HCP, INC.
Form 10-Q
August 04, 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 June 30, 2009.

OR

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

For the transition period from to

Commission file number 1-08895

HCP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 July 30, 2009, there were 275,273,367 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)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Real estate:		
Buildings and improvements	$ 7,796,873	$ 7,752,714
Development costs and construction in progress	255,565	224,337
Land	1,550,490	1,550,219
Accumulated depreciation and amortization	(940,544)	(820,441)
Net real estate	8,662,384	8,706,829
Net investment in direct financing leases	648,864	648,234
Loans receivable, net	1,078,418	1,076,392
Investments in and advances to unconsolidated joint ventures	264,346	272,929
Accounts receivable, net of allowance of $17,929 and $18,413, respectively	29,535	34,211
Cash and cash equivalents	49,484	57,562
Restricted cash	32,351	35,078
Intangible assets, net	433,874	505,986
Real estate held for sale, net		19,799
Other assets, net	586,594	492,806
Total assets	$ 11,785,850	$ 11,849,826
LIABILITIES AND EQUITY		
Bank line of credit	$ 100,000	$ 150,000
Term loan	200,000	200,000
Bridge loan		320,000
Senior unsecured notes	3,518,147	3,523,513
Mortgage debt	1,592,712	1,641,734
Other debt	98,984	102,209
Intangible liabilities, net	215,571	232,654
Accounts payable and accrued liabilities	197,295	211,691
Deferred revenue	71,716	60,185
Total liabilities	5,994,425	6,441,986
Commitments and contingencies		
Preferred stock, $1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of $25 per share	285,173	285,173
Common stock, $1.00 par value: 750,000,000 shares authorized; 275,253,104 and 253,601,454 shares issued and outstanding, respectively	275,253	253,601
Additional paid-in capital	5,298,213	4,873,727
Cumulative dividends in excess of earnings	(228,424)	(130,068)
Accumulated other comprehensive loss	(18,819)	(81,162)
Total stockholders equity	5,611,396	5,201,271
Joint venture partners	8,278	12,912
Non-managing member unitholders	171,751	193,657
Total noncontrolling interests	180,029	206,569
Total equity	5,791,425	5,407,840
Total liabilities and equity	$ 11,785,850	$ 11,849,826

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues:				
Rental and related revenues	$ 231,728	$ 213,021	$ 445,316	$ 419,926
Tenant recoveries	21,035	20,168	44,699	41,616
Income from direct financing leases	13,204	14,129	26,129	29,103
Investment management fee income	1,369	1,457	2,807	2,924
Total revenues	267,336	248,775	518,951	493,569
Costs and expenses:				
Depreciation and amortization	79,606	77,861	160,143	155,493
Operating	45,205	46,452	92,881	94,673
General and administrative	20,932	18,732	39,923	39,177
Impairments	5,906	1,574	5,906	1,574
Total costs and expenses	151,649	144,619	298,853	290,917
Other income (expense):				
Interest and other income, net	28,732	30,739	53,065	66,061
Interest expense	(75,340)	(85,446)	(152,014)	(181,709)
Total other income (expense)	(46,608)	(54,707)	(98,949)	(115,648)
Income before income taxes and equity income from unconsolidated joint ventures	69,079	49,449	121,149	87,004
Income taxes	(841)	(1,274)	(1,756)	(3,517)
Equity income from unconsolidated joint ventures	1,127	1,221	665	2,509
Income from continuing operations	69,365	49,396	120,058	85,996
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes	1,273	6,320	1,932	15,710
Impairments		(8,141)		(8,141)
Gain on sales of real estate, net of income taxes	30,540	190,505	31,897	200,643
Total discontinued operations	31,813	188,684	33,829	208,212
Net income	101,178	238,080	153,887	294,208
Noncontrolling interests and participating securities share in earnings	(4,111)	(6,907)	(8,252)	(12,913)
Preferred stock dividends	(5,283)	(5,283)	(10,566)	(10,566)
Net income applicable to common shares	$ 91,784	$ 225,890	$ 135,069	$ 270,729
Basic earnings per common share:				
Continuing operations	$ 0.23	$ 0.16	$ 0.39	$ 0.28
Discontinued operations	0.12	0.80	0.13	0.92
Net income applicable to common shares	$ 0.35	$ 0.96	$ 0.52	$ 1.20

Diluted earnings per common share:								
Continuing operations	$	0.23	$	0.16	$	0.39	$	0.28
Discontinued operations		0.12		0.80		0.13		0.91
Net income applicable to common shares	$	0.35	$	0.96	$	0.52	$	1.19
Weighted average shares used to calculate earnings per common share:								
Basic		265,422		235,117		259,412		225,945
Diluted		265,542		236,099		259,516		226,745
Dividends declared per common share	$	0.460	$	0.455	$	0.92	$	0.91

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	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						146,342		146,342	7,545	153,887
Change in net unrealized gains (losses) on securities:										
Unrealized gains							61,787	61,787		61,787
Less reclassification adjustment realized in net income							(131)	(131)		(131)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							32	32		32
Less reclassification adjustment realized in net income							590	590		590
Change in Supplemental Executive Retirement Plan obligation							44	44		44
Foreign currency translation adjustment							21	21		21
Total comprehensive income								208,685	7,545	216,230
Issuance of common stock, net			21,745	21,745	423,762			445,507	(21,873)	423,634
Repurchase of common stock			(93)	(93)	(2,088)			(2,181)		(2,181)
Amortization of deferred compensation					7,537			7,537		7,537
Preferred dividends						(10,566)		(10,566)		(10,566)
Common dividends ($0.92 per share)						(234,132)		(234,132)		(234,132)
Distributions to noncontrolling interests									(7,840)	(7,840)
Purchase of noncontrolling					(4,725)			(4,725)	(4,372)	(9,097)

interests										
June 30, 2009	11,820	$ 285,173	275,253	$ 275,253	$ 5,298,213	$ (228,424)	$ (18,819)	$ 5,611,396	$ 180,029	$ 5,791,425

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Business

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

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Principles of Consolidation

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

The Company applies Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities*, as revised (FIN 46R), for arrangements with variable interest entities. FIN 46R provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise is the primary beneficiary of the VIE. A variable interest entity is broadly defined as an entity where either (i) the equity investors as a group, if any, do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support. The Company consolidates investments in VIEs when it is determined to be the primary beneficiary at either the creation of the variable interest entity or upon the occurrence of a qualifying reconsideration event. Qualifying reconsideration events include, but are not limited to, the modification of contractual arrangements that affect the characteristics or adequacy of the entity s equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary. At June 30, 2009, the Company did not consolidate any significant variable interest entities.

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

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At June 30, 2009, the Company had 80 properties leased to a total of nine tenants (VIE tenants) and a loan to a borrower where each tenant and borrower has been identified as a VIE. The Company acquired these leases and loan on October 5, 2006 in its merger with CNL Retirement Properties, Inc. (CRP). CRP determined it was not the primary beneficiary of these VIEs, and the Company is required to carry forward CRP s accounting conclusions after the acquisition relative to their primary beneficiary assessments, provided the Company does not believe CRP s accounting to be in error. The Company believes that its accounting for the VIEs is the appropriate application of FIN 46R. On December 21, 2007, the Company made an investment of approximately $900 million in mezzanine loans where each mezzanine borrower has been identified as a VIE. The Company has also determined that it is not the primary beneficiary of these VIEs.

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

VIE Type	**Maximum Loss Exposure(1)**	**Asset/Liability Type**	**Carrying Amount**
VIE tenants operating leases	$ 750,246	Lease intangibles, net and straight-line rent receivables	$ 7,455
VIE tenants DFLs(2)	654,049	Net investment in DFLs	214,327
Senior secured loans	80,246	Loans receivable, net	80,246
Mezzanine loans	926,316	Loans receivable, net	926,316

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

(2) Direct financing leases (DFLs).

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

The Company applies Emerging Issues Task Force (EITF) Issue 04-5, *Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights* (EITF 04-5), to investments in joint ventures. EITF 04-5 provides guidance on the type of rights held by the limited partner(s) that preclude consolidation in circumstances in which the sole general partner would otherwise consolidate the limited partnership in accordance with GAAP. The assessment of limited partners rights and their impact on the presumption of control over limited partnership by the sole general partner should be made when an investor becomes the sole general partner and should be reassessed if (i) there is a change to the terms or in the exercisability of the rights of the limited partners, (ii) the sole general partner increases or decreases its ownership in the limited partnership interests, or (iii) there is an increase or decrease in the number of outstanding limited partnership interests. EITF 04-5 also applies to managing member interests in limited liability companies.

Investments in Unconsolidated Joint Ventures

Investments in entities which the Company does not consolidate but for which the Company has the ability to exercise significant influence over operating and financial policies are reported under the equity method of accounting. Under the equity method of accounting, the Company s

share of the investee s earnings or losses are included in the Company s consolidated results of operations.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale of interests in the joint venture. To the extent that the Company s cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities and included in the Company s share of equity in earnings of the joint venture. The Company evaluates its equity method investments for impairment based upon a comparison of the estimated fair value of the equity method investment to its carrying value in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. When the Company determines a decline in the estimated fair value of an investment in an unconsolidated joint venture below its carrying value is other-than-temporary, an impairment is recorded. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale in accordance with the American Institute of Certified Public Accountants Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for Sales of Real Estate* (SFAS No. 66).

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Revenue Recognition

Rental income from tenants is recognized in accordance with GAAP, including SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). The Company recognizes rental revenue on a straight-line basis over the lease term when collectibility is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. For assets acquired subject to leases, the Company recognizes revenue upon acquisition of the asset provided the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

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

Certain leases provide for additional rents contingent upon a percentage of the facility s revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. Such revenue is recognized in accordance with SAB 104, which requires that income is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

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

For leases with minimum scheduled rent increases, the Company recognizes income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis for leases results in recognized revenue exceeding amounts contractually due from tenants. Such cumulative excess amounts are included in other assets and were $138 million and $112 million, net of allowances, at June 30, 2009 and December 31, 2008, respectively. If the Company determines that collectibility of straight-line rents is

not reasonably assured, the Company limits future recognition to amounts contractually owed, and, where appropriate, establishes an allowance for estimated losses.

The Company maintains an allowance for doubtful accounts, including an allowance for straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, the Company s assessment is based on amounts estimated to be recoverable over the term of the lease. At June 30, 2009 and December 31, 2008, respectively, the Company had an allowance of $53 million and $40 million, included in other assets, as a result of the Company s determination that collectibility is not reasonably assured for certain straight-line rent amounts.

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

The Company recognizes gains on sales of properties in accordance with SFAS No. 66 upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when the collectibility of the sales price is reasonably assured, the Company is not obligated to perform significant activities after the sale, the initial investment from the buyer is sufficient and other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition under SFAS No. 66 have been met.

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

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

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

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

Real Estate

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

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

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

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. In accordance with SFAS No. 34, *Capitalization of Interest Cost*, and SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, construction and development costs are capitalized while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and

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

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

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of real estate assets and related intangibles (real estate assets), whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS No. 144). The Company tests its real estate assets for impairment by comparing the sum of the expected undiscounted cash flows to the carrying amount of the real estate asset or asset group. If the carrying value exceeds the expected undiscounted cash flows, an impairment loss will be recognized by adjusting the carrying amount of the real estate assets to its estimated fair value.

Goodwill is tested for impairment by applying the two-step approach defined in SFAS No. 142, *Goodwill and Other Intangible Assets,* at least annually and whenever the Company identifies triggering events that may indicate an impairment has occurred. Potential impairment indicators include a significant decline in real estate valuations, restructuring plans or a decline in the Company s market capitalization below its carrying value. The Company tests for impairment of its goodwill by comparing the estimated fair value of a reporting unit containing goodwill to its carrying value. If the carrying value exceeds the fair value, the second step of the test is needed to measure the amount of potential goodwill impairment. The second step requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment. The Company selected the fourth quarter of each fiscal year to perform its annual impairment test.

Assets Held for Sale and Discontinued Operations

Certain long-lived assets are classified as held-for-sale in accordance with SFAS No. 144. Long-lived assets to be disposed of are reported at the lower of their carrying amount or their fair value less cost to sell and are no longer depreciated. Discontinued operations is defined in SFAS No. 144 as a component of an entity that has either been disposed of or is deemed to be held for sale if, (i) the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Stock-Based Compensation

Share-based compensation expense is recognized in accordance with SFAS No. 123R, *Share-Based Payments*, as revised (SFAS No. 123R). SFAS No. 123R requires all share-based awards granted on or after January 1, 2006 to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Compensation expense for awards with graded vesting is generally recognized ratably over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional services.

Cash and Cash Equivalents

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

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Restricted Cash

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

Derivatives

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

The Company applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities in the Company s condensed consolidated balance sheets at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria of hedge accounting under SFAS No. 133 are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss) whereas the change in fair value of the ineffective portion is recognized in earnings. For derivatives designated in qualifying fair value hedging relationships, the change in fair value of the effective portion of the derivatives offsets the change in fair value of the hedged item in interest expense whereas the change in fair value of the ineffective portion is recognized in earnings.

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

Income Taxes

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

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.

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Marketable Securities

The Company classifies its marketable equity and debt securities as available-for-sale in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). These securities are carried at fair value with unrealized gains and losses recognized in stockholders equity as a component of accumulated other comprehensive income (loss). Gains or losses on securities sold are determined based on the specific identification method. When the Company determines declines in fair value of marketable securities are other-than-temporary, a loss is recognized in earnings.

Capital Raising Issuance Costs

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

Segment Reporting

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

Noncontrolling Interests and Mandatorily Redeemable Financial Instruments

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

As of June 30, 2009, there were 4.3 million non-managing member units outstanding in six limited liability companies (LLC), for all of which the Company is the managing member: (i) HCPI/Tennessee, LLC; (ii) HCPI/Utah, LLC; (iii) HCPI/Utah II, LLC; (iv) HCP DR California, LLC; (v) HCP DR Alabama, LLC; and (vi) HCP DR MCD, LLC. The Company consolidates these entities since it exercises control and carries the noncontrolling interests at cost. The non-managing member LLC Units (DownREIT units) are exchangeable for an amount of cash approximating the then-current market value of shares of the Company s common stock or, at the Company s option, shares of the Company s

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

Life Care Bonds Payable

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

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Fair Value Measurements

On January 1, 2008, the Company implemented the requirements of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for its financial assets and liabilities. On January 1, 2009, the Company implemented the requirements of SFAS No. 157 for its non-financial assets and liabilities.

SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

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

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

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

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

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

Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share* (SFAS No. 128). Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period.

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

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP Financial Accounting Standard (FAS) 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 amends SFAS No. 107 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual financial statements. FSP FAS 107-1 is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption. The adoption of FSP FAS 107-1 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

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In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is effective for fiscal years and interim periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for both financial and nonfinancial assets or liabilities have significantly decreased. FSP FAS 157-4 is effective for fiscal years and interim periods ending after June 15, 2009 and shall be applied prospectively. The adoption of FSP FAS 157-4 on June 30, 2009 did not have a material impact on the Company s consolidated financial position or results of operations.

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

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

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

Reclassifications

Certain amounts in the Company s condensed consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets and operating results reclassified from continuing to discontinued operations in accordance with SFAS No. 144 (see Note 4). In accordance with SFAS No. 160, (i) all prior period noncontrolling interests on the condensed consolidated balance sheets have been reclassified as a component of equity and (ii) all prior period noncontrolling interests share of earnings on the condensed consolidated statements of income have been

reclassified to clearly identify net income attributable to the non-controlling interest.

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(3) Real Estate Property Investments

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

During the six months ended June 30, 2008, the Company acquired a senior housing facility for $11 million and funded an aggregate of $92 million for construction, tenant and capital improvement projects primarily in the life science and medical office segments.

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

Dispositions of Real Estate

During the three months ended June 30, 2009, the Company sold two hospitals for approximately $46 million and recognized a gain on sales of real estate of $31 million. The hospitals sold included the Company s hospital located in Los Gatos, California, for $45 million, which resulted in a gain on sale of real estate of $31 million. During the six months ended June 30, 2009, the Company sold nine properties for $52 million and recognized gain on sales of real estate of $32 million, primarily from the hospital and medical office segments.

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

Properties Held for Sale

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

Results from Discontinued Operations

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

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

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(5) Net Investment in Direct Financing Leases

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

	June 30, 2009	December 31, 2008
Minimum lease payments receivable	$ 1,348,924	$ 1,373,283
Estimated residual values	467,248	467,248
Unearned income	(1,167,308)	(1,192,297)
Net investment in direct financing leases	$ 648,864	$ 648,234
Properties subject to direct financing leases	30	30

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

Lease payments due to the Company relating to three land-only DFLs with a carrying value of $55 million at June 30, 2009, are subordinate to and, along with the land, serve as collateral for first mortgage construction loans entered into by the tenants to fund development costs related to the properties. During the three months ended December 31, 2008, the Company determined that two of these DFLs were impaired and began recognizing income on a cost-recovery basis. At June 30, 2009, no allowance has been provided based on the value of the collateral underlying the DFLs. At June 30, 2009, the carrying value of these two DFLs was $35 million.

(6) Loans Receivable

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

	June 30, 2009			December 31, 2008		
	Real Estate Secured	Other	Total	Real Estate Secured	Other	Total
Mezzanine	$	$ 999,891	$ 999,891	$	$ 999,891	$ 999,891
Joint venture partners		778	778		7,055	7,055
Other	70,427	78,050	148,477	71,224	76,725	147,949
Unamortized discounts, fees and costs		(70,728)	(70,728)		(78,262)	(78,262)
Loan loss allowance					(241)	(241)
	$ 70,427	$ 1,007,991	$ 1,078,418	$ 71,224	$ 1,005,168	$ 1,076,392

On October 5, 2006, through its merger with CRP, the Company assumed an agreement to provide an affiliate of the Cirrus Group, LLC with an interest-only, senior secured term loan. The loan provided for a maturity date of December 31, 2008, with a one-year extension period at the option of the borrower, subject to certain conditions, under which amounts were borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships. This loan accrues interest at a rate of 14.0%, of which 9.5% is payable monthly and the balance of 4.5% is deferred until maturity. The loan is subject to equity contribution requirements, borrower financial covenants, is collateralized by assets of the borrower (comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by HCP Ventures IV or the Company) and is guaranteed up to $37.4 million through a combination of (i) a personal guarantee of up to $9.7 million by a principal of Cirrus, and (ii) a guarantee of the balance by other principals of Cirrus under arrangements for recourse limited to their pledged interests in certain entities owning real estate. At December 31, 2008, the borrower did not meet the conditions necessary to exercise its extension option and could not repay the loan upon maturity. On April 22, 2009, new terms for extending the loan were reached, including the payment of a $1.1 million extension fee, and the maturity was extended to December 31, 2010. At June 30, 2009 and December 31, 2008, the carrying value of this loan was $80 million and $79 million, respectively, including accrued interest of $3 million. The Company issued a notice of default in July 2009, for the borrower s failure to make two interest payments during the three months ended June 30, 2009. The Company expects to collect all amounts due under the loan agreement based on the value of the collateral and guarantees supporting the loan.

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On December 21, 2007, the Company made an investment in mezzanine loans having an aggregate face value of $1.0 billion, for approximately $900 million, as part of the financing for The Carlyle Group s $6.3 billion purchase of HCR ManorCare. These interest-only loans mature in January 2013 and bear interest on their face amounts at a floating rate of one-month London Interbank Offered Rate (LIBOR) plus 4.0%. These loans are mandatorily pre-payable in January 2012 unless the borrower satisfies certain financial conditions. The loans are secured by an indirect pledge of equity ownership in 339 HCR ManorCare facilities located in 30 states and are subordinate to other debt of approximately $3.6 billion at closing. At June 30, 2009, the carrying amount of these loans was $926 million.

(7) Investments in and Advances to Unconsolidated Joint Ventures

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

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

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

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

(3) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships: (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%). The unconsolidated joint ventures were acquired as part of the Company s purchase of Slough Estates USA Inc. on August 1, 2007.

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

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

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

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

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

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

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

(8) Intangibles

At June 30, 2009 and December 31, 2008, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles, below market ground lease intangibles and intangible assets related to non-compete agreements, were $617 million and $680 million, respectively. At June 30, 2009 and December 31, 2008, the accumulated amortization of intangible assets was $183 million and $174 million, respectively.

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

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

(9) Other Assets

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

	June 30, 2009	December 31, 2008
Marketable debt securities	$ 300,106	$ 228,660
Marketable equity securities	3,990	3,845
Goodwill	50,346	51,746