HCP, INC.
Form 10-Q
November 03, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009.

OR

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

For the transition period from to

Commission file number 1-08895

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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x NO o

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

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

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

As of October 30, 2009, there were 293,138,580 shares of the registrant s $1.00 par value common stock outstanding.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

		September 30, 2009 (Unaudited)		December 31, 2008
ASSETS				
Real estate:				
Buildings and improvements	$	7,804,118	$	7,747,015
Development costs and construction in progress		273,567		224,337
Land		1,548,845		1,548,248
Accumulated depreciation and amortization		(1,003,177)		(819,980)
Net real estate		8,623,353		8,699,620
Net investment in direct financing leases		634,233		648,234
Loans receivable, net		1,674,329		1,076,392
Investments in and advances to unconsolidated joint ventures		261,364		272,929
Accounts receivable, net of allowance of $17,430 and $18,413, respectively		36,824		33,834
Cash and cash equivalents		144,366		57,562
Restricted cash		31,988		35,078
Intangible assets, net		410,366		505,936
Real estate held for sale, net		3,783		27,058
Other assets, net		517,604		493,183
Total assets	$	12,338,210	$	11,849,826
LIABILITIES AND EQUITY				
Bank line of credit	$		$	150,000
Term loan		200,000		200,000
Bridge loan				320,000
Senior unsecured notes		3,520,577		3,523,513
Mortgage and other secured debt		1,863,404		1,641,734
Other debt		99,487		102,209
Intangible liabilities, net		207,847		232,630
Accounts payable and accrued liabilities		310,493		211,715
Deferred revenue		86,925		60,185
Total liabilities		6,288,733		6,441,986
Commitments and contingencies				
Preferred stock, $1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of $25.00 per share		285,173		285,173
Common stock, $1.00 par value: 750,000,000 shares authorized; 293,145,064 and 253,601,454 shares issued and outstanding, respectively		293,145		253,601
Additional paid-in capital		5,708,534		4,873,727
Cumulative dividends in excess of earnings		(407,210)		(130,068)
Accumulated other comprehensive loss		(9,838)		(81,162)
Total stockholders equity		5,869,804		5,201,271
Joint venture partners		7,927		12,912
Non-managing member unitholders		171,746		193,657
Total noncontrolling interests		179,673		206,569
Total equity		6,049,477		5,407,840

Total liabilities and equity	$	12,338,210	$	11,849,826

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues:				
Rental and related revenues	$ 218,366	$ 231,561	$ 663,044	$ 650,742
Tenant recoveries	22,464	20,225	67,124	61,817
Income from direct financing leases	13,173	14,543	39,302	43,646
Investment management fee income	1,326	1,523	4,133	4,448
Total revenues	255,329	267,852	773,603	760,653
Costs and expenses:				
Depreciation and amortization	82,301	77,292	242,318	232,574
Operating	46,173	49,104	139,812	143,849
General and administrative	22,860	17,077	61,625	55,859
Litigation provision	101,973		101,973	
Impairments	15,123	3,710	20,904	5,284
Total costs and expenses	268,430	147,183	566,632	437,566
Other income (expense):				
Interest and other income, net	39,962	62,283	93,027	128,344
Interest expense	(74,039)	(82,813)	(226,053)	(264,488)
Total other income (expense)	(34,077)	(20,530)	(133,026)	(136,144)
Income (loss) before income tax (expense) benefit and equity income from unconsolidated joint ventures	(47,178)	100,139	73,945	186,943
Income tax (expense) benefit	322	(853)	(1,406)	(4,327)
Equity income from unconsolidated joint ventures	1,328	1,227	1,993	3,736
Income (loss) from continuing operations	(45,528)	100,513	74,532	186,352
Discontinued operations:				
Income (loss) before gain on sales of real estate, net of income taxes	(152)	3,291	1,903	19,158
Impairments			(125)	(8,141)
Gain on sales of real estate, net of income taxes	2,460	27,752	34,357	228,395
Total discontinued operations	2,308	31,043	36,135	239,412
Net income (loss)	(43,220)	131,556	110,667	425,764
Noncontrolling interests and participating securities share in earnings	(3,895)	(6,659)	(12,147)	(19,559)
Preferred stock dividends	(5,282)	(5,282)	(15,848)	(15,848)
Net income (loss) applicable to common shares	$ (52,397)	$ 119,615	$ 82,672	$ 390,357
Basic earnings (loss) per common share:				
Continuing operations	$ (0.19)	$ 0.36	$ 0.17	$ 0.65

Discontinued operations		0.01		0.13		0.14		1.03
Net income (loss) applicable to common shares	$	(0.18)	$	0.49	$	0.31	$	1.68
Diluted earnings (loss) per common share:								
Continuing operations	$	(0.19)	$	0.36	$	0.17	$	0.65
Discontinued operations		0.01		0.13		0.14		1.03
Net income (loss) applicable to common shares	$	(0.18)	$	0.49	$	0.31	$	1.68
Weighted average shares used to calculate earnings (loss) per common share:								
Basic		284,812		244,572		267,971		232,199
Diluted		284,812		245,482		268,041		233,036
Dividends declared per common share	$	0.46	$	0.455	$	1.38	$	1.365

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Total Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
January 1, 2009	11,820	$ 285,173	253,601	$ 253,601	$ 4,873,727	$ (130,068)	$ (81,162)	$ 5,201,271	$ 206,569	$ 5,407,840
Comprehensive income:										
Net income						99,656		99,656	11,011	110,667
Change in net unrealized gains (losses) on securities:										
Unrealized gains							75,180	75,180		75,180
Less reclassification adjustment realized in net income							(2,797)	(2,797)		(2,797)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(910)	(910)		(910)
Less reclassification adjustment realized in net income							685	685		685
Change in Supplemental Executive Retirement Plan obligation							66	66		66
Foreign currency translation adjustment							(900)	(900)		(900)
Total comprehensive income								170,980	11,011	181,991
Issuance of common stock, net			39,639	39,639	830,617			870,256	(21,873)	848,383
Repurchase of common stock			(95)	(95)	(2,153)			(2,248)		(2,248)
Amortization of deferred compensation					11,068			11,068		11,068
Preferred dividends						(15,849)		(15,849)		(15,849)
Common dividends ($1.38 per share)						(360,949)		(360,949)		(360,949)
Distributions to noncontrolling interests									(11,662)	(11,662)
					(4,725)			(4,725)	(4,372)	(9,097)

Purchase of noncontrolling interests										
September 30, 2009	11,820	$ 285,173	293,145	$ 293,145	$ 5,708,534	$ (407,210)	$ (9,838)	$ 5,869,804	$ 179,673	$ 6,049,477

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net income	$ 110,667	$ 425,764
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	242,318	232,574
Discontinued operations	266	7,178
Amortization of above and below market lease intangibles, net	(12,657)	(6,020)
Stock-based compensation	11,068	10,637
Amortization of debt premiums, discounts and issuance costs, net	6,187	7,409
Straight-line rents	(38,751)	(28,645)
Interest accretion	(23,813)	(20,134)
Deferred rental revenue	10,507	16,227
Equity income from unconsolidated joint ventures	(1,993)	(3,736)
Distributions of earnings from unconsolidated joint ventures	5,444	3,736
Gain on sales of real estate	(34,357)	(228,395)
Marketable securities (gains) losses, net	(6,420)	2,746
Derivative losses, net	922	1,803
Impairments	21,029	13,425
Changes in:		
Accounts receivable	11,310	14,881
Other assets	(2,991)	(4,843)
Accrued liability for litigation provision	101,973	
Accounts payable and other accrued liabilities	(10,989)	10,776
Net cash provided by operating activities	389,720	455,383
Cash flows from investing activities:		
Acquisitions and development of real estate	(71,009)	(132,436)
Lease commissions and tenant and capital improvements	(27,321)	(44,734)
Proceeds from sales of real estate, net	58,046	629,404
Contributions to unconsolidated joint ventures	(48)	(2,620)
Distributions in excess of earnings from unconsolidated joint ventures	5,775	8,727
Purchase of marketable securities		(26,101)
Proceeds from the sale of marketable securities	119,665	10,700
Proceeds from the sales of interests in unconsolidated joint ventures		2,855
Principal repayments on loans receivable and direct financing leases	8,654	14,590
Investments in loans receivable, net	(165,506)	(2,863)
Decrease (increase) in restricted cash	3,090	(883)
Net cash provided by (used in) investing activities	(68,654)	456,639
Cash flows from financing activities:		
Net repayments under bank line of credit	(150,000)	(951,700)
Repayments of bridge loan	(320,000)	(830,000)
Repayments of mortgage debt	(206,329)	(63,740)
Issuance of mortgage debt	1,942	579,078
Repurchase and repayments of senior unsecured notes	(7,735)	(300,000)
Settlement of cash flow hedge		(9,658)

Debt issuance costs		(718)		(10,068)
Net proceeds from the issuance of common stock and exercise of options		846,135		1,060,236
Dividends paid on common and preferred stock		(376,798)		(337,097)
Purchase of noncontrolling interests		(9,097)		
Distributions to noncontrolling interests		(11,662)		(28,290)
Net cash used in financing activities		(234,262)		(891,239)
Net increase in cash and cash equivalents		86,804		20,783
Cash and cash equivalents, beginning of period		57,562		96,269
Cash and cash equivalents, end of period	$	144,366	$	117,052

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Business

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

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) as updated by the Company s Current Report on Form 8-K filed with the SEC on May 4, 2009.

Use of Estimates

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

Principles of Consolidation

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

At inception of joint venture transactions, the Company identifies entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and determines which business enterprise is the primary beneficiary of the VIE. A variable interest entity is broadly defined as an entity where either (i) the equity investors as a group, if any, do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support. The Company consolidates investments in VIEs when it is determined to be the primary beneficiary at either the creation of the VIE or upon the occurrence of a qualifying reconsideration event. Qualifying reconsideration events include, but are not limited to, the modification of contractual arrangements that affect the characteristics or adequacy of the entity s equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary. At September 30, 2009, the Company did not consolidate any significant variable interest entities.

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

At September 30, 2009, the Company had 60 properties leased to a total of eight tenants (VIE tenants) and a loan to a borrower where each tenant and borrower has been identified as a VIE. The Company acquired these leases and loan on October 5, 2006 in its merger with CNL Retirement Properties, Inc. (CRP). CRP determined it was not the primary

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

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

VIE Type	**Maximum Loss Exposure(1)**	**Asset/Liability Type**	**Carrying Value**
VIE tenants operating leases	$ 483,758	Lease intangibles, net and straight-line rent receivables	$ 7,550
VIE tenants DFLs(2)	650,000	Net investment in DFLs	215,137
Senior secured loans	81,322	Loans receivable, net	81,322
Mezzanine loans	929,942	Loans receivable, net	929,942

(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 value.

(2) Direct financing leases (DFLs).

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

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

Investments in Unconsolidated Joint Ventures

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

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale of interests in the joint venture. To the extent that the Company s cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities and included in the Company s share of equity in earnings of the joint venture. The Company evaluates its equity method investments for impairment based upon a comparison of the estimated fair value of the equity method investment to its carrying value. When the Company determines a decline in the estimated fair value of an investment in an unconsolidated joint venture below its carrying value is other-than-temporary, an impairment is recorded. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

Revenue Recognition

The Company recognizes rental revenue from tenants on a straight-line basis over the lease term when collectibility is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. For assets acquired subject to leases, the Company recognizes revenue upon acquisition of the asset provided the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant

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improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

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

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

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

For leases with minimum scheduled rent increases, the Company recognizes income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis for leases results in recognized revenue exceeding amounts contractually due from tenants. Such cumulative excess amounts are included in other assets and were $151 million and $112 million, net of allowances, at September 30, 2009 and December 31, 2008, respectively. If the Company determines that collectibility of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed and paid, and, when appropriate, establishes an allowance for estimated losses. The results for the three and nine months ended September 30, 2008 include lease termination fees of $18 million from a tenant in connection with the early termination of three leases on July 30, 2008 in the Company s life science segment.

The Company maintains an allowance for doubtful accounts, including an allowance for straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, the Company s assessment is based on amounts estimated to be recoverable over the term of the lease. At September 30, 2009 and December 31, 2008, the Company had an allowance of $54 million and $40 million, respectively, included in other assets, as a result of the Company s determination that collectibility is not reasonably assured for certain straight-line rent amounts.

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

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

The Company uses the direct finance method of accounting to record income from DFLs. For leases accounted for as DFLs, future minimum lease payments are recorded as a receivable. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured. Investments in DFLs are presented net of unamortized unearned income.

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

Allowances are established for loans and DFLs based upon an estimate of probable losses for the individual loans and DFLs deemed to be impaired. Loans and DFLs are impaired when it is deemed probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan or lease. The allowance is based upon the Company s assessment of the borrower s or lessee s overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan s or DFL s effective interest rate, the estimated fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors.

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

Real Estate

Real estate, consisting of land, buildings and improvements, is recorded at cost. The Company allocates the cost of the acquisition, including the assumption of liabilities, to the acquired tangible assets and identifiable intangibles based on their estimated fair values. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The estimated fair value of tangible assets of an acquired property is based on the value of the property as if it was vacant.

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

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

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The Company computes depreciation on properties using the straight-line method over the assets estimated useful life. Depreciation is discontinued when a property is identified as held-for-sale. Buildings and improvements are depreciated over useful lives ranging up to 45 years. Above and below market lease intangibles are amortized primarily to revenue over the remaining noncancellable lease terms and bargain renewal periods, if any. Other in-place lease intangibles are amortized to expense over the remaining noncancellable lease term and bargain renewal periods, if any.

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of real estate assets and related intangibles (real estate assets), whenever events or changes in circumstances indicate that the carrying value of such asset or asset group may not be recoverable. The Company tests its real estate assets for impairment by comparing the sum of the expected undiscounted cash flows to the carrying value of the real estate asset or asset group. If the carrying value exceeds the expected undiscounted cash flows, an impairment loss will be recognized by adjusting the carrying value of the real estate assets to their estimated fair value.

Goodwill is tested for impairment at least annually and whenever the Company identifies triggering events that may indicate an impairment has occurred by applying a two-step approach. Potential impairment indicators include a significant decline in real estate valuations, restructuring plans or a decline in the Company s market capitalization below its carrying value. The Company tests for impairment of its goodwill by comparing the estimated fair value of a reporting unit containing goodwill to its carrying value. If the carrying value exceeds the estimated fair value, the second step of the test is needed to measure the amount of potential goodwill impairment. The second step requires the estimated fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if it had been acquired in a business combination at the date of the impairment test. The excess estimated fair value of the reporting unit over the estimated fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment. The Company selected the fourth quarter of each fiscal year to perform its annual impairment test.

Assets Held for Sale and Discontinued Operations

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

Stock-Based Compensation

Share-based compensation expense for share-based awards granted on or after January 1, 2006 to employees, including grants of employee stock options, are recognized in the statement of operations based on their estimated fair value. Compensation expense for awards with graded vesting is generally recognized ratably over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional services.

Cash and Cash Equivalents

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

Restricted Cash

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

Derivatives

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

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

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific forecasted transactions as well as recognized obligations or assets in the balance sheet. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivatives that are designated in hedging transactions are highly effective in offsetting the designated risks associated with the respective hedged items. When it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues hedge accounting prospectively and records the appropriate adjustment to earnings based on the current estimated fair value of the derivative.

Income Taxes

In 1985, HCP, Inc. elected REIT status and believes it has always operated so as to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue code of 1986, as amended (the Code). Accordingly, HCP, Inc. will not be subject to U.S. federal income tax, provided that it continues to qualify as a REIT and makes distributions to stockholders equal to or in excess of its taxable income. On July 27, 2007, the Company formed HCP Life Science REIT, a consolidated subsidiary, which elected REIT status for the year ended December 31, 2007. HCP, Inc., along with its consolidated REIT subsidiary, are each subject to the REIT qualification requirements under Sections 856 to 860 of the Code. If either REIT fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates and may be ineligible to qualify as a REIT for four subsequent tax years.

HCP, Inc. and HCP Life Science REIT are subject to state and local income taxes in some jurisdictions, and in certain circumstances each REIT may also be subject to federal excise taxes on undistributed income. In addition, certain activities the Company undertakes must be conducted by entities which elect to be treated as taxable REIT subsidiaries (TRSs). TRSs are subject to both federal and state income taxes.

Marketable Securities

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

Capital Raising Issuance Costs

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

Segment Reporting

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

Noncontrolling Interests and Mandatorily Redeemable Financial Instruments

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

As of September 30, 2009, there were 4.3 million non-managing member units outstanding in six limited liability companies (LLC), for all of which the Company is the managing member: (i) HCPI/Tennessee, LLC; (ii) HCPI/Utah, LLC; (iii) HCPI/Utah II, LLC; (iv) HCP DR California, LLC; (v) HCP DR Alabama, LLC; and (vi) HCP DR MCD, LLC. The Company consolidates these entities since it exercises control and carries the noncontrolling interests at cost. The non-managing member LLC Units (DownREIT units) are exchangeable for an amount of cash approximating the then-current market value of shares in the Company s common stock or, at the Company s option, shares of the Company s common stock (subject to certain adjustments, such as stock splits and reclassifications). At September 30, 2009, the carrying and market values of the 4.3 million DownREIT units were $172 million and $170 million, respectively. The market value of DownREIT units correlates to the changes in market value of our common stock and not the market value of the respective assets owned by the DownREIT LLCs.

Life Care Bonds Payable

Two of the Company s continuing care retirement communities (CCRCs) issue non-interest bearing life care bonds payable to certain residents of the CCRCs. Generally, the bonds are refundable to the resident or to the resident s estate upon termination or cancellation of the CCRC agreement. An additional senior housing facility owned by the Company collects non-interest bearing occupancy fee deposits that are refundable to the resident or the resident s estate upon the earlier of the re-letting of the unit or after two years of vacancy. Proceeds from the issuance of new bonds are used to retire existing bonds, and since the maturity of the obligations for the three facilities is not determinable, no interest is imputed. These amounts are included in other debt in the Company s condensed consolidated balance sheets.

Fair Value Measurements

The Company measures and discloses the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

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

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

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

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

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

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Earnings per Share

Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is calculated by including the effect of dilutive securities.

On January 1, 2009, the Company adopted the participating securities provision of Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC) 260-10, *Earnings Per Share - Overall* (ASC 260-10). ASC 260-10 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in ASC 260-10. In accordance with ASC 260-10, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, all prior-period earnings per share data presented was adjusted retrospectively with no material impact.

Recent Accounting Pronouncements

In April 2009, the FASB issued additional disclosure provisions of ASC 825-10, *Financial Instruments Overall* (ASC 825-10). ASC 825-10 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual financial statements. ASC 825-10 is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption. The adoption of ASC 825-10 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

In April 2009, the FASB issued an amendment to ASC 320-10, *Investment-Debt and Equity Securities Overall* (ASC 320-10). ASC 320-10 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The amended provision of ASC 320-10 is effective for fiscal years and interim periods ending after June 15, 2009. The adoption of ASC 320-10 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

In April 2009, the FASB issued an amendment to ASC 820-10, *Fair Value Measurements and Disclosures Overall* (ASC 820-10). ASC 820-10 provides additional guidance for estimating fair value when the volume and level of activity for both financial and nonfinancial assets or liabilities have significantly decreased. ASC 820-10 is effective for fiscal years and interim periods ending after June 15, 2009 and shall be applied prospectively. The adoption of ASC 820-10 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

In May 2009, the FASB issued ASC 855, *Subsequent Events* (ASC 855). ASC 855 provides general guidelines to account for the disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. These guidelines are consistent with current accounting requirements, but clarify the period, circumstances, and disclosures for properly identifying and accounting for subsequent events. ASC 855 is effective for interim periods and fiscal years ending after June 15, 2009. The adoption of ASC 855 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

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

In June 2009, the FASB Accounting Standards Codification (the Codification) was issued in the form of ASC 105, *Generally Accepted Accounting Principles* (ASC 105). Upon issuance, the Codification became the single source of authoritative, nongovernmental US GAAP. The Codification reorganized U.S. GAAP pronouncements into accounting topics, which are displayed using a single structure. Certain SEC guidance is also included in the Codification and will follow a similar topical structure in separate SEC sections. ASC 150 is effective for interim periods and fiscal years ending after September 15, 2009. The adoption of the Codification on September 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

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Reclassifications

Certain amounts in the Company s condensed consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets and operating results reclassified from continuing to discontinued operations (see Note 4). All prior period noncontrolling interests on the condensed consolidated balance sheets have been reclassified as a component of equity and all prior period noncontrolling interests share of earnings on the condensed consolidated statements of operations have been reclassified to clearly identify net income attributable to the non-controlling interest.

(3) Real Estate Property Investments

During the nine months ended September 30, 2009, the Company funded an aggregate of $86 million for construction, tenant and other capital improvement projects primarily in the life science segment.

During the nine months ended September 30, 2008, the Company acquired a senior housing facility for $11 million, purchased a joint venture interest valued at $29 million and funded an aggregate of $126 million for construction, tenant and capital improvement projects primarily in the life science and medical office segments.

(4) Dispositions of Real Estate and Discontinued Operations

Dispositions of Real Estate

During the three months ended September 30, 2009, the Company sold two medical office buildings (MOBs) for approximately $6 million and recognized gain on sales of real estate of $2.5 million. During the three months ended September 30, 2008, the Company sold three hospitals for approximately $116 million and recognized gain on sales of real estate of approximately $28 million. The hospitals sold in 2008 included a hospital located in Tarzana, California, which was sold for $89 million resulting in a gain on sale of real estate of $18 million.

During the nine months ended September 30, 2009, the Company sold 11 properties for $58 million and recognized gain on sales of real estate of $34.4 million. The Company s sales of properties during the nine months ended September 30, 2009 were made from the following segments: (i) 81% hospital; (ii) 18% medical office; and (iii) 1% senior housing. During the nine months ended September 30, 2008, the Company sold 47 properties for approximately $629 million and recognized gain on sales of real estate of approximately $228 million. The Company s sales of properties during the nine months ended September 30, 2008 were made from the following segments: (i) 68% hospital; (ii) 15% skilled nursing; (iii) 14% medical office; and (iv) 3% senior housing.

Properties Held for Sale

At September 30, 2009, the Company held for sale one property with a carrying value of $4 million. At December 31, 2008, the Company held for sale 12 properties with an aggregate carrying value of $27 million.

Results from Discontinued Operations

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Rental and related revenues	$ 150	$ 5,912	$ 2,836	$ 34,792
Other revenues		29		51
	150	5,941	2,836	34,843
Depreciation and amortization expenses	56	414	266	7,178
Operating expenses	225	1,282	617	6,687
Other costs and expenses	21	954	50	1,820
Income (loss) before gain on sales of real estate, net of income taxes	$ (152)	$ 3,291	$ 1,903	$ 19,158
Impairments	$	$	$ 125	$ 8,141
Gain on sales of real estate	$ 2,460	$ 27,752	$ 34,357	$ 228,395
Number of properties held for sale	1	16	1	16
Number of properties sold	2	3	11	47
Number of properties included in discontinued operations	3	19	12	63

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(5) Net Investment in Direct Financing Leases

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

	September 30, 2009	December 31, 2008
Minimum lease payments receivable	$ 1,330,836	$ 1,373,283
Estimated residual values	467,248	467,248
Allowance for DFL losses (impairments)	(15,123)	
Unearned income	(1,148,728)	(1,192,297)
Net investment in direct financing leases	$ 634,233	$ 648,234
Properties subject to direct financing leases	30	30

The DFLs were acquired in the Company s merger with CRP. CRP determined that these leases were DFLs, and the Company is required to carry forward CRP s accounting conclusions after the acquisition date relative to their assessment of these leases, provided that the Company does not believe CRP s accounting to be in error. The Company believes that its accounting for the leases is appropriate and in accordance with GAAP. Certain leases contain provisions that allow the tenants to elect to purchase the properties during or at the end of the lease terms for the aggregate initial investment amount plus adjustments, if any, as defined in the lease agreements. Certain leases also permit the Company to require the tenants to purchase the properties at the end of the lease terms.

Lease payments due to the Company relating to three DFLs with a carrying value of $38 million at September 30, 2009, are subordinate to, and along with the Company s interest in the land, serve as collateral for first mortgage construction loans entered into by the tenants to fund development costs related to the properties. During the three months ended December 31, 2008, the Company determined that two of these DFLs were impaired and began recognizing income on a cost-recovery basis. During the three months ended September 30, 2009, the Company recognized provisions for DFL losses of $15.1 million, which reduces the carrying value of these DFLs to $19 million. These provisions for DFL losses reflect the anticipated restructure of these leases resulting from the bankruptcy of the lessee. On October 19, 2009, the lessees of all three DFLs filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The Company includes provisions for DFL losses in impairments in its consolidated statements of operations.

(6) Loans Receivable

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

	September 30, 2009			December 31, 2008		
	Real Estate Secured	Other	Total	Real Estate Secured	Other	Total
Mezzanine	$	$ 999,118	$ 999,118	$	$ 999,891	$ 999,891
Joint venture partners		778	778		7,055	7,055
Other	785,636	83,700	869,336	71,224	81,725	152,949
	(123,920)	(70,983)	(194,903)		(83,262)	(83,262)

Unamortized discounts, fees and costs						
Loan loss allowance					(241)	(241)
	$ 661,716	$ 1,012,613	$ 1,674,329	$ 71,224	$ 1,005,168	$ 1,076,392

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On October 5, 2006, through its merger with CRP, the Company acquired 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 conditions, under which amounts were borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships. The loan accrues interest at a rate of 14.0%, of which 9.5% is payable monthly and the balance of 4.5% is deferred until maturity. The loan is 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 HCP Ventures IV or the Company) 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 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 was extended to December 31, 2010. At September 30, 2009 and December 31, 2008, the carrying value of this loan, including accrued interest of $3 million and $0.6 million, respectively, was $85 million and $80 million, respectively. In July 2009, the Company issued a notice of default for the borrower s failure to make interest payments. Through September 30, 2009 the borrower has failed to make four of its contractual payments. However, at September 30, 2009, the Company continues to maintain this loan on accrual status as the Company believes it is reasonably assured it will collect all amounts outstanding under the loan, including accrued but unpaid interest, based on the estimated fair value of underlying collateral and guarantees supporting the loan. During the three and nine months ended September 30, 2009, the Company recognized interest income from this loan of $3.2 million and $9.1 million, respectively, and received cash payments from this borrower of $0.6 million and $3.0 million, respectively.

On December 21, 2007, the Company made an investment in mezzanine loans having an aggregate face value of $1.0 billion, for approximately $900 million, as part of the financing for The Carlyle Group s $6.3 billion purchase of HCR ManorCare. These interest-only loans mature in January 2013 and bear interest on their face values at a floating rate of one-month London Interbank Offered Rate (LIBOR) plus 4.0%. These loans are mandatorily pre-payable in January 2012 unless the borrower satisfies certain performance conditions. At closing, the loans were secured by an indirect pledge of equity ownership in 339 HCR ManorCare facilities located in 30 states and were subordinate to other debt of approximately $3.6 billion. At September 30, 2009, the carrying value of these loans was $930 million.

On August 3, 2009, the Company purchased a $720 million participation in first mortgage debt of HCR ManorCare, at a discount of $130 million, for approximately $590 million. The $720 million participation bears interest at LIBOR plus 1.25% and represents 45% of the $1.6 billion most senior tranche of HCR ManorCare s mortgage debt incurred as part of the above mentioned financing for The Carlyle Group s acquisition of Manor Care, Inc. in December 2007. The mortgage debt matures in January 2012, with a one-year extension available at the borrower s option subject to certain performance conditions, and was secured by a first lien on 331 facilities located in 30 states at closing. At September 30, 2009, the carrying value of the participation in this loan was $595 million.

(7) Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities which are accounted for under the equity method at September 30, 2009 (dollars in thousands):

Entity(1)	**Properties**		**Investment(2)**	**Ownership%**
HCP Ventures II	25 senior housing facilities	$	139,064	35
HCP Ventures III, LLC	13 MOBs		11,092	30
HCP Ventures IV, LLC	54 MOBs and 4 hospitals		41,284	20
HCP Life Science(3)	4 life science facilities		63,991	50 - 63
Suburban Properties, LLC	1 MOB		3,727	67

Advances to unconsolidated joint ventures, net			2,206	
		$	261,364	
Edgewood Assisted Living Center, LLC(4)(5)	1 senior housing facility	$	(488)	45
Seminole Shores Living Center, LLC(4)(5)	1 senior housing facility		(888)	50
		$	259,988	

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

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

(3) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships: (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

(4) As of September 30, 2009, the Company has guaranteed in the aggregate $4 million of a total of $8 million of notes payable for these joint ventures. No amounts have been recorded related to these guarantees at September 30, 2009.

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

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

		September 30, 2009		December 31, 2008
Real estate, net	$	1,659,879	$	1,703,308
Other assets, net		192,210		184,297
Total assets	$	1,852,089	$	1,887,605
Notes payable	$	1,162,994	$	1,172,702
Accounts payable		44,526		39,883
Other partners capital		465,557		488,860
HCP s capital(1)		179,012		186,160
Total liabilities and partners capital	$	1,852,089	$	1,887,605

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2009		2008		2009		2008(1)
Total revenues	$	46,366	$	46,522	$	138,833	$	138,938
Net income (loss)		2		1,615		(1,093)		5,408
HCP s equity income		1,328		1,227		1,993		3,736
Fees earned by HCP		1,326		1,523		4,133		4,448
Distributions received, net		4,202		4,208		11,219		12,463

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

(8) Intangibles

At September 30, 2009 and December 31, 2008, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles, below market ground lease intangibles and intangible assets related to non-compete agreements, were $617 million and $680 million, respectively. At September 30, 2009 and December 31, 2008, the accumulated amortization of intangible assets was $207 million and $174 million, respectively.

At September 30, 2009 and December 31, 2008, below market lease intangibles and above market ground lease intangibles were $289 million and $294 million, respectively. At September 30, 2009 and December 31, 2008, the accumulated amortization of intangible liabilities was $81 million and $61 million, respectively.

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

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(9) Other Assets

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

	September 30, 2009	December 31, 2008
Marketable debt securities	$ 201,163	$ 228,660
Marketable equity securities	3,931	3,845
Straight-line rent assets, net	151,132	112,038
Deferred debt issuance costs, net	19,909	23,512
Goodwill	50,346	51,746
Other	91,123	73,382
Total other assets	$ 517,604	$ 493,183

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

			Gross Unrealized	
	Cost Basis (1)	Fair Value	Gains	Losses
September 30, 2009:				
Debt securities	$ 195,830	$ 201,163	$ 7,033	$ (1,700)
Equity securities	3,695	3,931	417	(181)
Total investments	$ 199,525	$ 205,094	$ 7,450	$ (1,881)
December 31, 2008:				
Debt securities	$ 295,138	$ 228,660	$	$ (66,478)
Equity securities	4,181	3,845		(336)
Total investments	$ 299,319	$ 232,505	$	$ (66,814)

(1) Represents the original cost basis of the marketable securities adjusted for discount accretion and other-than-temporary impairments recorded through earnings, if any.

At September 30, 2009, $176 million of the Company s marketable debt securities accrue interest at 9.625% and mature in November 2016 and $20 million accrue interest at 9.25% and mature in May 2017. The issuers of these notes may elect to pay interest in cash or by issuing additional notes for all or a portion of the interest payments. In November 2008, the issuer of the Company s 9.625% debt securities elected to make its next interest payment by issuing additional notes, and in May 2009, the Company received $14 million of additional debt securities in lieu of its cash interest payment. In May 2009, the issuer of the Company s 9.625% debt securities elected to make its next interest payment in cash.

Marketable securities with unrealized losses at September 30, 2009 are not considered to be other-than-temporarily impaired as the Company has the intent and ability to hold these investments for a period of time sufficient to allow for an anticipated recovery in fair value. In addition, it is not likely that the Company will be required to sell its marketable debt securities prior to the recovery of their amortized cost basis.

During the three months ended September 30, 2008, the Company purchased $26 million of senior secured notes with an aggregate par value of $27 million that accrue interest at 9.625% and mature in November 2016. During the three months ended September 30, 2009, the Company sold marketable debt securities for $115 million, which resulted in gains of approximately $6 million. During the nine months ended September 30, 2009 and 2008, the Company sold debt securities for $120 million and $11 million, respectively, which resulted in gains of approximately $7 million and $1 million, respectively. During the nine months ended September 30, 2008, the Company recognized a $3.5 million loss related to an other-than-temporary impairment on marketable equity securities with a carrying value of $8 million. Gains and losses and other-than-temporary impairment losses related to available-for-sale marketable securities are included in interest and other income, net in each respective period.

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(10) Debt

Bank Line of Credit and Bridge and Term Loans

The Company s revolving line of credit facility with a syndicate of banks provides for an aggregate borrowing capacity of $1.5 billion and matures on August 1, 2011. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 0.325% to 1.00%, depending upon the Company s debt ratings. The Company pays a facility fee on the entire revolving commitment ranging from 0.10% to 0.25%, depending upon its debt ratings. Based on the Company s debt ratings at September 30, 2009, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At September 30, 2009, the Company had no outstanding amounts under this revolving line of credit facility.

At September 30, 2009, the outstanding balance of the Company s term loan was $200 million and matures on August 1, 2011. The term loan accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 1.825% to 2.375%, depending upon the Company s debt ratings (weighted-average effective interest rate of 2.73% at September 30, 2009). Based on the Company s debt ratings at September 30, 2009, the margin on the term loan was 2.00%.

The Company s revolving line of credit facility and term loan contain certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreement (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 65%, (iii) require a Fixed Charge Coverage ratio of 1.75 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of $4.9 billion at September 30, 2009. At September 30, 2009, the Company was in compliance with each of these restrictions and requirements of the revolving line of credit facility and term loan.

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

Senior Unsecured Notes

At September 30, 2009, the Company had $3.5 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 1.20% to 7.07%. The weighted-average effective interest rate on the senior unsecured notes at September 30, 2009 was 6.13%. 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, cross-acceleration provisions and other customary terms. At September 30, 2009, the Company was in compliance with these covenants.

Mortgage and Other Secured Debt

At September 30, 2009, the Company had $1.9 billion in mortgage debt secured by 168 healthcare facilities with a carrying value of $2.4 billion. Interest rates on the mortgage notes ranged from 0.33% to 8.63% with a weighted average effective rate of 5.10% at September 30, 2009.

On August 3, 2009, in connection with the Company s purchase of a $720 million (face value) participation in first mortgage debt of HCR ManorCare, the Company incurred $425 million in secured debt financing. This debt matures in January 2013, subject to certain conditions, and is secured by the first mortgage debt participation. See Note 6 for additional disclosures regarding this participating interest pledged as collateral for this debt.

On August 27, 2009, the Company repaid early $100 million of variable-rate mortgage debt. The mortgage debt, with an original maturity of January 2010, was repaid with proceeds from the Company s August 2009 public equity offering and third quarter asset sales.

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

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Other Debt

At September 30, 2009, the Company had $99 million of non-interest bearing life care bonds at two of its CCRCs and non-interest bearing occupancy fee deposits at another of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds). At September 30, 2009, $44 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $55 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Debt Maturities

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

Year	Term Loan	Senior Unsecured Notes	Mortgage and Other Secured Debt(1)	Other Debt(2)	Total
2009 (3 months)	$	$	$ 22,813	$ 99,487	$ 122,300
2010		206,421	115,046		321,467
2011	200,000	292,265	140,235		632,500
2012		250,000	63,776		313,776
2013		550,000	675,104		1,225,104
Thereafter		2,237,000	843,114		3,080,114
	$ 200,000	$ 3,535,686	$ 1,860,088	$ 99,487	$ 5,695,261

(1) On October 15, 2009, the Company exercised its election to extend the maturity date of $86 million of mortgage debt from 2010 to 2015. The above table reflects the reclassification of the portion of the mortgage debt that was extended to September 2015.

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

(11) Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company s business. Regardless of their merits, these matters may force the Company to expend significant financial resources. Except as described in this Note 11, the Company is not aware of any other legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company s business, prospects, financial condition or results of operations. The Company s policy is to accrue legal expenses as they are incurred.

On May 3, 2007, Ventas, Inc. (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.

Ventas sought approximately $300 million in compensatory damages plus punitive damages. On July 16, 2009, the District Court dismissed Ventas s claim that HCP interfered with Ventas s purchase agreement with Sunrise REIT, dismissed claims for compensatory damages based on alleged financing and other costs, and allowed Ventas s claim of interference with prospective advantage to proceed to trial. Ventas s claim was tried before a jury between August 18, 2009 and September 4, 2009. During the trial, the District Court dismissed Ventas s claim for punitive damages. On September 4, 2009, the jury returned a verdict in favor of Ventas in the amount of approximately $102 million in compensatory damages. The District Court entered a judgment against the Company in that amount on September 8, 2009. In relation to the Ventas matter, the Company recorded $102 million as a litigation provision expense during the three months ended September 30, 2009.

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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 has not yet ruled on those motions. The Company intends to continue to defend itself on appeal, including by appealing the adverse judgment.

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

In response to each of the complaints, Sunrise has asserted counterclaims against the Company, the relevant Company subsidiaries and tenants alleging that (i) such Company subsidiaries and tenants have breached contractual duties and the implied covenant of good faith and fair dealing under the management and related agreements; (ii) the Company and the relevant Company subsidiaries have intentionally interfered with tenants performance of the management agreements; and (iii) the Company, the relevant Company subsidiaries and tenants have conspired to harm Sunrise s business and reputation. The Company, the relevant Company subsidiaries and tenants have collectively filed motions to dismiss the counterclaims in both jurisdictions.

A trial date has not been set by either court. The Company expects that enforcing its and the Companies subsidiaries rights, and potentially defending against Sunrise s counterclaims, will require it to expend significant funds. There can be no assurance that the Company subsidiaries or its tenants will prevail in their claims against Sunrise or in defending against Sunrise s counterclaims.

On June 30, 2008, the Company, Health Care Property Partners (HCPP), a joint venture between the Company and an affiliate of Tenet Healthcare Corporation (Tenet), and Tenet executed a definitive settlement agreement relating to complaints filed by certain Tenet subsidiaries against the Company. On September 19, 2008, the parties closed the transactions contemplated by the settlement agreement, effecting, among other things: (i) the sale of a hospital in Tarzana, California, by the Company to a Tenet affiliate, (ii) the extension of the terms of three other hospitals leased by the Company to affiliates of Tenet, and (iii) the acquisition by the Company of Tenet s 23% interest in HCPP. During the three months ended September 30, 2008, the Company recognized $28.6 million of income from this settlement of the above disputes, which was included in interest and other income, net and a gain of real estate for the sale of the hospital in Tarzana, California, of $18 million.

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The fair value of consideration exchanged and related income recognized as a result of the Company s September 2008 settlement with Tenet follows (in thousands):

Consideration received		
Cash proceeds for hospital in Tarzana, California and other settlement	$	105,760
Fair value of Tenet s 23% interest in HCPP		29,137
Total consideration received	$	134,897
Consideration given		
Fair value of hospital in Tarzana, California	$	88,900
Cash paid for Tenet s interest in HCPP		17,379
Total consideration given	$	106,279
Settlement income	$	28,618

The gain on the sale of the Company s hospital in Tarzana, California to Tenet consisted of the following (in thousands):

Fair value of hospital, net of costs	$	88,609
Carrying value of hospital sold		(70,590)
Gain on sale of real estate	$	18,019

Development Commitments

As of September 30, 2009, the Company was committed under the terms of contracts to complete the construction of properties undergoing development at a remaining aggregate cost of approximately $10.8 million.

Concentration of Credit Risk

Concentrations of credit risks arise when a number of operators, tenants or obligors related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of risks. Management believes the current portfolio is reasonably diversified across healthcare related real estate and does not contain any other significant concentration of credit risks, except as disclosed herein. The Company does not have significant foreign operations.

On September 30, 2009, the Company had investments in mezzanine and secured loans to HCR ManorCare with an aggregate face value of $1.7 billion and a carrying value of $1.5 billion. At September 30, 2009, the carrying value of these investments represented approximately 85% of the Company s skilled nursing segment assets and 12% of its total segment assets.

On September 30, 2009, the Company had 60 of its senior housing facilities, excluding the 15 communities transitioned on October 1, 2009 discussed below, leased to eight tenants that have been identified as VIE tenants. These VIE tenants are thinly capitalized entities that rely on the cash flows generated from the senior housing facilities to pay operating expenses, including the rent obligations under their leases. The 60 senior housing facilities leased to the VIE tenants are operated by Sunrise. Sunrise is a publicly traded company and is subject to the informational filing requirements of the Securities and Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC.

On October 1, 2009, the Company completed the transition of management agreements on 15 communities operated by Sunrise that were previously terminated for Sunrise s failure to achieve certain performance thresholds. The transition of these facilities to new operators reduced the Company s Sunrise-managed properties in its portfolio to 75 communities from the original 101 communities HCP acquired in the 2006 CRP transaction. The termination of the agreements did not require the payment of a termination fee to Sunrise by its tenants or the Company.

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

DownREIT LLCs

In connection with the formation of certain DownREIT LLCs, many members contribute appreciated real estate to the DownREIT LLC in exchange for DownREIT units. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if the contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specially allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those

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members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Code (make-whole payments). These make-whole payments include a tax gross-up provision.

Credit Enhancement Guarantee

Certain of the Company s senior housing facilities serve as collateral for $133 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as investments in DFLs, were acquired in the Company s merger with CRP. As of September 30, 2009, the DFLs had a carrying value of $355 million.

Environmental Costs

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

General Uninsured Losses

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

(12) Equity

Preferred Stock

At September 30, 2009, the Company had two series of preferred stock outstanding, Series E and Series F preferred stock. The Series E and Series F preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of the Company. Holders of each series of preferred stock generally have no voting rights, except under limited conditions, and all holders are entitled to receive cumulative preferential dividends based upon each series respective liquidation preference. To preserve the Company s status as a REIT, each series of preferred stock is subject to certain restrictions on ownership and transfer. Dividends are payable quarterly in arrears on the last day of March, June, September and December. The Series E and Series F preferred stock are currently redeemable at the Company s option.

The following table lists the Series E cumulative redeemable preferred stock cash dividends paid and/or declared by the Company during the nine months ended September 30, 2009:

Declaration Date	Record Date		Amount Per Share	Dividend Payable Date
February 2	March 16	$	0.45313	March 31
April 23	June 15		0.45313	June 30
July 29	September 15		0.45313	September 30
October 29	December 15		0.45313	December 31

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The following table lists the Series F cumulative redeemable preferred stock cash dividends paid and/or declared by the Company during the nine months ended September 30, 2009:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
February 2	March 16	$ 0.44375	March 31
April 23	June 15	0.44375	June 30
July 29	September 15	0.44375	September 30
October 29	December 15	0.44375	December 31

Common Stock

During the nine months ended September 30, 2009 and 2008, the Company issued 106,000 and 397,000 shares of common stock, respectively, under its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company issued 525,000 and 2 million shares of common stock upon the conversion of DownREIT units during the nine months ended September 30, 2009 and 2008, respectively. The Company also issued 26,000 and 623,000 shares upon exercise of stock options during the nine months ended September 30, 2009 and 2008, respectively.

During the nine months ended September 30, 2009 and 2008, the Company issued 305,000 and 144,000 shares of restricted stock, respectively, under the Company s 2000 Stock Incentive Plan, as amended, and the Company s 2006 Performance Incentive Plan. The Company also issued 182,000 and 131,000 shares upon the vesting of performance restricted stock units during the nine months ended September 30, 2009 and 2008, respectively.

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

On August 10, 2009, the Company completed a $441 million public offering of 17.8 million shares of its common stock at a price of $24.75 per share. The Company received net proceeds of $423 million, which were used to repay the total outstanding indebtedness under the Company s revolving line of credit facility, including borrowings for the acquired participation in first mortgage debt of HCR ManorCare, with the remainder used for general corporate purposes.

The following table lists the common stock cash dividends paid and/or declared by the Company during the nine months ended September 30, 2009:

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

July 29	August 6	0.46	August 19
October 29	November 9	0.46	November 24

Accumulated Other Comprehensive Income (Loss) (AOCI)

	September 30, 2009	December 31, 2008
	(in thousands)	
AOCI unrealized gains (losses) on available-for-sale securities, net	$ 5,569	$ (66,814)
AOCI unrealized losses on cash flow hedges, net	(11,954)	(11,729)
Supplemental Executive Retirement Plan minimum liability	(1,755)	(1,821)
Cumulative foreign currency translation adjustment	(1,698)	(798)
Total accumulated other comprehensive loss	$ (9,838)	$ (81,162)

Noncontrolling Interests

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

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Total Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	$ (43,220)	$ 131,556	$ 110,667	$ 425,764
Other comprehensive income (loss)	8,981	(20,683)	71,324	(26,779)
Total comprehensive income (loss)	$ (34,239)	$ 110,873	$ 181,991	$ 398,985

Substantially all of other comprehensive income for the three and nine months ended September 30, 2009 and 2008 related to the change in the estimated fair value of the Company s available-for-sale marketable debt securities. See additional discussions of available-for-sale marketable debt securities in Note 9.

(13) Segment Disclosures

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, the Company invests primarily in single operator or tenant properties, through the acquisition and development of real estate, and debt issued by operators in these sectors. Under the medical office segment, the Company invests through the acquisition of 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 under Summary of Significant Accounting Policies (see Note 2). There were no intersegment sales or transfers during the nine months ended September 30, 2009 and 2008. 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 and deferred financing costs. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company s performance measure. See Note 11 for other information regarding concentrations of credit risk.

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

For the three months ended September 30, 2009:

Segments	NOI(1)

	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues		Interest and Other
Senior housing	$ 68,625	$	$ 13,173	$ 703	$ 82,501	$ 82,050	$ 304
Life science	53,536	9,696			63,232	51,302	
Medical office	65,419	12,271		623	78,313	44,117	
Hospital	20,986	497			21,483	20,600	16,343
Skilled nursing	9,800				9,800	9,761	23,416
Total segments	218,366	22,464	13,173	1,326	255,329	207,830	40,063
Non-segment							(101)
Total	$ 218,366	$ 22,464	$ 13,173	$ 1,326	$ 255,329	$ 207,830	$ 39,962

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For the three months ended September 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 70,554	$	$ 14,543	$ 867	$ 85,964	$ 82,031	$ 311
Life science	65,997	7,513		1	73,511	63,697	
Medical office	65,108	12,300		655	78,063	42,025	
Hospital	20,752	412			21,164	20,337	11,074
Skilled nursing	9,150				9,150	9,135	20,811
Total segments	231,561	20,225	14,543	1,523	267,852	217,225	32,196
Non-segment							30,087
Total	$ 231,561	$ 20,225	$ 14,543	$ 1,523	$ 267,852	$ 217,225	$ 62,283

For the nine months ended September 30, 2009:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 217,353	$	$ 39,302	$ 2,224	$ 258,879	$ 252,714	$ 880
Life science	159,072	30,311		2	189,385	154,744	
Medical office	196,266	35,319		1,907	233,492	133,048	
Hospital	62,164	1,494			63,658	61,116	39,047
Skilled nursing	28,189				28,189	28,036	54,751
Total segments	663,044	67,124	39,302	4,133	773,603	629,658	94,678
Non-segment							(1,651)
Total	$ 663,044	$ 67,124	$ 39,302	$ 4,133	$ 773,603	$ 629,658	$ 93,027

For the nine months ended September 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 210,102	$	$ 43,646	$ 2,457	$ 256,205	$ 244,987	$ 914
Life science	155,527	25,180		3	180,710	149,187	
Medical office	195,914	35,272		1,988	233,174	130,310	
Hospital	62,274	1,365			63,639	61,003	33,344
Skilled nursing	26,925				26,925	26,869	64,797
Total segments	650,742	61,817	43,646	4,448	760,653	612,356	99,055
Non-segment							29,289
Total	$ 650,742	$ 61,817	$ 43,646	$ 4,448	$ 760,653	$ 612,356	$ 128,344

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

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

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net operating income from continuing operations	$ 207,830	$ 217,225	$ 629,658	$ 612,356
Investment management fee income	1,326	1,523	4,133	4,448
Depreciation and amortization	(82,301)	(77,292)	(242,318)	(232,574)
General and administrative	(22,860)	(17,077)	(61,625)	(55,859)
Litigation provision	(101,973)		(101,973)	
Impairments	(15,123)	(3,710)	(20,904)	(5,284)
Interest and other income, net	39,962	62,283	93,027	128,344
Interest expense	(74,039)	(82,813)	(226,053)	(264,488)
Income tax (expense) benefit	322	(853)	(1,406)	(4,327)
Equity income from unconsolidated joint ventures	1,328	1,227	1,993	3,736
Total discontinued operations	2,308	31,043	36,135	239,412
Net income (loss)	$ (43,220)	$ 131,556	$ 110,667	$ 425,764

The Company s total assets by segment were:

Segments	**September 30, 2009**	**December 31, 2008**
Senior housing	$ 4,414,818	$ 4,437,358
Life science	3,599,250	3,545,913
Medical office	2,287,591	2,277,702
Hospital	1,008,261	1,033,206
Skilled nursing	1,797,976	1,191,091
Gross segment assets	13,107,896	12,485,270
Accumulated depreciation and amortization	(1,129,460)	(933,178)
Net segment assets	11,978,436	11,552,092
Real estate held for sale, net	3,783	27,058
Non-segment assets	355,991	270,676
Total assets	$ 12,338,210	$ 11,849,826

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

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

(14) Derivative Instruments

The Company uses derivative instruments to mitigate the effects of interest rate fluctuations on specific forecasted transactions as well as recognized 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 with respect to the potential effects these changes could have on future earnings, forecasted cash flows and the fair value of recognized obligations.

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

On June 12, 2009, the Company executed an interest-rate swap contract (pay float and receive fixed), which is designated as hedging the changes in fair value of fixed-rate senior unsecured notes due to fluctuations in the underlying benchmark interest rate. The fair value hedge terminates in September 2011, has a notional amount of $250 million, and hedges approximately 86% of the $292 million of outstanding senior unsecured notes maturing in September 2011. The estimated fair value of the contract at September 30, 2009 was $2.5 million and is included in other assets, net. During the nine months ended September 30, 2009, there was no ineffective portion related to the hedge.

On August 20, 2009, the Company executed two interest-rate swap contracts (pay float and receive fixed), which are designated as hedging fluctuations in interest receipts on a participation interest in a floating-rate secured mortgage note due to fluctuations in the underlying benchmark interest rate. These cash flow hedges terminate in February and August 2011 and have an aggregate notional amount of $500 million. The aggregate estimated fair value of the contracts at September 30, 2009 was $0.9 million and is included in other assets, net. During the three and nine months ended September 30, 2009, there were no ineffective portions related to the hedges.

The Company also had four interest-rate swap contracts outstanding at September 30, 2009, which hedge fluctuations in interest payments on variable-rate secured debt. At September 30, 2009, these interest-rate swap contracts had an aggregate notional amount of $60 million and estimated fair value of $4 million included in accounts payable and accrued liabilities. During the three and nine months ended September 30, 2009, there were no ineffective portions related to these hedging relationships.

During October and November 2007, the Company entered into two forward-starting interest-rate swap contracts with an aggregate notional amount of $900 million and settled the contracts during the three months ended June 30, 2008. The interest-rate swap contracts were designated in qualifying, cash flow hedging relationships, to hedge the Company s exposure to fluctuations in the benchmark interest rate component of interest payments on forecasted, unsecured, fixed-rate debt currently expected to be issued in 2010. During the three and nine months ended September 30, 2009, there were no ineffective portions related to these hedging relationships.

At September 30, 2009, the Company expects that the hedged forecasted transactions, for each of the outstanding qualifying cash flow hedging relationships, remain probable of occurring and no gains or losses recorded to accumulated other comprehensive income (loss) are expected to be reclassified to earnings as a result.

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

Date Entered	Maturity Date	Hedge Designation	Fixed Rate	Floating Rate Index	Notional Amount	Fair Value
July 2005	July 2020	Cash Flow	3.82%	BMA Swap Index	$ 45,600	$ (3,909)

June 2009	September 2011	Fair Value	5.95%	1 Month LIBOR	250,000	2,461
July 2009	July 2013	Cash Flow	6.13%	1 Month LIBOR	14,600	(192)
August 2009	February 2011	Cash Flow	0.87%	1 Month LIBOR	250,000	315
August 2009	August 2011	Cash Flow	1.24%	1 Month LIBOR	250,000	551

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

		Effects of Change in Interest Rates			
Date Entered	**Maturity Date**	**+50 Basis Points**	**-50 Basis Points**	**+100 Basis Points**	**-100 Basis Points**
July 2005	July 2020	$ 1,930	$ (2,318)	$ 4,055	$ (4,442)
June 2009	September 2011	(2,653)	1,820	(5,114)	4,732
July 2009	July 2013	254	(266)	513	(525)
August 2009	February 2011	(1,718)	1,719	(3,436)	3,437
August 2009	August 2011	(2,279)	2,393	(4,615)	4,729

Other Financial Derivative Instruments

As part of the Company s acquisition of SEUSA in August 2007, the Company received two warrants to purchase common stock in publicly traded corporations that currently expire in 2015 and 2016. At September 30, 2009, these derivative instruments had an aggregate fair value of $1.5 million, which is included in other assets, net. During the nine months ended September 30, 2009, the Company recognized a charge of $0.6 million in interest and other income, net due to a decrease in fair value of these instruments.

The following table summarizes the Company s outstanding equity warrant instruments as of September 30, 2009 (dollars in thousands):

Acquisition Date	**Expiration Date**	**Hedge Designation**	**Warrant Shares**	**Fair Value**
August 2007	September 2015	Not Designated	50,000	$ 132
August 2007	March 2016	Not Designated	200,000	$ 1,336

(15) Supplemental Cash Flow Information

	Nine Months Ended September 30, 2009	2008
	(in thousands)	
Supplemental cash flow information:		
Interest paid, net of capitalized interest	$ 236,905	$ 280,103
Taxes paid	2,101	4,266
Supplemental schedule of non-cash investing activities:		
Capitalized interest	18,994	22,479
Accrued construction costs	(3,359)	(10,604)
Loan received upon real estate disposition	251	
Supplemental schedule of non-cash financing activities:		
Mortgages assumed with real estate acquisitions		4,892

Secured debt obtained in purchase of participation in secured loan receivable	425,042	
Restricted stock issued	305	144
Vesting of restricted stock units	182	131
Cancellation of restricted stock	(34)	108
Conversion of non-managing member units into common stock	21,873	74,509
Unrealized gains on available-for-sale securities and derivatives designated as cash flow hedges, net	73,436	32,836

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(16) Earnings (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator				
Income (loss) from continuing operations	$ (45,528)	$ 100,513	$ 74,532	$ 186,352
Noncontrolling interests and participating securities share in continuing operations	(3,895)	(6,323)	(12,147)	(18,974)
Preferred stock dividends	(5,282)	(5,282)	(15,848)	(15,848)
Income (loss) from continuing operations applicable to common shares	(54,705)	88,908	46,537	151,530
Discontinued operations	2,308	31,043	36,135	239,412
Noncontrolling interests share in discontinued operations		(336)		(585)
Net income (loss) applicable to common shares	$ (52,397)	$ 119,615	$ 82,672	$ 390,357
Denominator				
Basic weighted average common shares	284,812	244,572	267,971	232,199
Dilutive stock options and restricted stock		910	70	837
Diluted weighted average common shares	284,812	245,482	268,041	233,036
Basic earnings (loss) per common share				
Income (loss) from continuing operations	$ (0.19)	$ 0.36	$ 0.17	$ 0.65
Discontinued operations	0.01	0.13	0.14	1.03
Net income (loss) applicable to common stockholders	$ (0.18)	$ 0.49	$ 0.31	$ 1.68
Diluted (loss) earnings per common share				
Income (loss) from continuing operations	$ (0.19)	$ 0.36	$ 0.17	$ 0.65
Discontinued operations	0.01	0.13	0.14	1.03
Net income (loss) applicable to common shares	$ (0.18)	$ 0.49	$ 0.31	$ 1.68

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 September 30, 2009 and 2008, earnings representing nonforfeitable dividends of $0.4 million and $0.5 million, respectively, were allocated to the participating securities. For the nine months ended September 30, 2009 and 2008, earnings representing nonforfeitable dividends of $1.1 million and $1.9 million, respectively, were allocated to the participating securities.

Options to purchase approximately 7.1 million and 0.5 million shares of common stock that had an exercise price in excess of the average market price of the common stock during the three months ended September 30, 2009 and 2008, respectively, were not included because they are anti-dilutive. Restricted stock and performance restricted stock units representing 1.5 million and 0.4 million shares of common stock during the three months ended September 30, 2009 and 2008, respectively, were not included because they are anti-dilutive. Additionally, 5.9 million shares issuable upon conversion of 4.3 million DownREIT units during the three months ended September 30, 2009 were not included since they are anti-dilutive. During the three months ended September 30, 2008, 8.0 million shares issuable upon conversion of 5.6 million DownREIT units were not included since they were anti-dilutive.

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(17) Fair Value Measurements

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

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

Financial Instrument	Fair Value	Level 1	Level 2	Level 3
Marketable debt securities	$ 201,163	$ 182,863	$ 18,300	$
Marketable equity securities	3,931	3,931		
Interest-rate swap assets(1)	3,327		3,327	
Interest-rate swap liabilities(1)	(4,101)		(4,101)	
Warrants(1)	1,468			1,468
	$ 205,788	$ 186,794	$ 17,526	$ 1,468

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

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

	Warrants
December 31, 2008	$ 1,460
Total gains (realized and unrealized):	
Included in earnings	(582)
Included in other comprehensive income	
Purchases, issuances, exchanges and settlements, net	590
Transfers in and/or out of Level 3	
September 30, 2009	$ 1,468

(18) 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, bank line of credit, bridge and term loans, mortgage and other secured debt, and other debt are estimates based on rates currently prevailing for similar instruments of similar maturities. The estimated fair values of the interest-rate swaps and warrants were determined based on observable market assumptions and standardized derivative pricing models. The fair values of the senior unsecured notes and marketable equity and debt securities were determined based on market quotes.

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Loans receivable, net	$ 1,674,329	$ 1,662,685	$ 1,076,392	$ 981,128
Marketable debt securities	201,163	201,163	228,660	228,660
Marketable equity securities	3,931	3,931	3,845	3,845
Warrants	1,468	1,468	1,460	1,460
Bank line of credit			150,000	150,000
Bridge and term loans	200,000	200,000	520,000	520,000
Senior unsecured notes	3,520,577	3,520,482	3,523,513	2,384,488
Mortgage and other secured debt	1,863,404	1,836,879	1,641,734	1,538,057
Other debt	99,487	99,487	102,209	102,209
Interest-rate swap assets	3,327	3,327		
Interest-rate swap liabilities	(4,101)	(4,101)	2,324	2,324

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(19) Impairments

During the three months ended September 30, 2009, the Company recognized impairments of $15.1 million related to two of its DFLs (see Note 5). During the three months ended September 30, 2008, the Company recognized an impairment of $3.7 million related to intangible assets associated with the early termination of three leases in the life science segment.

During the nine months ended September 30, 2009, the Company recognized impairments of $21.0 million as a result of (i) $15.1 million related to two of its DFLs and (ii) $5.9 million related to intangible assets on 12 of 15 senior housing communities which were determined to be impaired due to the termination of the Sunrise management agreements effective October 1, 2009. During the nine months ended September 30, 2008, the Company recognized impairments of $13.4 million as follows: (i) $1.6 million related to two senior housing facilities as a result of a decrease in expected cash flows, (ii) $8.1 million, included in discontinued operations, related to the decrease in expected cash flows and anticipated dispositions of two senior housing properties and one hospital, and (iii) $3.7 million related to intangible assets associated with the early termination of three leases in the life science segment.

(20) Subsequent Events

The Company evaluated subsequent events through November 3, 2009, which is the date the September 30, 2009 condensed consolidated financial statements were issued.

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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, antic forecast, plan, estimate, could, would, should and other comparable and derivative terms or the negatives thereof. In addition, we, througl officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, while forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under Part I, Item 1A. Risk Factors in the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2008, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

(a) Changes in national and local economic conditions, including a prolonged recession;

(b) Continued volatility in the capital markets, including changes in interest rates and the availability and cost of capital;

(c) The ability of the Company to manage its indebtedness level and changes in the terms of such indebtedness;

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

(e) The potential impact of existing and future litigation matters, including the possibility of larger than expected litigation costs and related development;

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

(g) The ability of the Company to reposition its properties on the same or better terms if existing leases are not renewed or the Company exercises its right to replace an existing operator or tenant upon default;

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

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

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

(k) The risk that we will not be able to sell or lease properties that are currently vacant, at all or at competitive rates;

(l) The financial, legal and regulatory difficulties of significant operators of our properties, including Sunrise Senior Living, Inc. and its subsidiaries (Sunrise);

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

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

(o) Changes in the reimbursement available to our tenants and borrowers by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage.

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

Executive Summary

We are a self-administered REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States. We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At September 30, 2009, our portfolio of investments, excluding assets held for sale, but including properties owned by our Investment Management Platform, consisted of interests in 677 facilities. Our Investment Management Platform represents the following joint ventures: (i) HCP Ventures II, (ii) HCP Ventures III, LLC, (iii) HCP Ventures IV, LLC, and (iv) the HCP Life Science ventures.

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

Our strategy contemplates acquiring and developing properties on terms that are favorable to us. We attempt to structure transactions that are tax-advantaged and mitigate risks in our underwriting process. Generally, we prefer larger, more complex private transactions that leverage our management team s experience and our infrastructure. We seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not primarily dependent on Medicaid reimbursement for their revenues.

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. During the nine months ended September 30, 2009, we sold 11 properties for $58 million and marketable debt securities for $120 million.

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

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and occupancy levels; (ii) maximize tenant recoveries given the underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

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

Access to external capital on favorable terms is critical to the success of our strategy. Generally, we attempt to match the long-term duration of most of our investments with long-term fixed-rate financing. At September 30, 2009, 17% of our consolidated debt is at variable interest rates, which includes our $200 million term loan and $498 million of mortgage and other secured debt. We intend to maintain an investment grade rating on our senior unsecured debt securities and manage various capital ratios and amounts within appropriate parameters.

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

2009 Transaction Overview

Investments

During the nine months ended September 30, 2009, we purchased the remaining interests in three senior housing joint ventures for $9 million, which included $14 million of real estate encumbered by $5 million of mortgage debt, and funded $86 million for construction and other capital projects primarily in our life science segment.

During the nine months ended September 30, 2009, we sold 11 properties with an aggregate value of $58 million primarily from our hospital and medical office segments, including our Los Gatos, California hospital for $45 million. During the nine months ended September 30, 2009, we received proceeds of $120 million for the sale of marketable debt securities from our hospital segment.

On August 3, 2009, we purchased a $720 million participation in first mortgage debt of HCR ManorCare, at a discount of $130 million, for approximately $590 million. The $720 million participation bears interest at the London Interbank Offer Rate (LIBOR) plus 1.25% and represents 45% of the $1.6 billion most senior tranche of HCR ManorCare s mortgage debt incurred as part of the financing for The Carlyle Group s acquisition of Manor Care, Inc. in December 2007. The mortgage debt matures in January 2012, with a one-year extension available at the borrower s option subject to certain performance conditions, and was secured by a first lien on 331 facilities located in 30 states at closing. We obtained favorable financing to fund 72% of the purchase price, resulting in a net cash payment by HCP of $166 million.

Financings

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

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

On August 10, 2009, we completed a $441 million public offering of 17.8 million shares of our common stock at a price of $24.75 per share. We received net proceeds of $423 million, which were used to repay the total outstanding indebtedness under our revolving line of credit facility, including borrowings for the additional investment in HCR ManorCare discussed above, with the remainder used for general corporate purposes.

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On August 20, 2009, we entered into two interest-rate swap contracts (pay float and receive fixed) with an aggregate notional amount of $500 million that terminate in 2011. The interest-rate swap contracts reduced our net floating rate asset exposure, which had increased as a result of our additional investment in HCR ManorCare and third quarter repayments of floating rate debt, which were both funded with proceeds from our August 2009 public equity offering.

On August 27, 2009, we prepaid $100 million of variable-rate mortgage debt. The mortgage debt, with an original maturity of January 2010, was repaid with proceeds from our August 2009 public equity offering and third quarter asset sales.

Other

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

On September 4, 2009, a jury returned a verdict in favor of Ventas, Inc. (Ventas), in an action brought against us in the United States District Court for the Western District of Kentucky for tortious interference with prospective business advantage in connection with Ventas s 2007 acquisition of Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT). The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the quarter ended September 30, 2009. Ventas originally sought approximately $300 million in compensatory damages as well as punitive damages. We filed a motion with the court for post-trial relief and we intend to appeal an adverse judgment.

On October 1, 2009, we completed the transition of management agreements on 15 communities operated by Sunrise that were previously terminated for Sunrise s failure to achieve certain performance thresholds. The transition of these facilities to new operators reduced our Sunrise-managed properties in our portfolio to 75 communities from the original 101 communities we acquired in the 2006 CNL Retirement Properties, Inc. transaction. The termination of the agreements did not require the payment of a termination fee to Sunrise by our tenants or us.

Dividends

On October 29, 2009, we announced that our Board declared a quarterly common stock cash dividend of $0.46 per share. The common stock dividend will be paid on November 24, 2009 to stockholders of record as of the close of business on November 9, 2009.

Critical Accounting Policies

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

Results of Operations

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, we invest primarily in single operator or tenant properties, through the acquisition and development of real estate, 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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Condensed Consolidated Financial Statements).

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

Comparison of the Three Months Ended September 30, 2009 to the Three Months Ended September 30, 2008

Rental and related revenues

Segments	Three Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Senior housing	$ 68,625	$ 70,554	$ (1,929)	(3)%
Life science	53,536	65,997	(12,461)	(19)
Medical office	65,419	65,108	311	
Hospital	20,986	20,752	234	1
Skilled nursing	9,800	9,150	650	7
Total	$ 218,366	$ 231,561	$ (13,195)	(6)%

- *Senior housing.* The decrease in senior housing rental and related revenues for the three months ended September 30, 2009 primarily relates to a $2.5 million decrease in the facility-level operating revenues for three senior housing properties that were previously under management agreements and re-leased on a triple-net basis during 2009.

- *Life science.* Included in life science rental and related revenues for the three months ended September 30, 2008 are lease termination fees of $18 million from a tenant in connection with the early termination of three leases on July 30, 2008. No similar early termination fees were recognized during the three months ended September 30, 2009. The decrease in life science rental and related revenues was partially offset by an increase in occupancy levels at our life science facilities and the impact of development assets placed in service during 2008.

Tenant recoveries

Segments	Three Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Life science	$ 9,696	$ 7,513	$ 2,183	29%
Medical office	12,271	12,300	(29)	
Hospital	497	412	85	21
Total	$ 22,464	$ 20,225	$ 2,239	11%

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

Income from direct financing leases

Income from direct financing leases (DFLs) decreased $1.4 million to $13.2 million for the three months ended September 30, 2009. The decrease was primarily due to two DFLs that were placed on non-accrual status and accounted for on a cost-recovery basis beginning in October 2008. We expect income from DFLs will remain lower in 2009 as compared to 2008 as a result of these DFLs (See Note 5 to the Condensed Consolidated Financial Statements).

Depreciation and amortization expense

Depreciation and amortization expense increased $5.0 million to $82.3 million for the three months ended September 30, 2009. Depreciation and amortization expense for the three months ended September 30, 2009 included $4.7 million of accelerated amortization of intangible assets as a result of the modification of the lease term of a tenant in one of our life science facilities. No similar lease modifications were made during the three months ended September 30, 2008.

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Operating expenses

Segments	Three Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Senior housing	$ (252)	$ 3,066	$ (3,318)	NM(1)
Life science	11,930	9,813	2,117	22
Medical office	33,573	35,383	(1,810)	(5)
Hospital	883	827	56	7
Skilled nursing	39	15	24	NM(1)
Total	$ 46,173	$ 49,104	$ (2,931)	(6)%

(1) Percentage change not meaningful.

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

- *Senior housing.* The decrease in senior housing operating expenses primarily relates to a decrease in facility-level operating expenses for two senior housing properties that were previously under management agreements and re-leased on a triple-net basis during 2009.

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

- *Medical office.* Medical office operating expenses decreased primarily as a result of cost saving initiatives implemented in 2009.

General and administrative expenses

General and administrative expenses increased $5.8 million to $22.9 million for the three months ended September 30, 2009. The increase in general and administrative expenses was primarily due to an increase in legal fees associated with litigation matters. For the three months ended September 30, 2009 and 2008, in relation to the Ventas litigation matter, we incurred legal expenses of $6.2 million and $1.5 million, respectively (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Litigation provision

On September 4, 2009 a jury returned a verdict in favor of Ventas, in an action brought against us in the United States District Court for the Western District of Kentucky for tortious interference with prospective business advantage in connection with Ventas s 2007 acquisition of Sunrise REIT. The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the quarter ended September 30, 2009 (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Impairments

During the three months ended September 30, 2009, we recognized impairments of $15.1 million related to two of our senior housing DFLs as a result of an anticipated restructure of the underlying leases (see Note 5 to the Condensed Consolidated Financial Statements). During the three months ended September 30, 2008, we recognized impairments of $3.7 million related to intangible assets associated with the early termination of three leases in our life science segment.

Interest and other income, net

For the three months ended September 30, 2009, interest and other income, net decreased $22.3 million to $40.0 million. This decrease was primarily related to: (i) $28.6 million of income in 2008 related to the settlement of litigation with Tenet Healthcare Corporation (Tenet), (ii) a $5.1 million decrease in interest earned on variable-rate loans related to a decline in LIBOR and (iii) a decrease in interest income earned from cash and cash equivalents. The decrease was partially offset by: (i) gain on sales of marketable debt securities of $6.1 million during the three months ended September 30, 2009 and (ii) additional interest income of $7.7 million from the $720 million participation in first mortgage debt of HCR ManorCare purchased in August 2009.

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

Interest expense

Interest expense decreased $8.8 million to $74 million for the three months ended September 30, 2009. The decrease was primarily due to (i) $5.5 million from the repayment of the outstanding balance under our bridge loan and revolving line of credit facility, (ii) a $2.0 million decrease resulting from the repayment of $300 million senior unsecured floating rate notes in September 2008 and (iii) $1.1 million from higher capitalized interest related to assets placed in re-development. This decrease in interest expense was partially offset by a $1.0 million increase in interest expense from the net impact of mortgage debt placed on senior housing assets in 2008 and the repayment and prepayment of mortgage debt.

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

	As of September 30,	
	2009	**2008**
Balance:		
Fixed rate	$ 4,722,757	$ 5,223,688
Variable rate	972,504	741,869
Total	$ 5,695,261	$ 5,965,557
Percent of total debt:		
Fixed rate	83%	88%
Variable rate	17	12
Total	100%	100%
Weighted average interest rate at end of period:		
Fixed rate	6.32%	6.27%
Variable rate	2.49%	3.54%
Total weighted average rate	5.66%	5.93%

Income tax (expense) benefit

For the three months ended September 30, 2009, income tax expense decreased $1.2 million to a benefit of $0.3 million. This decrease is primarily due to lower interest earned due to a decline in LIBOR from a portion of one of our mezzanine loan investments and increased depreciation expense due to a correction of an immaterial error of one of our real estate investments, each of which are held in a taxable REIT subsidiary (TRS).

Discontinued operations

The decrease of $28.7 million in income from discontinued operations to $2.3 million for the three months ended September 30, 2009 compared to $31.0 million for the comparable period in the prior year is primarily due to a decrease in gains on real estate dispositions of $25.3 million. During the three months ended September 30, 2009 and 2008, we sold two properties for $5.8 million and three properties for $116 million, respectively. Discontinued operations for the three months ended September 30, 2009 included three properties compared to 19 properties for the three months ended September 30, 2008.

Noncontrolling interests and participating securities share in earnings

For the three months ended September 30, 2009, noncontrolling interests and participating securities share in earnings decreased $2.8 million to $3.9 million. This decrease was primarily due to (i) a $1.0 million decrease related to the conversions of 3.3 million of our noncontrolling interest DownREIT units into 4.2 million shares of our common stock from January 1, 2008 to September 30, 2009 and (ii) a $1.6 million decrease related to our purchase of other non-controlling interests.

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Comparison of the Nine Months Ended September 30, 2009 to the Nine Months Ended September 30, 2008

Rental and related revenues

Segments	Nine Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Senior housing	$ 217,353	$ 210,102	$ 7,251	3%
Life science	159,072	155,527	3,545	2
Medical office	196,266	195,914	352	
Hospital	62,164	62,274	(110)	
Skilled nursing	28,189	26,925	1,264	5
Total	$ 663,044	$ 650,742	$ 12,302	2%

- *Senior housing.* Senior housing rental and related revenues for the nine months ended September 30, 2009 includes $6.4 million resulting from an adjustment to the purchase price allocation of certain assets acquired in 2006. No similar adjustments or additional rents were made in the nine months ended September 30, 2008. As a result of the transfer of an 11-property senior housing portfolio to Emeritus Corporation on December 1, 2008, we recognized an increase of $7.8 million primarily related to straight-line rents during the nine months ended September 30, 2009. These increases were partially offset by (i) additional rents from property level expense credits of $3.2 million related to our properties operated by Sunrise received in the nine months ended September 30, 2008 and (ii) a $5.3 million decrease in the facility-level operating revenues for three senior housing properties that were previously under management agreements and re-leased on a triple-net basis during 2009. No similar additional rents were received during the nine months ended September 30, 2009.

- *Life science.* The increase in life science rental and related revenues was primarily a result of a $21 million impact from development assets placed in service during 2008. Included in life science rental and related revenues for the nine months ended September 30, 2008 are lease termination fees of $18 million from a tenant in connection with the early termination of three leases on July 30, 2008. No similar early termination fees were recognized during the nine months ended September 30, 2009.

Tenant recoveries

Segments	Nine Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Life science	$ 30,311	$ 25,180	$ 5,131	20%
Medical office	35,319	35,272	47	
Hospital	1,494	1,365	129	9
Total	$ 67,124	$ 61,817	$ 5,307	9%

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

Income from direct financing leases

Income from DFLs decreased $4.3 million to $39.3 million for the nine months ended September 30, 2009. The decrease was primarily due to two DFLs that were placed on non-accrual status and accounted for on a cost-recovery basis beginning October 2008. We expect income from DFLs will remain lower in 2009 as compared to 2008 as a result of these DFLs (See Note 5 to the Condensed Consolidated Financial Statements).

Depreciation and amortization expense

Depreciation and amortization expense increased $9.7 million to $242.3 million for the nine months ended September 30, 2009. The increase in depreciation and amortization expense was primarily related to: (i) $4.7 million of accelerated amortization of intangible assets as a result of the modification of to the lease term of a tenant in one of our life science facilities, (ii) $3.1 million of the increase relates to development assets placed in service during 2008,

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(iii) $4.1 million relates to the purchase in September 2008 of Tenet noncontrolling interest in Health Care Property Partners, a joint venture between HCP and an affiliate of Tenet, and (iv) $2.0 million resulting from an adjustment to the purchase price allocation related to certain assets acquired in 2006. The increase in depreciation and amortization expense was partially offset by $3.3 million due to the impact of properties which were taken out of service and placed into redevelopment during 2008 and 2009.

Operating expenses

Segments	Nine Months Ended September 30, 2009	2008	Change $	%
	(dollars in thousands)			
Senior housing	$ 3,941	$ 8,761	$ (4,820)	(55)%
Life science	34,639	31,520	3,119	10
Medical office	98,537	100,876	(2,339)	(2)
Hospital	2,542	2,636	(94)	(4)
Skilled nursing	153	56	97	NM(1)
Total	$ 139,812	$ 143,849	$ (4,037)	(3)%

(1) Percentage change not meaningful.

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

- *Senior housing.* The decrease in senior housing operating expenses primarily relates to a decrease in facility-level operating expenses for two senior housing properties that were previously under management agreements and re-leased on a triple-net basis during 2009.

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

- *Medical office.* Medical office operating expenses decreased primarily as a result of cost saving initiatives implemented in 2009.

General and administrative expenses

General and administrative expenses increased $5.8 million to $61.6 million for the nine months ended September 30, 2009. The increase in general and administrative expenses was primarily due to an increase in legal fees associated with litigation matters partially offset by lower compensation related expenses. For the nine months ended September 30, 2009 and 2008, in relation to the Ventas litigation matter, we incurred legal expenses of $12.7 million and $4.5 million, respectively (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Litigation provision

On September 4, 2009 a jury returned a verdict in favor of Ventas, Inc., in an action brought against us in the United States District Court for the Western District of Kentucky for tortious interference with prospective business advantage in connection with Ventas s 2007 acquisition of Sunrise REIT. The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the quarter ended September 30, 2009 (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Impairments

During the nine months ended September 30, 2009, we recognized impairments of $21 million as a result of (i) $15.1 million related to two of our senior housing DFLs as a result of an anticipated restructure of the underlying leases (see Note 5 to the Condensed Consolidated Financial Statements), and (ii) $5.9 million of intangible assets on 12 of 15 senior housing communities that were determined to be impaired due to the termination of the Sunrise management agreements on 15 senior housing communities effective October 1, 2009. During the nine months ended September 30, 2008, we recognized impairments of $13.4 million as follows: (i) $3.7 million related to intangible assets associated with the early termination of three leases in the life science segment, (ii) $1.6 million related to two senior housing facilities as a result of a decrease in expected cash flows, and (iii) $8.1 million, included in discontinued operations, related to the decrease in expected cash flows and anticipated dispositions of two senior housing properties and one hospital.

Interest and other income, net

For the nine months ended September 30, 2009, interest and other income, net decreased $35.3 million to $93.0 million. This decrease was primarily related to: (i) $28.6 million of income in 2008 related to the settlement of litigation with Tenet, (ii) a $17.7 million decrease in interest earned on variable-rate loans related to a decline in the LIBOR and repayment of various loans receivable, (iii) $1.4 million related to the sales of interests in two of our unconsolidated joint ventures in 2008 and (iv) a decrease in interest income related to cash balances and resulting from loan repayments of $3.7 million. The decrease was partially offset by: (i) additional interest income of $7.7 million from the $720 million participation in first mortgage debt of HCR ManorCare purchased in August 2009, (ii) increases in net gains on marketable securities of $3.4 million, (iii) a $3.5 million of other-than-temporary impairment on marketable equity securities in 2008, and (iv) a hedge ineffectiveness charge of $2.4 million upon the settlement of two forward-starting interest-rate swap contracts that were settled in June 2008.

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

Interest expense

Interest expense decreased $38.4 million to $226.1 million for the nine months ended September 30, 2009. The decrease was primarily due to (i) $38.5 million from the repayment of the outstanding balance under our bridge loan and revolving line of credit facility, and (ii) a $8.3 million decrease resulting from the repayment of $300 million senior unsecured floating rate notes in September 2008. This decrease in interest expense was partially offset by a $9.4 million increase in interest expense from the net impact of mortgage debt placed on senior housing assets in 2008 and the repayment of mortgage debt related to contractual maturities.

Income tax expense

For the nine months ended September 30, 2009, income tax expense decreased $2.9 million to $1.4 million. This decrease is primarily due to lower interest earned due to a decline in LIBOR from a portion of one of our mezzanine loan investments and increased depreciation expense due to a correction of an immaterial error of one of our real estate investments, each of which are held in a TRS.

Equity income from unconsolidated joint ventures

For the nine months ended September 30, 2009, equity income from unconsolidated joint ventures decreased $1.7 million to $2.0 million. This decrease was primarily due to a change in the expected useful life of certain intangible assets related to one of our unconsolidated joint ventures that resulted in lower equity income due to higher amounts of amortization expense.

Discontinued operations

The decrease of $203.3 million in income from discontinued operations to $36.1 million for the nine months ended September 30, 2009 was primarily due to a decrease in gains on real estate dispositions of $194 million, and a decline in operating income from discontinued operations of $17.3 million. During the nine months ended September 30, 2009 and 2008, we sold 11 properties for $58 million and 47 properties for $629 million, respectively. Discontinued operations for the nine months ended September 30, 2009 included 12 properties compared to 63 properties for the nine months ended September 30, 2008.

Noncontrolling interests and participating securities

For the nine months ended September 30, 2009, noncontrolling interests and participating securities share in earnings decreased $7.4 million to $12.1 million. This decrease is primarily due to (i) a $3.9 million decrease related to the conversions of 3.3 million of our noncontrolling interest DownREIT units into 4.2 million shares of our common stock from January 1, 2008 to September 30, 2009 and (ii) a $2.7 million decrease related to our purchase of other non-controlling interests.

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Liquidity and Capital Resources

Our principal liquidity needs are to (i) fund normal operating expenses, (ii) meet debt service requirements, including $22.8 million of our mortgage debt maturing in the remainder of 2009, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make minimum distributions required to maintain our REIT qualification under the Code. We believe these needs will be satisfied using cash flows generated by operating activities, provided by financing activities and from sales of assets during the next twelve months.

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

Net cash provided by operating activities was $390 million and $455 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease in operating cash flows from operations primarily reflects the 2008 litigation settlement income and termination fees. The decrease was partially offset by increased revenues, as well as fluctuations in receivables, payables, accruals and deferred revenue. 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 $69 million during the nine months ended September 30, 2009 and principally reflects fundings of $166 million for investments in loans receivable and $71 million for development of real estate, which were partially offset by sales of $120 million of marketable securities and $58 million of proceeds from sales of real estate. During the nine months ended September 30, 2009 and 2008, we used $27 million and $45 million, respectively, to fund lease commissions and tenant and capital improvements.

Net cash used in financing activities was $234 million for the nine months ended September 30, 2009 and principally reflects the net effects of: (i) repayment of our bridge loan credit facility of $320 million, (ii) net repayments under our bank revolving line of credit of $150 million, (iii) payments of common and preferred dividends aggregating $377 million, and (iv) repayment of our mortgage debt of $206 million. The amount of cash used in financing activities was partially offset by net proceeds of $846 million from the issuances of common stock.

At September 30, 2009, we held approximately $23.5 million in deposits and $33.6 million in irrevocable letters of credit from commercial banks securing tenants lease obligations and borrowers loan obligations. We may draw upon the letters of credit or depository accounts if there are defaults under the related leases or loans. Amounts available under letters of credit could change based upon facility operating conditions and other factors, and such changes may be material.

Debt

Bank Line of Credit and Bridge and Term Loans

Our revolving line of credit facility with a syndicate of banks provides for an aggregate borrowing capacity of $1.5 billion and matures on August 1, 2011. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 0.325% to 1.00%, depending upon our debt ratings. We pay a facility fee on the entire revolving commitment ranging from 0.10% to 0.25%, depending upon our debt ratings. Based on our debt ratings on September 30, 2009, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At September 30, 2009, we had no outstanding amounts under this revolving line of credit facility.

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At September 30, 2009, the outstanding balance of our term loan was $200 million and matures on August 1, 2011. The term loan accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 1.825% to 2.375%, depending upon our debt ratings (weighted-average effective interest rate of 2.73% at September 30, 2009). Based on our debt ratings at September 30, 2009, the margin on the term loan was 2.00%.

Our revolving line of credit facility and term loan contain certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreement, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 65%, (iii) require a Fixed Charge Coverage ratio of 1.75 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of $4.9 billion at September 30, 2009. At September 30, 2009, we were in compliance with each of these restrictions and requirements of our revolving line of credit facility and term loan.

Our revolving line of credit facility and term loan also contain cross-default provisions to other indebtedness of ours, including in some instances, certain mortgages on our properties. Certain mortgages contain default provisions relating to defaults under the leases or operating agreements on the applicable properties by our operators or tenants, including default provisions relating to the bankruptcy 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.

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

Senior Unsecured Notes

At September 30, 2009, we had $3.5 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 1.20% to 7.07% with a weighted average effective interest rate of 6.13% at September 30, 2009. 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, cross-acceleration provisions and other customary terms. At September 30, 2009, we were in compliance with these covenants.

Mortgage and Other Secured Debt

At September 30, 2009, we had $1.9 billion in mortgage debt secured by 168 healthcare facilities with a carrying value of $2.4 billion. Interest rates on the mortgage notes ranged from 0.33% to 8.63% with a weighted average effective interest rate of 5.10% at September 30, 2009.

On August 3, 2009, in connection with our purchase of a $720 million (face value) participation in first mortgage debt of HCR ManorCare, we incurred $425 million in secured debt financing. This debt matures in January 2013, subject to certain conditions, and is secured by the first mortgage debt participation. See Note 6 to the Condensed Consolidated Financial Statements for additional disclosures regarding this participating interest pledged as collateral for this debt.

On August 27, 2009, we repaid early $100 million of variable-rate mortgage debt. The mortgage debt, with an original maturity of January 2010, was repaid with proceeds from our August 2009 public equity offering and third quarter asset sales.

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 September 30, 2009, we had $99 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 September 30, 2009, $44 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $55 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

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Debt Maturities

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

Year		**Amount**
2009 (3 months)	$	122,300
2010		321,467
2011		632,500
2012		313,776
2013		1,225,104
Thereafter(1)		3,080,114
	$	5,695,261

(1) On October 15, 2009, we exercised our election to extend the maturity date of $86 million of mortgage debt from 2010 to 2015. The above table reflects the reclassification of the portion of the mortgage debt that was extended to September 1, 2015.

Derivative Instruments

On June 12, 2009, we executed an interest-rate swap contract (pay float and receive fixed), which is designated as hedging the changes in fair value of fixed-rate senior unsecured notes due to fluctuations in the underlying benchmark interest rate. The fair value hedge terminates in September 2011, has a notional amount of $250 million, and hedges approximately 86% of the $292 million of outstanding senior unsecured notes maturing in September 2011. The estimated fair value of the contract at September 30, 2009 was $2.5 million and is included in other assets, net.

On August 20, 2009, we executed two interest-rate swap contracts (pay float and receive fixed), which are designated as hedging fluctuations in interest receipts on a participation interest in a floating-rate secured mortgage note due to fluctuations in the underlying benchmark interest rate. These cash flow hedges terminate in February and August 2011 and have an aggregate notional amount of $500 million. The aggregate estimated fair value of the contracts at September 30, 2009 was $0.9 million and is included in other assets, net.

We also have four interest-rate swap contracts outstanding at September 30, 2009, which hedge fluctuations in interest payments on variable-rate secured debt. At September 30, 2009, these interest-rate swap contracts had an aggregate notional amount of $60 million and estimated fair value of $4 million included in accounts payable and accrued liabilities.

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

Equity

During the nine months ended September 30, 2009, we issued approximately 106,000 shares of our common stock under our Dividend Reinvestment and Stock Purchase Plan, at an average price per share of $22, for aggregate proceeds of $2.3 million. At September 30, 2009, equity totaled $6.0 billion and our equity securities had a market value of $8.9 billion.

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

On August 10, 2009, we completed a $441 million public offering of 17.8 million shares of our common stock at a price of $24.75 per share. We received net proceeds of $423 million, which were used to repay the total outstanding indebtedness under our revolving line of credit facility, including borrowings for the additional investment in HCR ManorCare, with the remainder used for general corporate purposes.

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At September 30, 2009, there were a total of 4.3 million DownREIT units outstanding in six limited liability companies in which we are the managing member: (i) HCPI/Tennessee, LLC; (ii) HCPI/Utah, LLC; (iii) HCPI/Utah II, LLC; (iv) HCP DR California, LLC; (v) HCP DR Alabama, LLC; and (vi) HCP DR MCD, LLC. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). For the nine months ended September 30, 2009, we issued 525,000 shares of our common stock upon the conversion of 525,000 DownREIT units.

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 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.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

	Total	Less than One Year	2010-2011	2012-2013	More than Five Years
Senior unsecured notes	$ 3,535,686	$	$ 498,686	$ 800,000	$ 2,237,000
Mortgage and other secured debt(1)	1,860,088	22,813	255,281	738,880	843,114
Term loan	200,000		200,000		
Other debt(2)	99,487	99,487			
Ground and other operating leases	196,861	927	7,944	8,336	179,654

Development commitments(3)		10,776		5,578		5,198				
Interest		1,648,305		77,245		578,404		478,996		513,660
Total	$	7,551,203	$	206,050	$	1,545,513	$	2,026,212	$	3,773,428

(1) On October 15, 2009, we exercised our election to extend the maturity date of $86 million of mortgage debt from 2010 to 2015. The above table reflects the reclassification of the portion of the mortgage debt that was extended to September 1, 2015.

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

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

Inflation

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

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Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. At September 30, 2009, we were exposed to market risks related to fluctuations in interest rates on approximately $1.7 billion of variable-rate HCR ManorCare loan investments (see note 6) and $92 million of other investments where the payments fluctuate with changes in LIBOR. Our exposure to income fluctuations related to our variable-rate investments is partially offset by (i) $200 million of variable-rate term loan financing, (ii) $498 million of variable-rate mortgage notes and other secured debt payable, excluding $46 million of variable-rate mortgage notes which have been hedged through interest-rate swap contracts, (iii) $25 million of variable-rate senior unsecured notes, and (iv) $750 million of additional variable interest rate exposure achieved through interest-rate swap contracts (pay float and receive fixed).

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed-rate debt, loans receivable and debt securities unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable-rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to our variable-rate asset exposure, and assuming no change in the outstanding balance as of September 30, 2009, net interest income would improve by approximately $3.2 million, or $0.01 per common share on a diluted basis. Assuming a 50 basis point decrease in interest rates under the above circumstances, taking into consideration that the index underlying many of our arrangements are currently below 50 basis points and is not expected to go below zero, net interest income would decline by $1.6 million.

We use derivative instruments during the normal course of business to manage or hedge interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are recorded on the balance sheet at their estimated fair value. See Note 14 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 the noted 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 estimated fair value. The following table summarizes the analysis performed (dollars in thousands):

		Effects of Change in Interest Rates			
Date Entered	**Maturity Date**	**+50 Basis Points**	**-50 Basis Points**	**+100 Basis Points**	**-100 Basis Points**
July 2005	July 2020	$ 1,930	$ (2,318)	$ 4,055	$ (4,442)
June 2009	September 2011	(2,653)	1,820	(5,114)	4,732
June 2009	July 2013	254	(266)	513	(525)
August 2009	February 2011	(1,718)	1,719	(3,436)	3,437

August 2009	August 2011	(2,279)	2,393	(4,615)	4,729

Market Risk. We are directly and indirectly affected by changes in the equity and bond markets. We have investments in marketable debt and equity securities classified as available-for-sale. Gains and losses on these securities are recognized in income when realized and losses are recognized when an other-than-temporary decline in value is identified. The initial indicator of an other-than-temporary decline in value for marketable equity securities is a sustained decline in market price below the carrying value for 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 cost; the issuer s financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the stock or bond price, if any. At September 30, 2009, the fair value and cost, or the adjusted cost basis for those securities where a recognized loss was recorded, of marketable equity securities was $3.9 million and $3.7 million, respectively, and the fair value and cost basis of marketable debt securities was $201.2 million and $195.8 million, respectively.

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Item 4. Controls and Procedures

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

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

On 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 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.

Ventas sought approximately $300 million in compensatory damages plus punitive damages. On July 16, 2009, the District Court dismissed Ventas s claim that HCP interfered with Ventas s purchase agreement with Sunrise REIT, dismissed claims for compensatory damages based on alleged financing and other costs, and allowed Ventas s claim of interference with prospective advantage to proceed to trial. Ventas s claim was tried before a jury between August 18, 2009 and September 4, 2009. During the trial, the District Court dismissed Ventas s claim for punitive damages. On September 4, 2009, the jury returned a verdict in favor of Ventas in the amount of approximately $102 million in compensatory damages. The District Court entered a judgment against the Company in that amount on September 8, 2009, which the Company recorded as a litigation provision expense during the quarter ended September 30, 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 has not yet ruled on those motions. The Company intends to continue to defend itself on appeal, including by appealing the adverse judgment.

On June 29, 2009, several of the Company s subsidiaries, together with three of its tenants, filed complaints in the Delaware Court of Chancery against Sunrise Senior Living, Inc. and three of its subsidiaries. A complaint was also filed on behalf of several other Company subsidiaries and one tenant on July 24, 2009 in the United States District Court for the Eastern District of Virginia. The complaints are based on Sunrise s defaults under management and related agreements

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governing Sunrise s operation of 64 Company subsidiary-owned facilities, 62 of which are leased to the tenants and two of which are leased directly to Sunrise. The complaints generally allege that Sunrise systematically breached various contractual and fiduciary duties by, among other things, (i) failing to maintain licenses necessary to the facilities operation; (ii) demonstrating a conscious disregard for the facilities budgets and other controls over expenditures related to the facilities; (iii) failing to provide various marketing and financial reports necessary for the Company subsidiaries and the tenants monitoring of Sunrise s performance; (iv) retaining funds for Sunrise s own benefit, and/or the benefit of its affiliates, that were properly due to the tenants; (v) charging the facilities for inappropriate overhead and similar corporate-level pass-through expenses that should have been borne by Sunrise and/or its affiliates; and (vi) obstructing the Company subsidiaries and the tenants contractually-prescribed audits of Sunrise s operation of the facilities. The Company subsidiaries also allege that Sunrise s policies constitute a breach of fiduciary duties to the Company subsidiaries and the tenants. The Company subsidiaries and tenants are generally seeking judicial confirmation of Sunrise s material defaults of the management agreements and the Company subsidiaries and tenants rights to terminate the agreements for the 64 communities, and associated injunctive relief requiring Sunrise to vacate the facilities after cooperating in the transition of the facilities to another operator. In addition, the Company subsidiaries and tenants are seeking monetary damages related to the defaults. With regard to two Company subsidiary-owned facilities in the State of New York, the relevant Company subsidiary and tenant also seek judicial confirmation of the impossibility of the parties performance under the applicable management agreements due to the passage and implementation of new state legislation and related regulations.

In response to each of the complaints, Sunrise has asserted counterclaims against the Company, the relevant Company subsidiaries and tenants alleging that (i) such Company subsidiaries and tenants have breached contractual duties and the implied covenant of good faith and fair dealing under the management and related agreements; (ii) the Company and the relevant Company subsidiaries have intentionally interfered with tenants performance of the management agreements; and (iii) the Company, the relevant Company subsidiaries and tenants have conspired to harm Sunrise s business and reputation. The Company, the relevant Company subsidiaries and tenants have collectively filed motions to dismiss the counterclaims in both jurisdictions.

A trial date has not been set by either court. The Company expects that enforcing its and the Companies subsidiaries rights, and potentially defending against Sunrise s counterclaims, will require it to expend significant funds. There can be no assurance that the Company subsidiaries or its tenants will prevail in their claims against Sunrise or in defending against Sunrise s counterclaims.

Item 1A. Risk Factors

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

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

(a)

None.

(b)

None.

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(c)

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

Period Covered	Total Number Of Shares Purchased(1)	Average Price Paid Per Share	Total Number Of Shares (Or Units) Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares (Or Units) That May Yet Be Purchased Under The Plans Or Programs
July 1-31, 2009	501	$ 21.74		
August 1-31, 2009	1,810	26.23		
September 1-30, 2009	322	28.49		
Total	2,633	25.65		

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

Item 5. Other Information

On October 29, 2009, the Company s Board of Directors amended the Fourth Amended and Restated Bylaws of the Company, effective immediately, to provide, as permitted by Section 3-702(b) of the Maryland General Corporation Law (the MGCL), that Title 3 of Subtitle 7 of the MGCL (the Maryland Control Share Acquisition Act) shall not apply to acquisition by any person of shares of the Company (Article II, Section 9). The above description is qualified in its entirety by Exhibit 3.2.2 to this Quarterly Report on Form 10-Q, which exhibit is specifically incorporated herein by reference.

Item 6. Exhibits

2.1 Share Purchase Agreement, dated as of June 3, 2007, by and between HCP and SEGRO plc (incorporated herein by reference to Exhibit 2.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed June 6, 2007).

3.1 Articles of Restatement of HCP (incorporated by reference herein to Exhibit 3.1 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).

3.2 Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed September 25, 2006).

3.2.1

	Amendment No. 1 to Fourth Amended and Restated Bylaws of HCP (incorporated by reference herein to Exhibit 3.2.1 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
3.2.2	Amendment No. 2 to Fourth Amended and Restated Bylaws of HCP, filed November 3, 2009.
4.1	Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.2 to HCP s Registration Statement on Form S-3/A (Registration No. 333-86654), filed May 21, 2002).
4.2	Form of Fixed Rate Note (incorporated herein by reference to Exhibit 4.2 to HCP s Registration Statement on Form S-3 (Registration No. 33-27671), filed March 20, 1989).
4.3	Form of Floating Rate Note (incorporated herein by reference to Exhibit 4.3 to HCP s Registration Statement on Form S-3 (Registration No. 33-27671), filed March 20, 1989).
4.4	Registration Rights Agreement, dated as of January 20, 1999, by and between HCP and Boyer Castle Dale Medical Clinic, L.L.C. (incorporated herein by reference to Exhibit 4.9 to HCP s Annual Report on Form 10-K (File No. 1-08895) for the year ended December 31, 1998). This Exhibit is identical in all material respects to 13 other documents except the parties thereto. The parties to these other documents, other than HCP, were Boyer Centerville Clinic Company, L.C., Boyer Elko, L.C., Boyer Desert Springs, L.C., Boyer Grantsville Medical, L.C., Boyer-Ogden Medical Associates, LTD., Boyer Ogden Medical Associates No. 2, LTD., Boyer Salt Lake Industrial Clinic Associates, LTD., Boyer-St. Mark s Medical Associates, LTD., Boyer McKay-Dee Associates, LTD., Boyer St. Mark s Medical Associates #2, LTD., Boyer Iomega, L.C., Boyer Springville, L.C., and Boyer Primary Care Clinic Associates, LTD. #2.

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4.5	Indenture, dated as of January 15, 1997, by and between American Health Properties, Inc. (a company that merged with and into HCP) and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.1 to American Health Properties, Inc. s Current Report on Form 8-K (File No. 1-08895), filed January 21, 1997).
4.6	First Supplemental Indenture, dated as of November 4, 1999, by and between HCP and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.4 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended September 30, 1999).
4.7	Registration Rights Agreement, dated as of August 17, 2001, by and among HCP, Boyer Old Mill II, L.C., Boyer- Research Park Associates, LTD., Boyer Research Park Associates VII, L.C., Chimney Ridge, L.C., Boyer-Foothill Associates, LTD., Boyer Research Park Associates VI, L.C., Boyer Stansbury II, L.C., Boyer Rancho Vistoso, L.C., Boyer-Alta View Associates, LTD., Boyer Kaysville Associates, L.C., Boyer Tatum Highlands Dental Clinic, L.C., Amarillo Bell Associates, Boyer Evanston, L.C., Boyer Denver Medical, L.C., Boyer Northwest Medical Center Two, L.C., and Boyer Caldwell Medical, L.C. (incorporated herein by reference to Exhibit 4.12 to HCP s Annual Report on Form 10-K405 (File No. 1-08895) for the year ended December 31, 2001).
4.8	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.5% Senior Notes due February 15, 2006 (incorporated herein by reference to Exhibit 4.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed February 21, 1996).
4.9	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 67/8% Mandatory Par Put Remarketed Securities due June 8, 2015 (incorporated herein by reference to Exhibit 4.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed July 21, 1998).
4.10	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.45% Senior Notes due June 25, 2012 (incorporated herein by reference to Exhibit 4.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed June 25, 2002).
4.11	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 6.00% Senior Notes due March 1, 2015 (incorporated herein by reference to Exhibit 3.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed February 28, 2003).
4.12	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled 55/8% Senior Notes due May 1, 2017 (incorporated herein by reference to Exhibit 4.2 to HCP s Current Report on Form 8-K (File No. 1-08895), filed April 27, 2005).
4.13	Registration Rights Agreement, dated as of October 1, 2003, by and among HCP, Charles Crews, Charles A. Elcan, Thomas W. Hulme, Thomas M. Klaritch, R. Wayne Price, Glenn T. Preston, Janet Reynolds, Angela M. Playle, James A. Croy, John Klaritch as Trustee of the 2002 Trust F/B/O Erica Ann Klaritch, John Klaritch as Trustee of the 2002 Trust F/B/O Adam Joseph Klaritch, John Klaritch as Trustee of the 2002 Trust F/B/O Thomas Michael Klaritch, Jr. and John Klaritch as Trustee of the 2002 Trust F/B/O Nicholas James Klaritch (incorporated herein by reference to Exhibit 4.16 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended September 30, 2003).
4.14	Amended and Restated Dividend Reinvestment and Stock Purchase Plan, amended as of October 30, 2008 (incorporated herein by reference to HCP s Registration Statement on Form S-3 (Registration No. 333-137225), dated September 8, 2006).
4.15	Specimen of Stock Certificate representing the 7.1% Series F Cumulative Redeemable Preferred Stock, par value $1.00 per share (incorporated herein by reference to Exhibit 4.1 of HCP s Registration Statement on Form 8-A12B (File No. 1-08895), filed on December 2, 2003).
4.16	Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP s Current Report on Form 8-K (File No. 1-08895), filed November 20, 2003).

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4.17	Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP s Current Report on Form 8-K (File No. 1-08895), filed November 20, 2003).
4.18	Registration Rights Agreement, dated as of July 22, 2005, by and among HCP, William P. Gallaher, Trustee for the William P. & Cynthia J. Gallaher Trust, Dwayne J. Clark, Patrick R. Gallaher, Trustee for the Patrick R. & Cynthia M. Gallaher Trust, Jeffrey D. Civian, Trustee for the Jeffrey D. Civian Trust dated August 8, 1986, Jeffrey Meyer, Steven L. Gallaher, Richard Coombs, Larry L. Wasem, Joseph H. Ward, Jr., Trustee for the Joseph H. Ward, Jr. and Pamela K. Ward Trust, Borue H. O Brien, William R. Mabry, Charles N. Elsbree, Trustee for the Charles N. Elsbree Jr. Living Trust dated February 14, 2002, Gary A. Robinson, Thomas H. Persons, Trustee for the Persons Family Revocable Trust under trust dated February 15, 2005, Glen Hammel, Marilyn E. Montero, Joseph G. Lin, Trustee for the Lin Revocable Living Trust, Ned B. Stein, John Gladstein, Trustee for the John & Andrea Gladstein Family Trust dated February 11, 2003, John Gladstein, Trustee for the John & Andrea Gladstein Family Trust dated February 11, 2003, Francis Connelly, Trustee for the The Francis J & Shannon A Connelly Trust, Al Coppin, Trustee for the Al Coppin Trust, Stephen B. McCullagh, Trustee for the Stephen B. & Pamela McCullagh Trust dated October 22, 2001, and Larry L. Wasem SEP IRA (incorporated herein by reference to Exhibit 4.24 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2005).
4.19	Officers Certificate pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as trustee, setting forth the terms of HCP s Fixed Rate Medium-Term Notes and Floating Rate Medium-Term Notes (incorporated herein by reference to Exhibit 4.2 to HCP s Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).
4.20	Form of Fixed Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.3 to HCP s Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).
4.21	Form of Floating Rate Global Medium-Term Note (incorporated herein by reference to Exhibit 4.4 to HCP s Current Report on Form 8-K (File No. 1-08895), filed February 17, 2006).
4.22	Form of 5.95% Notes Due 2011 (incorporated herein by reference to Exhibit 4.2 to HCP s Current Report on Form 8-K (File No. 1-08895), filed September 19, 2006).
4.23	Form of 6.30% Notes Due 2016 (incorporated herein by reference to Exhibit 4.3 to HCP s Current Report on Form 8-K (File No. 1-08895), filed September 19, 2006).
4.24	Form of 5.65% Senior Notes Due 2013 (incorporated herein by reference to Exhibit 4.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed December 4, 2006).
4.25	Form of 6.00% Senior Notes Due 2017 (incorporated herein by reference to Exhibit 4.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed January 22, 2007).
4.26	Officers Certificate (including Form of 6.70% Senior Notes Due 2018 as Annex A thereto), dated October 15, 2007, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Trust Company, N.A., as successor trustee to The Bank of New York, establishing a series of securities entitled 6.70% Senior Notes due 2018 (incorporated by reference herein to Exhibit 4.29 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
4.27	Acknowledgment and Consent, dated as of May 11, 2007, by and among Zions First National Bank, KC Gardner Company, L.C., HCPI/Utah, LLC, Gardner Property Holdings, L.C. and HCP (incorporated herein by reference to Exhibit 4.29 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2007).
4.28	Acknowledgment and Consent, dated as of May 11, 2007, by and among Zions First National Bank, KC Gardner Company, L.C., HCPI/Utah II, LLC, Gardner Property Holdings, L.C. and HCP (incorporated herein by reference to Exhibit 4.30 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895) for the quarter ended June 30, 2007).
10.1	Amended and Restated Dividend Reinvestment and Stock Purchase Plan, amended as of September 4, 2009 (incorporated by reference to HCP s Registration Statement on Form S-3 (Registration No. 333-161721), dated September 4, 2009 and as supplemented on September 4, 2009).

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10.2	Second Amended and Restated Director Deferred Compensation Plan.
31.1	Certification by James F. Flaherty III, HCP s Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification by Thomas M. Herzog, HCP s Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification by James F. Flaherty III, HCP s Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
32.2	Certification by Thomas M. Herzog, HCP s Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
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.*

* Furnished herewith.

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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: November 3, 2009

HCP, Inc.

(Registrant)

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

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

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