |
| <b>Net income</b>                                      | \$ 234,252                  | \$ 88,595  | \$ 308,236                | \$ 172,696 |

The Company's total assets by segment were:

| Segments                                  | June 30, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| Senior housing                            | \$ 5,960,535  | \$ 4,364,026      |
| Post-acute/skilled nursing                | 5,578,266     | 2,133,640         |
| Life science                              | 3,848,068     | 3,709,528         |
| Medical office                            | 2,328,693     | 2,305,175         |
| Hospital                                  | 765,884       | 770,038           |
| Gross segment assets                      | 18,481,446    | 13,282,407        |
| Accumulated depreciation and amortization | (1,566,361)   | (1,434,150)       |

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|                          |               |               |
|--------------------------|---------------|---------------|
| Net segment assets       | 16,915,085    | 11,848,257    |
| Other non-segment assets | 777,973       | 1,483,666     |
| Total assets             | \$ 17,693,058 | \$ 13,331,923 |

On October 5, 2006, simultaneous with the closing of the Company's merger with CNL Retirement Properties, Inc. ( CRP ), the Company also merged with CNL Retirement Corp. ( CRC ). CRP was a REIT that invested primarily in senior housing facilities and MOBs. Under the purchase method of accounting, the assets and liabilities of CRC were recorded at their estimated relative fair values, with \$51.7 million paid in excess of the estimated fair value of CRC's assets and liabilities 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, 2011, goodwill of \$50.3 million was allocated to segment assets as follows: (i) senior housing \$30.5 million, (ii) post-acute/skilled nursing \$3.3 million, (iii) medical office \$11.4 million, and (iv) hospital \$5.1 million.

Table of Contents**(15) Earnings Per Common Share**

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

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|--|-----------------------------|-----------|---------------------------|------------|
|  | 2011                        | 2010      | 2011                      | 2010       |
| <b>Numerator - Basic</b>   |                             |           |                           |            |
| Income from continuing operations                                      | \$ 234,252                  | \$ 87,587 | \$ 308,236                | \$ 170,734 |
| Noncontrolling interests share in continuing operations                | (5,493)                     | (3,494)   | (9,384)                   | (6,559)    |
| Income from continuing operations applicable to HCP, Inc.              | 228,759                     | 84,093    | 298,852                   | 164,175    |
| Preferred stock dividends  | (5,283)                     | (5,283)   | (10,566)                  | (10,566)   |
| Participating securities share in continuing operations                | (483)                       | (353)     | (1,347)                   | (1,270)    |
| Income from continuing operations applicable to common shares          | 222,993                     | 78,457    | 286,939                   | 152,339    |
| Discontinued operations  |                             | 1,008     |                           | 1,962      |
| Net income applicable to common shares                                 | \$ 222,993                  | \$ 79,465 | \$ 286,939                | \$ 154,301 |
| <b>Numerator - Dilutive</b>  |                             |           |                           |            |
| Income from continuing operations applicable to common shares          | \$ 222,993                  | \$ 79,465 | \$ 286,939                | \$ 152,339 |
| Add: distributions on dilutive convertible units                       | 1,656                       |           |                           |            |
| Dilutive income from continuing operations applicable to common shares | 224,649                     | 79,465    | 286,939                   | 152,339    |
| Discontinued operations  |                             | 1,008     |                           | 1,962      |
| Dilutive net income available to common stockholders                   | \$ 224,649                  | \$ 80,473 | \$ 286,939                | \$ 154,301 |
| <b>Denominator</b>   |                             |           |                           |            |
| Basic weighted-average common shares                                   | 406,193                     | 294,880   | 389,249                   | 294,056    |
| Dilutive potential common shares                                       | 5,517                       | 1,157     | 1,851                     | 1,011      |
| Diluted weighted-average common shares                                 | 411,710                     | 296,037   | 391,100                   | 295,067    |
| <b>Basic earnings per common share</b>                                 |                             |           |                           |            |
| Income from continuing operations                                      | \$ 0.55                     | \$ 0.27   | \$ 0.74                   | \$ 0.52    |
| Discontinued operations  |                             |           |                           |            |
| Net income applicable to common stockholders                           | \$ 0.55                     | \$ 0.27   | \$ 0.74                   | \$ 0.52    |
| <b>Diluted earnings per common share</b>                               |                             |           |                           |            |
| Income from continuing operations                                      | \$ 0.55                     | \$ 0.27   | \$ 0.73                   | \$ 0.52    |
| Discontinued operations  |                             |           |                           |            |
| Net income applicable to common shares                                 | \$ 0.55                     | \$ 0.27   | \$ 0.73                   | \$ 0.52    |

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, 2011 and 2010, earnings representing nonforfeitable dividends of \$0.5 million and \$0.4 million, respectively, were allocated to the participating securities. For both the six months ended June 30, 2011 and 2010, earnings representing nonforfeitable dividends of \$1.3 million were allocated to the participating securities.

Options to purchase approximately 1.1 million and 2.9 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, 2011 and 2010, respectively, were not included in the Company's earnings per share calculations because they are anti-dilutive. Restricted stock and performance restricted stock units representing 11,000 and 85,000 shares of common stock during the three months ended June 30, 2011 and 2010, respectively, were not included because they are anti-dilutive. Additionally, 2.3 million and 5.8 million shares issuable upon conversion of DownREIT units during the three months ended June 30, 2011 and 2010, respectively, were not included since they are anti-dilutive.

Table of Contents**(16) Supplemental Cash Flow Information**

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2011                      | 2010       |
| (in thousands)  |                           |            |
| <i>Supplemental cash flow information:</i>  |                           |            |
| Interest paid, net of capitalized interest  | \$ 142,940                | \$ 144,157 |
| Income taxes paid   | 1,460                     | 1,590      |
| <i>Supplemental schedule of non-cash investing activities:</i>  |                           |            |
| Capitalized interest  | 12,538                    | 10,204     |
| Accrued construction costs  | 8,278                     | 5,003      |
| Settlement of loans receivable as consideration for the HCR ManorCare Acquisition                     | 1,990,406                 |            |
| Loan received upon real estate disposition  |                           | 13,027     |
| <i>Supplemental schedule of non-cash financing activities:</i>  |                           |            |
| Restricted stock issued   |                           | 202        |
| Vesting of restricted stock units   | 228                       | 265        |
| Cancellation of restricted stock  | (35)                      | (39)       |
| Conversion of non-managing member units into common stock   | 2,599                     | 4,423      |
| Mortgages included in the consolidation of HCP Ventures II  | 635,182                   |            |
| Mortgages assumed with other real estate acquisitions   | 48,252                    |            |
| Unrealized gains on available-for-sale securities and derivatives designated as cash flow hedges, net | 290                       | (2,872)    |

See discussions of the HCR ManorCare transaction in Notes 3 and 7 and HCR Ventures II transaction in Note 8.

**(17) Variable Interest Entities**

At June 30, 2011, the Company leased 48 properties to a total of seven tenants ( VIE tenants ) where each tenant has been identified as a VIE. In addition, the Company has an investment in a loan where the borrower has been identified as a VIE. The Company has 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 these VIEs are presented below at June 30, 2011 (in thousands):

| VIE Type                     | Maximum Loss Exposure(1) | Asset/Liability Type                                      | Carrying Amount |
|------------------------------|--------------------------|---|-----------------|
| VIE tenants operating leases | \$ 363,636               | Lease intangibles, net and straight-line rent receivables | \$ 14,918       |
| VIE tenants DFLs             | 1,180,782                | Net investment in DFLs                                    | 588,294         |
| Loans senior secured         | 91,730                   | Loans receivable, net                                     | 91,730          |

(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 their current aggregate carrying amount.

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As of June 30, 2011, the Company has not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

The Company holds an interest-only, senior secured term loan made to a borrower that has been identified as a VIE. The Company does not consolidate the VIE because it does not have the ability to control the activities that most significantly impact the VIE's economic performance. The loan is collateralized by all of the assets of the borrower (comprised primarily of interests in partnerships that operate surgical facilities, some of which are on the premises of properties owned by the Company or HCP Ventures IV) and is supported in part by limited guarantees made by certain principals of Cirrus. Recourse under certain of these guarantees is limited to the guarantors' respective ownership interests in certain entities owning real estate that are pledged to secure such guarantees.

See Notes 6, 7 and 12 for additional description of the nature, purpose and activities of the Company's VIEs and interests therein.

Table of Contents**(18) Fair Value Measurements**

The following table presents the Company's fair value measurements of its financial assets and liabilities measured at fair value in the condensed consolidated balance sheet. Recognized gains and losses are recorded in other income, net on the condensed consolidated statements of income. During the six months ended June 30, 2011, there were no transfers of financial assets or liabilities within the fair value hierarchy.

The following is a summary of fair value measurements of financial assets and liabilities carried at fair value on a recurring basis at June 30, 2011 (in thousands):

| Financial Instrument              | Fair Value | Level 1   | Level 2    | Level 3  |
|-----------------------------------|------------|-----------|------------|----------|
| Marketable equity securities      | \$ 23,780  | \$ 23,780 |            |          |
| Interest-rate swap assets (1)     | 679        |           | 679        |          |
| Interest-rate swap liabilities(1) | (8,796)    |           | (8,796)    |          |
| Warrants(1)                       | 3,400      |           |            | 3,400    |
|                                   | \$ 19,063  | \$ 23,780 | \$ (8,117) | \$ 3,400 |

(1) Interest rate swap and common stock warrant values are determined based on observable and unobservable market assumptions using standardized derivative pricing models.

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

The carrying values of cash and cash equivalents, restricted cash, receivables, payables, and accrued liabilities are reasonable estimates of fair value because of the short-term maturities of these instruments. Fair values for loans receivable, mortgage debt and other debt are estimates based on rates currently prevailing for similar instruments with similar maturities. The fair values of the interest-rate swaps and warrants were determined based on observable and unobservable market assumptions using standardized derivative pricing models. The fair values of the senior unsecured notes and marketable equity securities were determined based on market quotes.

|                                | June 30, 2011  |                | December 31, 2010 |            |
|--------------------------------|----------------|----------------|-------------------|------------|
|                                | Carrying Value | Fair Value     | Carrying Value    | Fair Value |
|                                |                | (in thousands) |                   |            |
| Marketable equity securities   | \$ 23,780      | \$ 23,780      | \$                | \$         |
| Loans receivable, net          | 110,980        | 112,340        | 2,002,866         | 2,026,389  |
| Warrant                        | 3,400          | 3,400          | 1,500             | 1,500      |
| Senior unsecured notes         | 5,706,998      | 6,096,001      | 3,318,379         | 3,536,413  |
| Mortgage debt                  | 1,780,665      | 1,845,009      | 1,235,779         | 1,258,185  |
| Other debt                     | 89,466         | 89,466         | 92,187            | 92,187     |
| Interest-rate swap assets      | 679            | 679            | 3,865             | 3,865      |
| Interest-rate swap liabilities | 8,796          | 8,796          | 7,920             | 7,920      |

**(20) Derivative Instruments**

The following table summarizes the Company's outstanding interest-rate swap contracts as of June 30, 2011 (dollars in thousands):

| Date Entered     | Maturity Date  | Hedge Designation | Fixed Rate | Floating Rate Index | Notional Amount | Fair Value(1) |
|------------------|----------------|-------------------|------------|---------------------|-----------------|---------------|
| July 2005(2)     | July 2020      | Cash Flow         | 3.82%      | BMA Swap Index      | \$ 45,600       | \$ (4,923)    |
| November 2008(3) | October 2016   | Cash Flow         | 5.95%      | 1 Month LIBOR+1.50% | 28,000          | (3,353)       |
| June 2009(4)     | September 2011 | Fair Value        | 5.95%      | 1 Month LIBOR+4.21% | 250,000         | 679           |
| July 2009(5)     | July 2013      | Cash Flow         | 6.13%      | 1 Month LIBOR+3.65% | 14,100          | (520)         |

(1) Interest-rate swap assets are recorded in other assets, net and interest-rate swap liabilities are recorded in accounts payable and accrued liabilities on the condensed consolidated balance sheets.

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

(3) Acquired in conjunction with mortgage debt assumed related to real estate acquired on December 28, 2010. Hedges fluctuations in interest payments on variable-rate secured debt due to overall changes in the hedged cash flows.

(4) Hedges the changes in fair value of the Company's outstanding senior unsecured fixed-rate notes (approximately 86% of the notes maturing in September 2011) due to fluctuations in the underlying benchmark interest rate.

(5) Hedges fluctuations in interest payments on variable-rate secured debt due to fluctuations in the underlying benchmark interest rate.



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The Company uses derivative instruments to mitigate the effects of interest rate fluctuations on specific forecasted transactions as well as recognized financial obligations or assets. 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 a derivative instrument due to adverse changes in market prices (interest rates). Utilizing derivative instruments allows the Company to effectively manage the risk of fluctuations in interest rates related to the potential effects these changes could have on future earnings, forecasted cash flows and the fair value of recognized obligations.

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. The Company does not anticipate non-performance by the counterparties to its outstanding derivative contracts.

In August 2009, the Company entered into an interest-rate swap contract (pay float and receive fixed), that was designated as hedging fluctuations in interest receipts related to its participation in the variable-rate first mortgage debt of HCR ManorCare. At March 31, 2011 the Company determined, based on the anticipated closing of the HCR ManorCare Acquisition during April 2011, the underlying hedged transactions (underlying mortgage debt interest receipts) were not probable of occurring. As a result, the Company reclassified \$1 million of unrealized gains related to this interest-rate swap contract into other income, net. Concurrent with closing the HCR ManorCare Acquisition (for additional details see Note 3) the Company settled the interest-rate swap contract for proceeds of \$1 million.

At June 30, 2011, the Company expects that the hedged forecasted transactions, for each of the outstanding qualifying cash flow hedging relationships, remain probable of occurring and no additional gains or losses recorded to accumulated other comprehensive income (loss) are expected to be reclassified to earnings as a result.

To illustrate the effect of movements in the interest rate markets, the Company performed a market sensitivity analysis on its outstanding hedging instruments. The Company applied various basis point spreads to the underlying interest rate curves of the derivative portfolio in order to determine the instruments' change in fair value. The following table summarizes the results of 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 2005     | July 2020      | \$ 1,721                            | \$ (1,991)       | \$ 3,578          | \$ (3,848)        |
| November 2008 | October 2016   | 722                                 | (640)            | 1,403             | (1,322)           |
| June 2009     | September 2011 | (212)                               | 323              | (479)             | 590               |
| July 2009     | July 2013      | 139                                 | (141)            | 278               | (280)             |

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**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 our Annual report on Form 10-K for the fiscal year ended December 31, 2010, 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 period of weak economic growth;
- (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 the possibility of larger than expected litigation costs and related developments;
- (f) Competition for tenants and borrowers, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

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(g) The ability of the Company to negotiate the same or better terms with new tenants or operators 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 financial, legal and regulatory difficulties of significant operators of our properties, including Sunrise Senior Living, Inc. ( Sunrise );

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

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

(l) Changes in the reimbursement available to our operators, tenants and borrowers by governmental or private payors (including the July 2011 Centers for Medicare & Medicaid Services (CMS) final rule reducing Medicare skilled nursing facility (SNF) Prospective Payment System (PPS) payments in FY 2012 by 11.1% compared to FY 2011) and other potential changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage;

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

(n) 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.

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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
  
- 2011 Transaction Overview
  
- Dividends
  
- Critical Accounting Policies
  
- Results of Operations
  
- Liquidity and Capital Resources
  
- Non-GAAP Financial Measure Funds from Operations
  
- Off-Balance Sheet Arrangements
  
- Contractual Obligations
  
- Inflation

- Recent Accounting Pronouncements

## Executive Summary

We are a self-administered REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States ( U.S. ). We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At June 30, 2011, our portfolio of investments, including properties owned by our Investment Management Platform, consisted of interests in 1,013 facilities. Our Investment Management Platform represents the following joint ventures: (i) HCP Ventures III, LLC, (ii) HCP Ventures IV, LLC and (iii) 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. We make investments where the expected risk-adjusted return exceeds our cost of capital and strive to capitalize on our operator, tenant and other business relationships.

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

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 for these assets depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

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

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**2011 Transaction Overview**

*HCP Ventures II Purchase*

On January 14, 2011, we acquired our partner's 65% interest in a joint venture that owns 25 senior housing facilities, becoming the sole owner of the portfolio. In connection with the closing of this acquisition, we paid approximately \$136 million for the interest and assumed our partner's share of \$650 million of Fannie Mae secured debt with a weighted average fixed-rate of 5.66% and weighted average maturity of 5.3 years. At closing, we valued the joint venture's assets at approximately \$850 million. The consolidation of HCP Ventures II on January 14, 2011 resulted in a gain of \$8 million, which represents the fair value of our 35% interest in excess of our carrying value on the acquisition date.

*Genesis Debt Investment Early Payoff*

On April 1, 2011, we received \$330.4 million from the early repayment of our debt investments in Genesis HealthCare ( Genesis ). In conjunction with this early repayment, we recognized additional interest income of \$34.8 million, which represents the unamortized discount and termination fee. These debt investments were acquired in September and October 2010 for \$290 million.

*HCR ManorCare Acquisition*

On April 7, 2011, we completed our acquisition of substantially all of the real estate assets of privately-owned HCR ManorCare, Inc., for a purchase price of \$6.1 billion. We acquired 334 post-acute, skilled nursing and assisted living facilities located in 30 states, with the highest concentrations in Ohio, Pennsylvania, Florida, Illinois and Michigan. A wholly-owned subsidiary of HCR ManorCare will continue to operate the facilities pursuant to a long-term, triple-net master lease agreement supported by a guaranty from HCR ManorCare. Additionally, we exercised our option to purchase an interest in the operations of HCR ManorCare for \$95 million that represented a 9.9% equity interest at closing.

*Other Investment Transactions*

During the six months ended June 30, 2011, we made investments of \$218 million as follows: (i) acquired four life science facilities for approximately \$67 million, including assumed debt of \$48 million; (ii) acquired a medical office building for approximately \$32 million; (iii) acquired the 20-acre parcel of land situated at the gateway of South San Francisco for \$65 million; and (iv) funded construction and other capital projects of \$54 million, primarily in our life science and medical office segments.

*Financings*

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During the six months ended June 30, 2011, in connection with prefunding the HCR ManorCare Acquisition, we completed \$3.7 billion in debt and common stock offerings as follows:

- On January 24, 2011, we issued \$2.4 billion of senior unsecured notes as follows: (i) \$400 million of 2.70% notes due 2014; (ii) \$500 million of 3.75% notes due 2016; (iii) \$1.2 billion of 5.375% notes due 2021; and (iv) \$300 million of 6.75% notes due 2041. The notes have a weighted average maturity of 10.3 years and a weighted average yield of 4.83%. The net proceeds from the offering were \$2.37 billion.
- In March 2011, we completed a \$1.273 billion public offering of 34.5 million shares of common stock.

On March 11, 2011, we entered into a new \$1.5 billion unsecured revolving credit facility that replaced the existing facility, which was scheduled to mature in August 2011. Our new facility has a four-year term with a one-year committed extension option. Based on HCP's current credit ratings, the facility bears interest at LIBOR plus 150 basis points and has a facility fee of 30 basis points. We have the right to increase the commitments under the new facility by an aggregate amount of up to \$500 million, subject to customary conditions.

### **Dividends**

On July 28, 2011, we announced that our Board declared a quarterly common stock cash dividend of \$0.48 per share. The common stock dividend will be paid on August 23, 2011 to stockholders of record as of the close of business on August 8, 2011.

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**Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ) requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 condensed consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2010 in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ; our critical accounting policies have not changed during 2011.

**Results of Operations**

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office, and (v) hospital. Under the senior housing, post-acute/skilled nursing, life science and hospital segments, we invest primarily in single operator or tenant properties, through the acquisition and development of real estate, and debt issued by operators in these sectors. Under the medical office segment, we invest through the acquisition of MOBs that are leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management.

On April 7, 2011, we completed our acquisition of substantially all of HCR ManorCare's real estate assets; additionally, we exercised our option to purchase a noncontrolling equity interest in the operations of HCR ManorCare. On January 14, 2011, we acquired our partner's 65% interest in HCP Ventures II that resulted in the consolidation of HCP Ventures II. See additional information regarding the HCR ManorCare Acquisition and HCP Ventures II purchase in Notes 3 and 8, respectively, to the Condensed Consolidated Financial Statements. The results of operations from our HCR ManorCare and HCP Ventures II transactions are reflected in our financial statements from those respective dates.

Our financial results for the three months ended June 30, 2011 and 2010 are summarized as follows:

*Comparison of the Three Months Ended June 30, 2011 to the Three Months Ended June 30, 2010*

*Rental and related revenues*

| Segments | Three Months Ended June 30,<br>2011 | 2010 | Change | % |
|----------|-------------------------------------|------|--------|---|
|          | (dollars in thousands)              |      | \$     |   |



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|                            |    |         |    |         |    |        |     |
|----------------------------|----|---------|----|---------|----|--------|-----|
| Senior housing             | \$ | 100,507 | \$ | 75,072  | \$ | 25,435 | 34% |
| Post-acute/skilled nursing |    | 9,507   |    | 9,299   |    | 208    | 2   |
| Life science               |    | 61,631  |    | 59,109  |    | 2,522  | 4   |
| Medical office             |    | 68,247  |    | 65,224  |    | 3,023  | 5   |
| Hospital                   |    | 21,681  |    | 21,664  |    | 17     | 1   |
| Total                      | \$ | 261,573 | \$ | 230,368 | \$ | 31,205 | 14% |

- Senior housing.* The increase in senior housing rental and related revenues for the three months ended June 30, 2011 was primarily related to: (i) a \$15.2 million increase as a result of the consolidation of HCP Ventures II on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information), (ii) a \$6.3 million increase as a result of increased rental revenues related to the November 1, 2010 transition of 27 communities to Emeritus Corporation that were previously operated by Sunrise and (iii) increases from rent escalations and resets.

- Life science.* The increase in life science rental and related revenues was primarily the result of the additive effect of our life science facility acquisitions during 2010 and 2011.

- Medical office.* The increase in medical office rental and related revenues was primarily the result of the additive effect of our MOB acquisitions during 2010 and 2011 and increases from rent escalations and resets.

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*Income from direct financing leases*

Income from direct financing leases ( DFLs ) increased \$131.7 million to \$143.7 million for the three months ended June 30, 2011, primarily as a result of our HCR ManorCare Acquisition (see Note 3 to the Condensed Consolidated Financial Statements for additional information).

*Interest income*

For the three months ended June 30, 2011, interest income increased \$24.4 million to \$60.5 million. In April 2011, our loans to HCR ManorCare were settled and the Genesis loans were repaid, which resulted in combined incremental interest income of approximately \$57.6 million as a result of the early settlement and repayment of these loans at their fair values and par values, respectively. For a more detailed description of our loan investments and the above April 2011 transactions, see Note 7 to the Condensed Consolidated Financial Statements. This increase was partially offset by a decrease of \$32.3 million as a result of decreases in income because of the repayment and settlement of our debt investments, discussed above, interest earned from marketable debt securities that were sold in 2010 and interest earned from a loan to an affiliate of the Cirrus Group, LLC that was placed on non-accrual status during 2011.

*Investment management fee income*

Investment management fee income decreased \$0.8 million to \$0.5 million for the three months ended June 30, 2011 primarily as a result of acquiring our partner s 65% interest in HCP Ventures II on January 14, 2011.

*Depreciation and amortization expense*

Depreciation and amortization expense increased \$12.4 million to \$90.1 million for the three months ended June 30, 2011. The increase in depreciation and amortization expense was primarily related to: (i) a \$9.2 million increase as a result of the consolidation of HCP Ventures II on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information) and (ii) a \$3.9 million increase from the additive effect of our other property acquisitions during 2010 and 2011.

*Interest expense*

Interest expense increased \$32.4 million to \$105.1 million for the three months ended June 30, 2011. The increase in interest expense was primarily due to a \$29.5 million increase from our \$2.4 billion senior unsecured notes offering in January 2011 as a result of prefunding activities from our HCR ManorCare Acquisition.

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

|   | As of June 30,(1)   |                     |
|---|---------------------|---------------------|
|   | 2011                | 2010                |
| <b>Balance:</b>   |                     |                     |
| Fixed rate  | \$ 7,225,449        | \$ 4,512,975        |
| Variable rate   | 299,085             | 771,859             |
| <b>Total</b>  | <b>\$ 7,524,534</b> | <b>\$ 5,284,834</b> |
| <b>Percent of total debt:</b>                           |                     |                     |
| Fixed rate  | 96%                 | 86%                 |
| Variable rate   | 4                   | 14                  |
| <b>Total</b>  | <b>100%</b>         | <b>100%</b>         |
| <b>Weighted-average interest rate at end of period:</b> |                     |                     |
| Fixed rate  | 5.82%               | 6.26%               |
| Variable rate   | 4.05%               | 2.48%               |
| <b>Total weighted-average rate</b>                      | <b>5.75%</b>        | <b>5.71%</b>        |

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(1) Excludes \$89 million of other debt that represents Life Care Bonds at three of our senior housing facilities that are not interest bearing.

Table of Contents*General and administrative expenses*

General and administrative expenses increased \$14.3 million to \$34.9 million for the three months ended June 30, 2011. The increase in general and administrative expenses was primarily due to an increase in acquisition costs, primarily attributable to our HCR ManorCare Acquisition.

*Other income, net*

For the three months ended June 30, 2011, other income, net, increased \$7.3 million to \$7.5 million primarily as a result of \$5.7 million received in connection with a litigation settlement in June 2011. These proceeds represent amounts owed to the Company from a sale of assets.

*Equity income from unconsolidated joint ventures*

For the three months ended June 30, 2011, equity income from unconsolidated joint ventures increased \$12.5 million to \$15 million. The increase in equity income from unconsolidated joint ventures was primarily a result of equity income from HCRMC Operations, LLC (see Note 8 to the Condensed Consolidated Financial Statements for additional information), partially offset by the impact of our consolidation of HCP Ventures II on January 14, 2011, which was previously accounted for as an equity method investment.

*Noncontrolling interests share in earnings*

For the three months ended June 30, 2011, noncontrolling interests share in earnings increased \$2.0 million to \$5.5 million. The increase in noncontrolling interests share in earnings was primarily a result of the settlement of our HCR ManorCare loan investments, which resulted in a gain. A portion of the HCR ManorCare loan investments were owned by one of our consolidated partnerships to which we allocated part of the income recognized to the related non-controlling interest holder.

*Comparison of the Six Months Ended June 30, 2011 to the Six Months Ended June 30, 2010**Rental and related revenues*

| Segments       | Six Months Ended June 30, |            | \$ | Change | %   |
|----------------|---------------------------|------------|----|--------|-----|
|                | 2011                      | 2010       |    |        |     |
|                | (dollars in thousands)    |            |    |        |     |
| Senior housing | \$ 199,558                | \$ 147,415 | \$ | 52,143 | 35% |

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|                            |            |            |           |     |
|----------------------------|------------|------------|-----------|-----|
| Post-acute/skilled nursing | 18,947     | 18,569     | 378       | 2   |
| Life science               | 123,248    | 117,734    | 5,514     | 5   |
| Medical office             | 135,920    | 130,411    | 5,509     | 4   |
| Hospital                   | 40,063     | 40,509     | (446)     | (1) |
| Total                      | \$ 517,736 | \$ 454,638 | \$ 63,098 | 14% |

- Senior housing.* The increase in senior housing rental and related revenues for the six months ended June 30, 2011 was primarily related to: (i) a \$28 million increase as a result of the consolidation of HCP Ventures II on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information), (ii) a \$16 million increase as a result of increased rental revenues related to the November 1, 2010 transition of 27 communities to Emeritus Corporation that were previously operated by Sunrise and (iii) increases from the additive effects of our senior housing acquisitions during 2010.

- Life science.* The increase in life science rental and related revenues was primarily the result of the additive effect of our life science facility acquisitions during 2010 and 2011.

- Medical office.* The increase in medical office rental and related revenues was primarily the result of the additive effect of our MOB acquisitions during 2010 and 2011 and increases from rent escalations and resets.

*Income from direct financing leases*

Income from DFLs increased \$132.8 million to \$157.1 million for the six months ended June 30, 2011 primarily as a result of our HCR ManorCare Acquisition (see Note 3 to the Condensed Consolidated Financial Statements for additional information).

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*Interest income*

For the six months ended June 30, 2011, interest income increased \$27.2 million to \$98.6 million. In April 2011, our loans to HCR ManorCare were settled and the Genesis loans were repaid, which resulted in combined incremental interest income of approximately \$57.6 million as a result of the early settlement and repayment of these loans at their fair values and par values, respectively. For a more detailed description of our loan investments and the above April 2011 transactions, see Note 7 to the Condensed Consolidated Financial Statements. This increase was partially offset by a decrease of \$28.9 million as a result of decreases in income because of the repayment and settlement of our debt investments, discussed above, interest earned from marketable debt securities that were sold in 2010 and interest earned from our loan to an affiliate of the Cirrus Group, LLC that was placed on non-accrual status during 2011.

*Investment management fee income*

Investment management fee income decreased \$1.5 million to \$1.1 million for the six months ended June 30, 2011 primarily as a result of acquiring our partner's 65% interest in HCP Ventures II on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information).

*Depreciation and amortization expense*

Depreciation and amortization expense increased \$25.8 million to \$181.5 million for the six months ended June 30, 2011. The increase in depreciation and amortization expense was primarily related to: (i) a \$18.3 million increase as a result of the consolidation of HCP Ventures II on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information) and (ii) a \$7.4 million increase from the additive effect of our other property acquisitions during 2010 and 2011.

*Interest expense*

Interest expense increased \$65.0 million to \$213.7 million for the six months ended June 30, 2011. The increase in interest expense was primarily due to a \$51.5 million increase from our \$2.4 billion senior unsecured notes offering in January 2011 as a result of prefunding activities from our HCR ManorCare Acquisition and the \$11.3 million write-off of unamortized loan fees related to our bridge loan commitment.

*General and administrative expenses*

General and administrative expenses increased \$11.4 million to \$56.8 million for the six months ended June 30, 2011. The increase in general and administrative expenses was as a result of an increase in acquisition costs, primarily attributable to our HCR ManorCare Acquisition, and compensation related expenses. These increases were partially offset by a decrease in legal fees associated with litigation matters.

*Impairment recoveries*

During the six months ended June 30, 2010, we recognized aggregate income of \$11.9 million, which represents impairment recoveries of portions of previous impairment charges of investments related to Erickson. Erickson was the tenant at three of our senior housing CCRC DFLs and the borrower of a senior construction loan in which we had a participation interest (see Note 6 to the Condensed Consolidated Financial Statements).

*Other income, net*

For the six months ended June 30, 2011, other income, net, increased \$17.3 million to \$17.8 million. The increase in other income, net was primarily related to the following: (i) a gain of \$7.8 million resulting from our January 2011 acquisition of our partner's 65% interest in and consolidation of HCP Ventures II (see Note 8 to the Condensed Consolidated Financial Statements for additional information) and (ii) \$5.7 million received in connection with a litigation settlement in June 2011 for proceeds owed to the Company from a sale of assets. No similar gains or income were recognized during the six months ended June 30, 2010.

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*Equity income from unconsolidated joint ventures*

For the six months ended June 30, 2011, equity income from unconsolidated joint ventures increased \$11.9 million to \$15.7 million. The increase in equity income from unconsolidated joint ventures was primarily a result of equity income from HCRMC Operations, LLC (see Note 3 to the Condensed Consolidated Financial Statements for additional information), partially offset by the impact of our consolidation of HCP Ventures II on January 14, 2011, which was previously accounted for as an equity method investment.

*Noncontrolling interests share in earnings*

For the six months ended June 30, 2011, noncontrolling interests share in earnings increased \$2.8 million to \$9.4 million. The increase in noncontrolling interests share in earnings was primarily a result of the settlement of our HCR ManorCare loan investments, which resulted in a gain. A portion of the HCR ManorCare loan investments were owned by one of our consolidated partnerships to which we allocated part of the income recognized to the related non-controlling interest holder.

**Liquidity and Capital Resources**

Our principal liquidity needs are to: (i) fund normal operating expenses, (ii) meet debt service requirements, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make dividend distributions. We believe these needs will be satisfied using cash flows generated by operations and from our various financing activities during the next twelve months.

Access to the 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. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our debt ratings. We also pay a facility fee on the entire revolving commitment that depends upon our debt ratings. As of July 29, 2011, we had credit ratings of Baa2 (stable) from Moody's, BBB (stable) from S&P and BBB+ (stable) from Fitch on our senior unsecured debt securities, and Baa3 (stable) from Moody's, BB+ (stable) from S&P and BBB- (stable) from Fitch on our preferred equity securities.

Net cash provided by operating activities was \$433 million and \$276 million for the six months ended June 30, 2011 and 2010, respectively. The increase in operating cash flows is primarily the result of the following: (i) the additive impact of our investments in 2010 and 2011, (ii) assets placed in service during 2010 and 2011 and (iii) rent escalations and resets in 2010 and 2011. 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 used in investing activities was \$4.3 billion and \$161 million for the six months ended June 30, 2011 and 2010, respectively. The cash used investing activities for the six months ended June 30, 2011 principally reflects the net effect of: (i) \$3.8 billion used for our HCR



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ManorCare Acquisition; (ii) \$361 million used for investments in loans receivable, (iii) \$148 million used for acquisition and development of other real estate, (iv) \$136 million used in the acquisition of our partner's 65% interest in HCP Ventures II, (v) \$95 million used to purchase a noncontrolling equity interest in the operations of HCR ManorCare PropCo, (vi) \$21 million used for leasing costs and tenant and capital improvements and (vii) \$304 million received from the repayments from our investments in loans receivable.

Net cash provided by financing activities was \$3.1 billion and used in financing activities was \$131 million for the six months ended June 30, 2011 and 2010, respectively. The cash provided by financing activities for the six months ended June 30, 2011 consisted primarily of: (i) the issuance of senior unsecured notes of \$2.4 billion and (ii) net proceeds of \$1.3 billion from the issuances of common stock and exercise of stock options. The amount of cash provided by financing activities was partially offset by: (i) payments of common and preferred dividends aggregating \$385 million, (ii) repayment of mortgage debt of \$142 million, (iii) debt issuance costs of \$43 million and (iv) the purchase of noncontrolling interests of \$34 million.

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*Debt*

*Bank Line of Credit*

Our revolving line of credit facility provides for an aggregate borrowing capacity of \$1.5 billion and matures on March 11, 2015, with a one-year committed extension option. We have the right to increase the commitments under the revolving line of credit facility by an aggregate amount of up to \$500 million, subject to customary conditions. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our debt ratings. We pay a facility fee on the entire revolving commitment that depends on our debt ratings. Based on our debt ratings at July 29, 2011, the margin on the revolving line of credit facility was 1.50% and the facility fee was 0.30%. At June 30, 2011, we had no amounts drawn under this revolving line of credit facility. At June 30, 2011, \$112.7 million of aggregate letters of credit were also outstanding against the revolving line of credit facility, including a \$103 million letter of credit as a result of the Ventas litigation. For further information regarding the Ventas litigation, see Note 12 to the Condensed Consolidated Financial Statements.

Our revolving line of credit facility contains 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 60%, (iii) require a minimum Fixed Charge Coverage ratio of 1.5 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of \$8.0 billion at June 30, 2011. At June 30, 2011, we were in compliance with each of these restrictions and requirements of the revolving line of credit facility.

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

*Senior Unsecured Notes*

At June 30, 2011, we had senior unsecured notes outstanding with an aggregate principal balance of \$5.7 billion. Interest rates on the notes ranged from 1.15% to 7.07% with a weighted-average effective interest rate of 5.64% at June 30, 2011. Discounts and premiums are amortized to interest expense over the term of the related notes. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. We believe we were in compliance with these covenants at June 30, 2011.

*Mortgage Debt*

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At June 30, 2011, we had \$1.8 billion in aggregate principal amount of mortgage debt outstanding that is secured by 144 healthcare facilities that had a carrying value of \$2.8 billion. Interest rates on the mortgage debt ranged from 1.89% to 8.85% with a weighted-average effective interest rate of 6.11% at June 30, 2011.

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, 2011, we had \$89.5 million of non-interest bearing life care bonds at two of our continuing care retirement communities 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, 2011, \$33.8 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death and \$55.7 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Table of Contents*Debt Maturities*

The following table summarizes our stated debt maturities and scheduled principal repayments at June 30, 2011 (in thousands):

| <b>Year</b>                   | <b>Amount(1)</b> |
|-------------------------------|------------------|
| 2011 (Six months)             | \$ 311,556       |
| 2012                          | 323,515          |
| 2013                          | 916,895          |
| 2014                          | 670,234          |
| 2015                          | 701,530          |
| Thereafter                    | 4,600,804        |
|                               | 7,524,534        |
| (Discounts) and premiums, net | (36,871)         |
|                               | \$ 7,487,663     |

(1) Excludes \$89 million of other debt that represents Life Care Bonds at three of our senior housing facilities that have no scheduled maturities.

*Derivative Instruments*

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

The following table summarizes our outstanding interest rate swap contracts as of June 30, 2011 (dollars in thousands):

| <b>Date Entered</b> | <b>Maturity Date</b> | <b>Hedge Designation</b> | <b>Fixed Rate</b> | <b>Floating Rate Index</b> | <b>Notional Amount</b> | <b>Fair Value</b> |
|---------------------|----------------------|--------------------------|-------------------|----------------------------|------------------------|-------------------|
| July 2005(1)        | July 2020            | Cash Flow                | 3.82%             | BMA Swap Index             | \$ 45,600              | \$ (4,923)        |
| November 2008       | October 2016         | Cash Flow                | 5.95%             | 1 Month LIBOR+1.50%        | 28,000                 | (3,353)           |
| June 2009           | September 2011       | Fair Value               | 5.95%             | 1 Month LIBOR+4.21%        | 250,000                | 679               |
| July 2009           | July 2013            | Cash Flow                | 6.13%             | 1 Month LIBOR+3.65%        | 14,100                 | (520)             |

(1) Represents three interest-rate swap contracts with an aggregate notional amount of \$45.6 million.

For a more detailed description of our derivative instruments, see Note 20 of the Condensed Consolidated Financial Statements and Item 3. *Quantitative and Qualitative Disclosures About Market Risk.*

*Equity*

At June 30, 2011, we had 4.0 million shares of 7.25% Series E cumulative redeemable preferred stock, 7.8 million shares of 7.10% Series F cumulative redeemable preferred stock and 407.1 million shares of common stock outstanding. At June 30, 2011, equity totaled \$9.3 billion and our equity securities had a market value of \$15.5 billion.

At June 30, 2011, there were a total of 4.2 million DownREIT units outstanding in five limited liability companies in which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

*Shelf Registration*

We have a prospectus on file with the SEC as part of a registration statement on Form S-3, using a shelf registration process which expires in September 2012. Under this shelf process, we may sell from time to time any combination of the registered 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.

Table of Contents**Non-GAAP Financial Measure Funds From Operations ( FFO )**

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

FFO is defined as net income applicable to common shares (computed in accordance with GAAP), excluding gains or losses from real estate dispositions and upon changes in control of joint ventures, plus real estate and DFL depreciation and amortization, with adjustments for joint ventures. Adjustments for joint ventures are calculated to reflect FFO on the same basis. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income. Our computation of FFO may not be comparable to FFO reported by other real estate investment trusts that do not define the term in accordance with the current National Association of Real Estate Investment Trusts ( NAREIT ) definition or that have a different interpretation of the current NAREIT definition from us. In addition, we present FFO before the impact of impairments, recoveries, and merger-related items ( FFO as adjusted ). Management believes FFO as adjusted is a useful alternative measurement. This measure is a modification of the NAREIT definition of FFO and should not be used as an alternative to net income.

Details of certain items that affect comparability are discussed in the financials results summary of our financial results for the three and six months ended June 30, 2011 and 2010. The following is a reconciliation from net income applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP, to FFO (dollars and shares in thousands):

|   | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2011                        | 2010       | 2011                      | 2010       |
| Net income applicable to common shares  | \$ 222,993                  | \$ 79,465  | \$ 286,939                | \$ 154,301 |
| Depreciation and amortization of real estate, in-place lease and other intangibles: |                             |            |                           |            |
| Continuing operations   | 90,052                      | 77,700     | 181,472                   | 155,634    |
| Discontinued operations   |                             | 212        |                           | 1,249      |
| DFL depreciation  | 2,633                       |            | 3,005                     |            |
| Gain on sales of real estate  |                             | (65)       |                           | (65)       |
| Gain upon consolidation of joint venture  | 270                         |            | (7,769)                   |            |
| Equity income from unconsolidated joint ventures                                    | (14,950)                    | (2,486)    | (15,748)                  | (3,869)    |
| FFO from unconsolidated joint ventures  | 17,519                      | 7,636      | 20,834                    | 14,496     |
| Noncontrolling interests and participating securities share in earnings             | 5,976                       | 3,847      | 10,731                    | 7,829      |
| Noncontrolling interests and participating securities share in FFO                  | (6,582)                     | (4,434)    | (11,806)                  | (9,023)    |
| FFO applicable to common shares   | \$ 317,911                  | \$ 161,875 | \$ 467,658                | \$ 320,552 |

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|  |            |            |            |             |
|--|------------|------------|------------|-------------|
| Distributions on dilutive convertible units                            | 2,964      | 1,637      | 6,018      | 3,244       |
| Diluted FFO applicable to common shares                                | \$ 320,875 | \$ 163,512 | \$ 473,676 | \$ 323,796  |
| Diluted FFO per common share   | \$ 0.78    | \$ 0.55    | \$ 1.19    | \$ 1.08     |
| Weighted average shares used to calculate diluted FFO per common share | 413,996    | 299,474    | 397,060    | 298,525     |
| Impact of adjustments to FFO:  |            |            |            |             |
| Impairment recoveries  | \$         | \$         | \$         | \$ (11,900) |
| Merger-related items(1)  | (5,712)    |            | 26,596     |             |
|  | \$ (5,712) | \$         | \$ 26,596  | \$ (11,900) |
| FFO as adjusted applicable to common shares                            | \$ 312,199 | \$ 161,875 | \$ 494,254 | \$ 308,652  |
| Distributions on dilutive convertible units and other                  | 2,975      | 1,637      | 5,915      | 3,285       |
| Diluted FFO as adjusted  | \$ 315,174 | \$ 163,512 | \$ 500,169 | \$ 311,937  |

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|   | Three Months Ended June 30,<br>2011 |         | Six Months Ended June 30,<br>2011 |         |
|---|-------------------------------------|---------|-----------------------------------|---------|
| Diluted FFO as adjusted per common share  | \$ 0.77                             | \$ 0.55 | \$ 1.35                           | \$ 1.04 |
| Weighted average shares used to calculate diluted FFO as adjusted per common share(2) | 408,985                             | 299,474 | 371,004                           | 298,525 |

(1) Merger-related items for the three months ended June 30, 2011 attributable to the HCR ManorCare Acquisition (incurred from the 1st through the 6th of April 2011) include the following: (i) \$20.7 million of income related to gains upon the reinvestment of the Company's debt investment in HCR ManorCare and other miscellaneous items, which income was partially offset by (ii) \$13.0 million of direct transaction costs and (iii) \$2.0 million of interest expense associated with the \$2.4 billion senior unsecured notes issued on January 24, 2011, which proceeds of such offering were obtained to prefund the HCR ManorCare Acquisition. Merger-related items for the six months ended June 30, 2011 attributable to the HCR ManorCare Acquisition (incurred from January 1st through April 6th 2011) include the following: (i) \$26.8 million of direct transaction costs, (ii) \$23.9 million of interest expense associated with the \$2.4 billion senior unsecured notes issued on January 24, 2011, which proceeds of such offering were obtained to prefund the HCR ManorCare Acquisition, which increases were partially offset by (iii) \$24.1 million of income related to gains upon the reinvestment of the Company's debt investment in HCR ManorCare and other miscellaneous items.

(2) Our weighted average shares used to calculate diluted FFO as adjusted eliminate the impact of our December 2010 46 million shares common stock offering and 30 million shares from our March 2011 common stock offering (excludes 4.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares), which issuances increased our weighted average shares by 26 million for the six months ended June 30, 2011. Proceeds from these offerings were used to fund a portion of the cash consideration for the HCR ManorCare Acquisition.

**Off-Balance Sheet Arrangements**

We own interests in certain unconsolidated joint ventures as described under Note 8 to the 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 12 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**

The following table summarizes our material contractual payment obligations and commitments at June 30, 2011 (dollars in thousands):

|                                   | Total(1)     | Less than<br>One Year | 2012-2013  | 2014-2015  | More than<br>Five Years |
|-----------------------------------|--------------|-----------------------|------------|------------|-------------------------|
| Senior unsecured notes            | \$ 5,729,265 | \$ 292,265            | \$ 800,000 | \$ 887,000 | \$ 3,750,000            |
| Mortgage debt                     | 1,795,269    | 19,291                | 440,410    | 484,764    | 850,804                 |
| Development commitments(2)        | 24,969       | 15,326                | 9,643      |            |                         |
| Ground and other operating leases | 200,043      | 2,596                 | 10,651     | 9,230      | 177,566                 |



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|             |               |            |              |              |              |
|-------------|---------------|------------|--------------|--------------|--------------|
| Interest(3) | 2,677,995     | 214,451    | 768,546      | 592,839      | 1,102,159    |
| Total       | \$ 10,427,541 | \$ 543,929 | \$ 2,029,250 | \$ 1,973,833 | \$ 5,880,529 |

- 
- (1) Excludes \$89 million of other debt that represents Life Care Bonds at three of our senior housing facilities that have no scheduled maturities.
  - (2) Represents construction and other commitments for developments in progress.
  - (3) Interest on variable-rate debt is calculated using rates in effect at June 30, 2011.

### **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, post-acute/skilled nursing and hospital leases require the operator or tenant to pay all of the property operating costs or reimburse us for all such costs. We believe that inflationary increases in expenses will be offset, in part, by the operator or tenant expense reimbursements and contractual rent increases described above.

### **Recent Accounting Pronouncements**

There were no accounting pronouncements that were issued, but not yet adopted by us, that we believe will materially impact our consolidated financial statements.

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

*Interest Rate Risk.* At June 30, 2011, we are exposed to market risks related to fluctuations in interest rates on the following: (i) \$25 million of variable-rate mortgage notes debt payable (excludes \$88 million of variable-rate mortgage notes that have been hedged through interest-rate swap contracts), (ii) \$25 million of variable-rate senior unsecured notes and (iii) \$250 million of additional variable interest-rate exposure achieved through an interest-rate swap contract (pay float and receive fixed) that are partially offset by properties with a gross value of \$83 million that are subject to leases where the payments fluctuate with changes in LIBOR.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and loans receivable unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no other changes in the outstanding balance as of June 30, 2011, interest expense would increase by approximately \$2 million, or less than \$0.01 per common share on a diluted basis.

We use derivative financial instruments in the normal course of business to mitigate interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are recorded on the consolidated balance sheet at their fair value. See Note 20 to the Condensed Consolidated Financial Statements for further information.

To illustrate the effect of movements in the interest rate markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves of the derivative portfolio in order to determine the instruments' change in fair value. Assuming a one percentage point change in the underlying interest rate curve, the estimated change in fair value of each of the underlying derivative instruments would not exceed \$3.8 million. See Note 20 to the Condensed Consolidated Financial Statements for additional analysis details.

*Market Risk.* We have investments in marketable 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. An initial indicator of other-than-temporary decline in value for marketable equity securities is based on the severity of the decline in estimated fair value below the carrying value for an extended period of time. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current carrying value; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the stock, if any. At June 30, 2010, the fair value and current carrying value of marketable equity securities was \$23.8 million and \$22.4 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

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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, 2011. 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.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**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, 2010.

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

(a)

None.

(b)

None.

(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 three months ended June 30, 2011.

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| Period Covered   | Total Number<br>Of Shares<br>Purchased(1) | Average Price<br>Paid Per Share | Total Number Of Shares<br>(Or Units) Purchased As<br>Part Of Publicly<br>Announced Plans Or<br>Programs | Maximum Number (Or<br>Approximate Dollar Value)<br>Of Shares (Or Units) That<br>May Yet Be Purchased<br>Under The Plans Or<br>Programs |
|------------------|---|---------------------------------|---|--|
| April 1-28, 2011 | 5,351                                     | \$ 38.71                        |   |  |
| May 1-31, 2011   | 3,315                                     | 36.98                           |   |  |
| June 1-30, 2011  | 55  | 36.53                           |   |  |
| Total            | 8,721                                     | 38.04                           |   |  |

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

**Item 6. Exhibits**

- 2.1 Amendment to Purchase Agreement, dated as of April 7, 2011, by and among HCP, Inc., HCP 2010 REIT LLC, HCR ManorCare MergeCo, Inc., HCR ManorCare, LLC, HCR Properties, LLC and HCR Healthcare, LLC (incorporated herein by reference to Exhibit 2.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed April 12, 2011).\*\*
- 10.1 Master Lease and Security Agreement, dated as of April 7, 2011, by and between the parties set forth in Exhibit A-1, Exhibit A-2, Exhibit A-3 and Exhibit A-4 attached thereto and HCR III Healthcare, LLC (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed July 12, 2011).\*\*
- 10.2 Employment Agreement, dated May 31, 2011, by and between HCP, Inc. and James W. Mercer (incorporated herein by reference to Exhibit 10.1 to HCP's Current Report on Form 8-K (File No. 1-08895), filed May 31, 2011).
- 10.3 Separation, Consulting and General Release Agreement, dated May 26, by and between HCP, Inc. and J. Alberto Gonzalez-Pita (incorporated herein by reference to Exhibit 10.2 to HCP's Current Report on Form 8-K (File No. 1-08895), filed May 31, 2011).

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|         |   |
|---------|---|
| 10.4    | Form of CEO Time-Based Restricted Stock Unit Agreement.*  |
| 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 Timothy M. Schoen, 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 Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.     |
| 101.INS | XBRL Instance Document.*  |
| 101.SCH | XBRL Taxonomy Extension Schema Document.*   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.*   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.*  |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document.*  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.*  |

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\* Furnished herewith.

\*\* Portions of this exhibit have been omitted pursuant to a request for confidential treatment with the SEC. Management Contract or Compensatory Plan or Arrangement.

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**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 2, 2011

HCP, Inc.

(Registrant)

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

/s/ TIMOTHY M. SCHOEN  
Timothy M. Schoen  
*Executive Vice President-  
Chief Financial Officer*  
*(Principal Financial Officer)*

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