HCP, INC.
Form 10-Q
August 05, 2008
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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, 2008.
	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 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 31, 2008, there were 236,691,971 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, 2008 (Unaudited)	December 31, 2007
ASSETS		
Real estate:		
Buildings and improvements	$ 7,626,209	$ 7,526,015
Development costs and construction in progress	308,169	372,527
Land	1,560,756	1,571,427
Less accumulated depreciation and amortization	(725,751)	(623,234)
Net real estate	8,769,383	8,846,735
Net investment in direct financing leases	645,079	640,052
Loans receivable, net	1,072,811	1,065,485
Investments in and advances to unconsolidated joint ventures	278,479	248,894
Accounts receivable, net of allowance of $17,316 and $23,109, respectively	31,920	44,892
Cash and cash equivalents	216,789	96,269
Restricted cash	32,387	36,427
Intangible assets, net	582,088	623,271
Real estate held for sale, net	90,668	403,614
Other assets, net	504,126	516,133
Total assets	$ 12,223,730	$ 12,521,772
LIABILITIES AND STOCKHOLDERS EQUITY		
Bank line of credit	$	$ 951,700
Bridge loan	1,150,000	1,350,000
Senior unsecured notes	3,821,786	3,819,950
Mortgage debt	1,516,380	1,278,280
Mortgage debt on assets held for sale		2,481
Other debt	105,264	108,496
Intangible liabilities, net	260,435	278,553
Accounts payable and accrued liabilities	223,389	233,342
Deferred revenue	65,786	55,990
Total liabilities	7,143,040	8,078,792
Minority interests:		
Joint venture partners	31,557	33,436
Non-managing member unitholders	241,479	305,835
Total minority interests	273,036	339,271
Commitments and contingencies		
Stockholders equity:		
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; 236,512,480 and 216,818,780 shares issued and outstanding, respectively	236,512	216,819
Additional paid-in capital	4,349,399	3,724,739
Cumulative dividends in excess of earnings	(55,232)	(120,920)
Accumulated other comprehensive loss	(8,198)	(2,102)
Total stockholders equity	4,807,654	4,103,709
Total liabilities and stockholders equity	$ 12,223,730	$ 12,521,772

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, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
Rental and related revenues	$ 215,616	$ 175,735	$ 424,210	$ 348,889
Tenant recoveries	20,170	11,676	41,621	25,360
Income from direct financing leases	14,129	15,215	29,103	30,205
Investment management fee income	1,457	4,220	2,924	10,459
Total revenues	251,372	206,846	497,858	414,913
Costs and expenses:				
Depreciation and amortization	78,308	56,666	156,369	113,811
Operating	47,580	37,212	97,000	77,668
General and administrative	18,840	17,290	39,371	37,395
Impairments	9,715		9,715	
Total costs and expenses	154,443	111,168	302,455	228,874
Other income (expense):				
Gain on sale of real estate interest		10,141		10,141
Interest and other income, net	30,739	18,722	66,066	33,186
Interest expense	(85,509)	(72,973)	(181,835)	(150,756)
Total other income (expense)	(54,770)	(44,110)	(115,769)	(107,429)
Income before income taxes, equity income from unconsolidated joint ventures and minority interests share in earnings	42,159	51,568	79,634	78,610
Income taxes	(1,274)	395	(3,519)	152
Equity income from unconsolidated joint ventures	1,221	1,302	2,509	2,516
Minority interests share in earnings	(5,536)	(6,739)	(11,252)	(11,974)
Income from continuing operations	36,570	46,526	67,372	69,304
Discontinued operations:				
Income before gain on sales of real estate, net of income taxes	5,469	22,687	14,941	41,152
Gain on sales of real estate	190,256	2,071	200,394	106,116
Total discontinued operations	195,725	24,758	215,335	147,268
Net income	232,295	71,284	282,707	216,572
Preferred stock dividends	(5,283)	(5,283)	(10,566)	(10,566)
Net income applicable to common shares	$ 227,012	$ 66,001	$ 272,141	$ 206,006
Basic earnings per common share:				
Continuing operations	$ 0.13	$ 0.20	$ 0.25	$ 0.29
Discontinued operations	0.84	0.12	0.95	0.72
Net income applicable to common shares	$ 0.97	$ 0.32	$ 1.20	$ 1.01
Diluted earnings per common share:				
Continuing operations	$ 0.13	$ 0.20	$ 0.25	$ 0.28

Discontinued operations		0.83		0.12		0.95		0.72
Net income applicable to common shares	$	0.96	$	0.32	$	1.20	$	1.00
Weighted average shares used to calculate earnings per common share:								
Basic		235,117		205,755		225,945		204,882
Diluted		236,467		207,024		227,065		206,470
Dividends declared per common share	$	0.455	$	0.445	$	0.910	$	0.890

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

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

		Six Months Ended June 30, 2008
Preferred Stock, $1.00 Par Value:		
Shares, beginning and ending		11,820
Amounts, beginning and ending	$	285,173
Common Stock, Shares:		
Shares at beginning of period		216,819
Issuance of common stock, net		19,212
Exercise of stock options		481
Shares at end of period		236,512
Common Stock, $1.00 Par Value:		
Balance at beginning of period	$	216,819
Issuance of common stock, net		19,212
Exercise of stock options		481
Balance at end of period	$	236,512
Additional Paid-In Capital:		
Balance at beginning of period	$	3,724,739
Issuance of common stock, net		609,322
Exercise of stock options		7,853
Amortization of deferred compensation		7,485
Balance at end of period	$	4,349,399
Cumulative Dividends in Excess of Earnings:		
Balance at beginning of period	$	(120,920)
Net income		282,707
Preferred dividends		(10,566)
Common dividend ($0.91 per share)		(206,453)
Balance at end of period	$	(55,232)
Accumulated Other Comprehensive Loss:		
Balance at beginning of period	$	(2,102)
Change in net unrealized gains and losses on securities:		
Unrealized losses		(11,639)
Less reclassification adjustment realized in net income		2,782
Change in net unrealized gains and losses on cash flow hedges:		
Unrealized losses		(204)
Less reclassification adjustment realized in net income		2,647
Changes in Supplemental Executive Retirement Plan obligation		50
Foreign currency translation adjustment		268
Balance at end of period	$	(8,198)
Total Comprehensive Income (Loss):		

Net income	$	282,707
Other comprehensive loss		(6,096)
Total comprehensive income	$	276,611

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 282,707	$ 216,572
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	156,369	113,811
Discontinued operations	5,677	13,765
Amortization of below market lease intangibles, net	(4,029)	(1,572)
Stock-based compensation	7,485	5,842
Amortization of debt issuance costs	6,162	5,643
Recovery of loan losses		(210)
Straight-line rents	(19,533)	(20,379)
Interest accretion	(13,026)	(4,163)
Deferred rental revenue	13,279	3,671
Equity income from unconsolidated joint ventures	(2,509)	(2,516)
Distributions of earnings from unconsolidated joint ventures	2,073	2,067
Minority interests share in earnings	11,252	11,974
Gain on sales of real estate and real estate interest	(200,394)	(116,257)
Marketable securities losses (gains), net	2,782	(4,874)
Derivative losses, net	2,360	
Impairments	9,715	
Changes in:		
Accounts receivable	12,972	(3,912)
Other assets	5,399	(3,331)
Accounts payable and accrued liabilities	(6,047)	464
Net cash provided by operating activities	272,694	216,595
Cash flows from investing activities:		
Cash used in acquisitions and development of real estate	(72,884)	(274,458)
Lease commissions and tenant and capital improvements	(32,359)	(14,408)
Proceeds from sales of real estate, net	512,883	356,556
Contributions to unconsolidated joint ventures	(2,826)	(1,172)
Distributions in excess of earnings from unconsolidated joint ventures	6,182	475,685
Purchase of marketable securities		(26,647)
Proceeds from the sale of marketable securities	10,700	53,317
Proceeds from sales of interests in unconsolidated joint ventures	2,855	
Principal repayments on loans receivable	2,835	6,630
Investment in loans receivable	(2,190)	(7,939)
Decrease in restricted cash	4,040	12,088
Net cash provided by investing activities	429,236	579,652
Cash flows from financing activities:		
Net repayments under bank line of credit	(951,700)	(624,500)
Repayments of bridge and term loans	(200,000)	(504,593)
Repayments of mortgage debt	(29,945)	(66,813)
Issuance of mortgage debt	258,726	141,817
Repayments of senior unsecured notes		(20,000)

Issuance of senior unsecured notes				500,000
Settlement of cash flow hedge		5,180		
Debt issuance costs		(5,784)		(8,508)
Net proceeds from the issuance of common stock and exercise of options		572,973		282,080
Dividends paid on common and preferred stock		(217,019)		(194,298)
Distributions to minority interests		(13,841)		(10,902)
Net cash used in financing activities		(581,410)		(505,717)
Net increase in cash and cash equivalents		120,520		290,530
Cash and cash equivalents, beginning of period		96,269		60,687
Cash and cash equivalents, end of period	$	216,789	$	351,217

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 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, manages and disposes of healthcare real estate and provides mortgage and specialty 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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2007 included in the Company s Annual Report on Form 10-K, as amended, 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 consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures that it controls, through voting rights or other means. All material intercompany transactions and balances have been eliminated in consolidation.

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

At June 30, 2008, the Company had 81 properties, with a carrying value of $1.3 billion leased to a total of nine tenants that have been identified as VIEs (VIE tenants) and has a loan with a carrying value of $86 million to a borrower that has been identified as a VIE. The Company acquired these leases and loan on October 5, 2006 in its merger with CNL Retirement Properties, Inc. (CRP). CRP determined it was not the primary beneficiary of these VIEs, and the Company is required to carry forward CRP s accounting conclusions after the acquisition relative to their primary beneficiary assessments, provided that the Company does not believe CRP s accounting to be in error. The Company believes that its accounting for the VIEs is the appropriate accounting in accordance with 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 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

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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 of the 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 of 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. Under the equity method of accounting, the Company s share of the investee s earnings or losses are included in the Company s operating results.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale of interests in the joint venture. To the extent that the Company s cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the life of the related assets and liabilities and included in the Company s share of equity in earnings of the joint venture. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale in accordance with the American Institute of Certified Public Accountants Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures* and Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for Sales of Real Estate* (SFAS No. 66).

Revenue Recognition

Rental income from tenants is recognized in accordance with GAAP, including SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). The Company begins recognizing rental revenue 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 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.

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 $92 million and $76 million, net of allowances, at June 30, 2008 and December 31, 2007, respectively. In the event 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, the Company 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 recoverable over the term of the lease. At June 30, 2008 and December 31, 2007, the Company had an allowance of $36 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.

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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 states that income is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rent payments in periods subsequent to when such payments are received.

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

The Company uses the direct finance method of accounting to record income from direct financing leases (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. Investments in direct financing leases are presented net of unamortized unearned income.

The Company receives management fees from its investments in joint venture entities for various services provided as the managing member of the ventures. Management fees are recorded as revenue when management services have been delivered.

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.

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. 141, *Business Combinations*.

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

The Company records acquired above and below market leases at fair value using discount rates which reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease, and (ii) management s estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the extended term for any leases with bargain 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 rentals at market rates during the hypothetical expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. In accordance with SFAS No. 34, *Capitalization of Interest Cost* and SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, construction and development costs are capitalized while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have stopped, are expensed as incurred. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred.

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The Company computes depreciation on properties using the straight-line method over the assets estimated useful lives. Depreciation is discontinued when a property is identified as held for sale. Building 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.

Loans Receivable and Allowance for Loan Losses

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. 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 based upon an estimate of probable losses for the individual loans deemed to be impaired. Impairment is indicated 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. The allowance is based upon the borrower 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 contractual effective rate, the fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors.

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of its long-lived assets, including investments in unconsolidated joint ventures, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS No. 144). If the sum of the expected future net undiscounted cash flows is less than the carrying amount of the long-lived asset, an impairment loss will be recognized by adjusting the asset s carrying amount to its estimated fair value.

Goodwill is tested at least annually applying the following two-step approach in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The first step of the test is a comparison of the fair value of the reporting unit containing goodwill to its carrying amount including goodwill. If the fair value is less than the carrying value, then 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 the reporting unit had been acquired in a business combination at the date of the impairment test. The excess of the 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.

Assets Held for Sale and Discontinued Operations

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

Stock-Based Compensation

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

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

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Cash and Cash Equivalents

Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased.

Restricted Cash

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

Derivatives

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

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

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific forecasted transactions or recognized obligations in the balance sheet. The Company also assesses and documents, both at the hedging instrument s inception and on a quarterly basis thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the respective hedged items. When it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues hedge accounting prospectively and reclassifies amounts recorded to accumulated other comprehensive income (loss) to earnings.

Income Taxes

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

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

Marketable Securities

The Company classifies its marketable equity and debt securities as available-for-sale in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. 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 based on the specific identification method. When the Company determines declines in fair value of marketable securities are other-than-temporary, a realized loss is recognized in earnings.

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Capital Raising Issuance Costs

Costs incurred in connection with the issuance of both common and preferred shares are recorded as a reduction in additional paid-in capital. Debt issuance costs are deferred and 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 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.

Prior to the Slough Estates USA Inc. (SEUSA) acquisition, the Company operated through two reportable segments triple-net leased and medical office buildings. As a result of the Company s acquisition of SEUSA, the Company added a significant portfolio of real estate assets under different leasing and property management structures and made corresponding organizational changes. The Company believes the change to its reportable segments is appropriate and consistent with how its chief operating decision maker reviews the Company s operating results. In addition, in accordance with SFAS No. 131, all prior period segment information has been reclassified to conform to the current presentation.

Minority Interests and Mandatorily Redeemable Financial Instruments

As of June 30, 2008, there were 5.9 million non-managing member units outstanding in six limited liability companies 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 minority 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). Upon exchange of DownREIT units for the Company s common stock, the carrying amount of the DownREIT units is reclassified to stockholders equity. In April 2008, as a result of the non-managing member converting its remaining HCPI/Indiana, LLC DownREIT units, HCPI/Indiana, LLC became a wholly-owned subsidiary. At June 30, 2008, the carrying value and market value of the 5.9 million DownREIT units were $241.5 million and $265.3 million, respectively.

Life Care Bonds Payable

Two of the Company s continuing care retirement communities (CCRCs) issue non-interest bearing life care bonds payable to certain residents of the CCRCs. Generally, the bonds are refundable to the resident or to the resident s estate upon termination or cancellation of the CCRC agreement. One of the Company s other senior housing facilities requires that certain residents of the facility post 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. As the maturity of these obligations is not determinable, no interest is imputed. These amounts are included in other debt in the Company s consolidated balance sheets.

Fair Value Measurement

Effective January 1, 2008, the Company implemented the requirements of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for its financial assets and liabilities. SFAS No. 157 refines the definition of fair value, expands disclosure requirements about fair value measurements and establishes specific requirements as well as guidelines for a consistent framework to measure fair value. SFAS No. 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Further, SFAS No. 157 requires the Company to maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements.

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;

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- *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 financial assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In some instances where a market price is available, but in an inactive or over-the-counter market where significant fluctuations in pricing can occur, the Company consistently applies the dealer (market maker) pricing estimate and classifies the financial 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, 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, a financial 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.

Based on the guidelines of SFAS No. 157, the Company has amended its techniques used in measuring the fair value of derivative and other financial asset and liability positions. These enhancements include the impact of the Company s or reporting entity s credit risk on derivatives and other liabilities measured at fair value as well as the election of the mid-market pricing expedient outlined in the standard. The implementation of these enhancements and the adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial position or results of operations.

On February 12, 2008, the FASB postponed the implementation of SFAS No. 157 related to non-financial assets and liabilities until fiscal periods beginning after November 15, 2008. As a result, the Company has not applied the above fair value procedures to its goodwill and long-lived asset impairment analyses during the current period. The Company believes that the adoption of SFAS No. 157 for non-financial assets and liabilities will not have a material impact on its consolidated financial position or results of operations upon implementation for fiscal periods beginning after November 15, 2008.

Recent Accounting Pronouncements

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

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, as revised (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed (including intangibles), and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141R on January 1, 2009 will require the Company to prospectively expense all transaction costs for business combinations for which the acquisition date is on or subsequent to that date. Early adoption and retroactive application of SFAS No. 141R to fiscal years preceding the effective date is not permitted. The implementation of this standard on January 1, 2009 could materially impact the Company s future financial results to the extent that it acquires significant amounts of real estate, as related acquisition costs will be expensed as incurred rather than the Company s current practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* (SFAS No. 160), which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will 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 will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be 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

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retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for the Company beginning January 1, 2009 and applies prospectively, except for the presentation and disclosure requirements, which apply retrospectively. To the extent that the Company purchases or disposes interests and gains or loses control in entities or real estate partnerships in periods subsequent to adoption, the impact on its financial position or results of operations could be material, as these interests will be recognized at fair value with gains and losses recorded to earnings.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires entities to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 161 on January 1, 2009 to have a material impact on its consolidated financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. In developing assumptions about renewal or extension, FSP FAS 142-3 requires an entity to consider its own historical experience (or, if no experience, market participant assumptions) adjusted for relevant entity-specific factors in paragraph 11 of SFAS No. 142. FSP FAS 142-3 expands the disclosure requirements of SFAS No. 142 and is effective for the Company beginning January 1, 2009, with early adoption prohibited. The guidance for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The Company does not expect the adoption of FSP FAS 142-3 on January 1, 2009 to have a material impact on its consolidated financial position or results of operations.

In June 2008, the FASB issued 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 transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance in 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. FSP EITF 03-6-1 is effective for the Company on January 1, 2009. All prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company does not expect the adoption of FSP EITF 03-6-1 on January 1, 2009 to have a material impact on its consolidated financial position or results of operations.

Reclassifications

Certain amounts in the Company s prior years consolidated financial statements have been reclassified to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the balance sheets and operating results reclassified from continuing to discontinued operations in accordance with SFAS No. 144 (see Note 5). Tenant recoveries have been reclassified from rental and related revenues. Income taxes have been reclassified from general and administrative expenses. In addition, in accordance with SFAS No. 131, all prior period segment information has been reclassified to conform to the current presentation.

(3) Mergers and Acquisitions

Slough Estates USA Inc.

On August 1, 2007, the Company closed its acquisition of SEUSA for aggregate cash consideration of approximately $3.0 billion. SEUSA s life science portfolio is concentrated in the San Francisco Bay Area and San Diego County.

The calculation of total consideration follows (in thousands):

Payment of aggregate cash consideration	$	2,978,911
Estimated acquisition costs, net of cash acquired		3,800
Purchase price, net of assumed liabilities		2,982,711
Fair value of liabilities assumed, including debt		216,733
Purchase price	$	3,199,444

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Under the purchase method of accounting, the assets and liabilities of SEUSA were recorded at their relative fair values as of the date of the acquisition. During the six months ended June 30, 2008, the Company revised its initial purchase price allocation of its acquired interest in SEUSA, which resulted in the Company reallocating $53 million among buildings and improvements, development costs and construction in progress, land, intangible assets and investments in and advances to unconsolidated joint ventures from its preliminary allocation at December 31, 2007. The changes from the Company s initial purchase price allocation did not have a significant impact on the Company s results of operations for the three and six months ended June 30, 2008.

The following table summarizes the revised fair values of the SEUSA assets acquired and liabilities assumed as of the acquisition date of August 1, 2007 (in thousands):

Assets acquired		
Buildings and improvements	$	1,656,243
Development costs and construction in progress		254,626
Land		833,117
Investments in and advances to unconsolidated joint ventures		68,300
Intangible assets		351,500
Other assets		35,658
Total assets acquired	$	3,199,444
Liabilities assumed		
Mortgages payable and other debt	$	33,553
Intangible liabilities		147,700
Other liabilities		35,480
Total liabilities assumed		216,733
Net assets acquired	$	2,982,711

In connection with the Company s acquisition of SEUSA, the Company obtained, from a syndicate of banks, a financing commitment for a $3.0 billion bridge loan under which $2.75 billion was borrowed at closing.

The assets, liabilities and results of operations of SEUSA are included in the consolidated financial statements from the date of acquisition.

Pro Forma Results of Operations

The following unaudited pro forma consolidated results of operations assume that the acquisition of SEUSA was completed on January 1 for the three and six months ended June 30, 2007 (in thousands, except per share amounts):

		Three Months Ended June 30, 2007		Six Months Ended June 30, 2007
Revenues	$	252,056	$	498,261
Net income		45,737		94,052
Basic earnings per common share		0.22		0.40
Diluted earnings per common share		0.22		0.40

(4) Acquisitions of Real Estate Properties

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.

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A summary of acquisitions during the year ended December 31, 2007, excluding SEUSA (Note 3), follows (in thousands):

	Consideration				Assets Acquired	
Acquisitions(1)	**Cash Paid**	**Real Estate**	**Debt Assumed**	**DownREIT Units(2)**	**Real Estate**	**Net Intangibles**
Medical office	$ 166,982	$	$	$ 93,887	$ 247,996	$ 12,873
Hospital	120,562	35,205		84,719	235,084	5,402
Life science	35,777		12,215	2,092	48,237	1,847
Senior housing	15,956	340	5,148		20,772	672
	$ 339,277	$ 35,545	$ 17,363	$ 180,698	$ 552,089	$ 20,794

(1) Includes transaction costs, if any.
(2) Non-managing member LLC units.

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

Dispositions of Real Estate

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 $200 million. The Company s sales of properties were made from the following segments: (i) 61% hospital, (ii) 19% skilled nursing, (iii) 17% medical office and (iv) 3% senior housing.

During the six months ended June 30, 2007, the Company sold 47 properties for approximately $392 million and recognized gain on sales of real estate of approximately $106 million, and were made in the following segments: (i) 59% senior housing, (ii) 33% skilled nursing and (iii) 8% medical office.

Dispositions of Real Estate Interests

On January 5, 2007, the Company formed a senior housing joint venture (HCP Ventures II), which included 25 properties valued at $1.1 billion, which were encumbered by a $686 million secured debt facility. The Company received approximately $280 million in proceeds, including a one-time acquisition fee of $5.4 million, which is included in management fee income for the six months ended June 30, 2007. No gain or loss was recognized for the sale of a 65% interest in this joint venture.

On April 30, 2007, the Company formed an MOB joint venture (HCP Ventures IV), which included 55 properties valued at approximately $585 million. Upon the disposition of an 80% interest in this venture, the Company received $196 million and recognized a gain of $10.1 million. These proceeds included a one-time acquisition fee of $3 million, which was recognized in investment management fee income for the three and six months ended June 30, 2007.

Properties Held for Sale

At June 30, 2008 and December 31, 2007, the Company held for sale eight and 52 properties with carrying amounts of $91 million and $404 million, respectively.

Results from Discontinued Operations

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Rental and related revenues	$ 7,905	$ 33,131	$ 23,822	$ 62,410
Other revenues		20	18	3,048
	7,905	33,151	23,840	65,458
Depreciation and amortization expenses	1,380	6,537	5,677	13,765
Operating expenses	702	1,761	2,757	3,813
Other costs and expenses	354	2,166	465	6,728
Income before gain on sales of real estate, net of income taxes	$ 5,469	$ 22,687	$ 14,941	$ 41,152
Gains on sales of real estate	$ 190,256	$ 2,071	$ 200,394	$ 106,116
Number of properties held for sale	8	102	8	102
Number of properties sold	40	20	44	47
Number of properties included in discontinued operations	48	122	52	149

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(6) Net Investment in Direct Financing Leases

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

	June 30, 2008	December 31, 2007
Minimum lease payments receivable	$ 1,396,654	$ 1,414,116
Estimated residual values	468,769	468,769
Less unearned income	(1,220,344)	(1,242,833)
Net investment in direct financing leases	$ 645,079	$ 640,052
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 $59.5 million at June 30, 2008 are subordinate to and serve as collateral for first mortgage construction loans entered into by the tenants to fund development costs related to the properties.

(7) Loans Receivable

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

	June 30, 2008			December 31, 2007		
	Real Estate Secured	Other	Total	Real Estate Secured	Other	Total
Mezzanine	$	$ 1,000,000	$ 1,000,000	$	$ 1,000,000	$ 1,000,000
Joint venture partners		7,053	7,053		7,055	7,055
Other	68,520	85,382	153,902	69,126	86,285	155,411
Unamortized discounts, fees and costs		(87,903)	(87,903)		(96,740)	(96,740)
Loan loss allowance		(241)	(241)		(241)	(241)
	$ 68,520	$ 1,004,291	$ 1,072,811	$ 69,126	$ 996,359	$ 1,065,485

The Company has an agreement to provide an affiliate of the Cirrus Group, LLC with an interest only, senior secured term loan. The loan provides for a maturity date of December 31, 2008, with a one-year extension at the option of the borrower, 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 and borrower financial covenants and is collateralized by assets of the borrower (comprised primarily of interests in partnerships operating surgical facilities in premises leased from a Cirrus affiliate, HCP Ventures IV or the Company) and is guaranteed up to $50 million through a combination of (i) a personal guarantee of up to $13 million by a principal of Cirrus, and (ii) a guarantee of the balance by other principals of Cirrus under arrangements for recourse limited only to their interests in certain entities owning real estate. At June 30, 2008, the carrying value of this loan was $86 million.

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 Manor Care, Inc. These loans bear interest on their face amounts at a floating rate of one-month LIBOR plus 4.0%, mature in January 2013 and are pre-payable at any time subject to a yield maintenance fee during the first twelve months. 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 the 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, 2008, the carrying value of this loan was $910 million.

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(8) 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, 2008 (dollars in thousands):

Entity(1)	Properties		Investment(2)	Ownership %
HCP Ventures II	25 senior housing facilities	$	142,239	35%
HCP Ventures III, LLC	13 MOBs		12,575	30
HCP Ventures IV, LLC	50 MOBs, 4 life science facilities and 4 hospitals		47,358	20
Suburban Properties, LLC	1 MOB		4,556	67
LASDK LP	1 life science facility		24,140	63
Britannia Biotech Gateway LP	2 life science facilities		33,421	55
Torrey Pines Science Center LP	1 life science facility		10,769	50
Advances to unconsolidated joint ventures, net			3,421	
		$	278,479	
Edgewood Assisted Living Center, LLC(3)(4)	1 senior housing facility	$	(278)	45
Seminole Shores Living Center, LLC(3)(4)	1 senior housing facility		(846)	50
		$	(1,124)	

(1) These joint ventures are not consolidated because the Company does not control, through voting rights or other means, the entities. 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) As of June 30, 2008, the Company has guaranteed in the aggregate $4 million of a total of $8 million of notes payable for these two joint ventures. No liability has been recorded related to these guarantees as of June 30, 2008.

(4) 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, 2008		December 31, 2007 (6)
Real estate, net	$	1,722,511	$	1,752,289
Other assets, net		193,278		195,816
Total assets	$	1,915,789	$	1,948,105
Notes payable	$	1,179,212	$	1,192,270
Accounts payable		41,377		45,427
Other partners capital		502,258		511,149
HCP s capital(5)		192,942		199,259
Total liabilities and partners capital	$	1,915,789	$	1,948,105

Three Months Ended June 30, (6)		Six Months Ended June 30, (6)	
2008	2007 (7)	2008	2007 (7)

Total revenues	$	46,102	$	42,607	$	92,416	$	85,032
Net income		1,623		2,330		3,793		8,466
HCP s equity income		1,221		1,302		2,509		2,516
Fees earned by HCP		1,457		4,220		2,924		10,459
Distributions received, net		4,748		200,532		8,255		477,752

(5) Aggregate basis difference of the Company s investments in these joint ventures of $81 million, as of June 30, 2008, is primarily attributable to real estate and lease related intangible assets.

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

(7) Includes the results of operations from HCP Ventures IV, LLC, whose subsidiaries were wholly-owned consolidated subsidiaries of the Company prior to April 30, 2007.

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(9) Intangibles

At June 30, 2008 and December 31, 2007, 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 $723 million and $725 million, respectively. At June 30, 2008 and December 31, 2007, the accumulated amortization of intangible assets was $141 million and $102 million, respectively.

At June 30, 2008 and December 31, 2007, below market lease intangibles and above market ground lease intangibles were $307 million and $312 million, respectively. At June 30, 2008 and December 31, 2007, the accumulated amortization of intangible liabilities was $47 million and $33 million, respectively.

(10) Other Assets

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

	June 30, 2008	December 31, 2007
Marketable debt securities	$ 270,675	$ 289,163
Marketable equity securities	8,755	13,933
Goodwill	51,746	51,746
Straight-line rent assets, net	91,731	76,188
Deferred debt issuance costs, net	19,347	16,787
Other	61,872	68,316
Total other assets	$ 504,126	$ 516,133

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

			Gross Unrealized	
	Cost (1)	Fair Value	Gains	Losses
June 30, 2008				
Debt securities	$ 265,000	$ 270,675	$ 7,350	$ (1,675)
Equity securities	9,066	8,755	81	(392)
Total investments	$ 274,066	$ 279,430	$ 7,431	$ (2,067)
December 31, 2007				
Debt securities	$ 275,000	$ 289,163	$ 14,663	$ (500)
Equity securities	13,874	13,933	300	(241)
Total investments	$ 288,874	$ 303,096	$ 14,963	$ (741)

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

The marketable securities with gross unrealized losses at June 30, 2008 are not considered to be other-than-temporarily impaired as the Company has the intent and ability to hold these investments for a period of time sufficient to allow for an anticipated recovery in fair value. The Company s debt securities accrue interest at 9.625% and 9.25%, and mature in November 2016 and May 2017, respectively.

During the three and six months ended June 30, 2008 and 2007, the Company sold debt securities with a cost basis of $10 million and $45 million, which resulted in gains of approximately $0.7 million and $3.9 million, respectively, and were recognized in interest and other income, net in the Company s consolidated statements of income. During the six months ended June 30, 2007, the Company realized gains from the sale of various equity securities totaling $1.0 million, which were included in interest and other income, net. There were no sales of equity securities during the six months ended June 30, 2008.

The Company recognized a $3.5 million loss during the three months ended June 30, 2008 on marketable equity securities with a carrying value of $7.3 million at June 30, 2008. The Company evaluated the near-term prospects for the securities in relation to the severity and duration of the impairment and concluded that the investment is other-than-temporarily impaired at June 30, 2008.

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(11) Debt

Bank Line of Credit and Bridge Loan

As of June 30, 2008, no amounts were outstanding under the Company s $1.5 billion revolving line of credit facility. The Company s revolving line of credit facility can be increased up to $2.0 billion subject to certain conditions, including increased commitments by lenders. This revolving line of credit 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 the Company s debt ratings. The revolving line of credit facility contains a negotiated rate option, whereby the lenders participating in the line of credit facility bid on the interest to be charged which may result in a reduced interest rate, and is available for up to 50% of borrowings. Based on the Company s debt ratings on June 30, 2008, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. The Company s revolving line of credit facility matures on August 1, 2011.

At June 30, 2008, the outstanding balance of the Company s bridge loan was $1.15 billion and had an initial maturity date of July 31, 2008. The Company originally had two optional 6-month extensions, subject to debt compliance and extension fees, which can be used to extend the maturity date to July 31, 2009. In July 2008, the Company exercised its first extension option. The bridge loan accrues interest at a rate per annum equal to LIBOR plus a margin ranging from 0.425% to 1.25%, depending upon the Company s debt ratings (weighted average effective interest rate of 3.48% at June 30, 2008). Based on the Company s debt ratings on June 30, 2008, the margin on the bridge loan facility is 0.70%. In July 2008, the Company repaid $150 million of the outstanding balance of the bridge loan.

The revolving line of credit facility and bridge loan contain certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreement, limit the ratio of (i) Consolidated Total Indebtedness to Consolidated Total Asset Value to 70%, (ii) Secured Debt to Consolidated Total Asset Value to 30%, and (iii) Unsecured Debt to Consolidated Unencumbered Asset Value to 80%. The agreement also requires that the Company maintain (i) a Fixed Charge Coverage ratio, as defined in the agreement, of 1.50 times, and (ii) a formula-determined Minimum Consolidated Tangible Net Worth. A portion of these financial covenants become more restrictive through the period ending March 31, 2009 and ultimately (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%, and (iii) require a Fixed Charge Coverage ratio, as defined in the agreement, of 1.75 times. At June 30, 2008, the Company was in compliance with each of the restrictions and requirements of its revolving line of credit facility and bridge loan.

Senior Unsecured Notes

At June 30, 2008, the Company had $3.8 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 3.20% to 7.07% at June 30, 2008. The weighted average effective interest rate on the senior unsecured notes at June 30, 2008 and December 31, 2007, was 6.03% and 6.18%, respectively. Discounts and premiums are amortized to interest expense over the term of the related debt.

The senior unsecured notes contain certain covenants including limitations on debt and other customary terms. At June 30, 2008, the Company was in compliance with these covenants.

Mortgage Debt

At June 30, 2008, the Company had $1.5 billion in mortgage debt secured by 215 healthcare facilities with a carrying amount of $2.6 billion. Interest rates on the mortgage notes ranged from 2.08% to 8.63% with a weighted average effective rate of 5.99% at June 30, 2008.

In May 2008, the Company obtained $259 million of seven-year mortgage financing with a fixed interest rate of 5.83%. The Company received net proceeds of $254 million, which were used to repay outstanding indebtedness under its revolving line of credit facility and bridge loan.

Secured debt generally requires monthly principal and interest payments. Some of the loans are also cross-collateralized by multiple properties. The secured debt is collateralized by deeds of trust or mortgages on certain properties and is generally non-recourse. Mortgage debt encumbering properties typically restricts title transfer of the respective properties subject to the terms of the mortgage, 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 a requirement to obtain lender consent to enter into and terminate material tenant leases.

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Other Debt

At June 30, 2008, the Company had $105.3 million of non-interest bearing Life Care Bonds at two of its CCRCs and non-interest bearing occupancy fee deposits at another of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively Life Care Bonds). At June 30, 2008, $40.4 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $64.9 million of the Life Care Bonds were refundable after the units are successfully remarketed to new residents.

Debt Maturities

Debt maturities and scheduled principal payments at June 30, 2008 are as follows (in thousands):

Year	Bank Line of Credit	Bridge Loan	Senior Notes	Mortgage Debt	Other Debt	Total
2008 (6 months)	$	$	$ 300,000	$ 71,231	$ 105,264	$ 476,495
2009		1,150,000		270,885		1,420,885
2010			206,421	295,103		501,524
2011			300,000	132,985		432,985
2012			250,000	104,076		354,076
Thereafter			2,787,000	636,034		3,423,034
	$	$ 1,150,000	$ 3,843,421	$ 1,510,314	$ 105,264	$ 6,608,999

(12) Commitments and Contingencies

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

On May 3, 2007, Ventas, Inc. filed a complaint against the Company in the United States District Court for the Western District of Kentucky, asserting claims of tortious interference with contract and tortious interference with prospective business advantage. The complaint alleges, among other things, that the Company interfered with Ventas purchase agreement with Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT); that the Company interfered with Ventas prospective business advantage in connection with the Sunrise REIT transaction; and that the Company s actions caused Ventas to suffer damages, including the payment of over $100 million in additional consideration to acquire the Sunrise REIT assets. Ventas is seeking monetary relief, including compensatory and punitive damages, against the Company. On July 2, 2007, the Company filed its answer to Ventas complaint and a motion to dismiss the complaint in its entirety. On December 19, 2007, the court denied the motion to dismiss. The Company believes that Ventas claims are without merit and intends to vigorously defend against Ventas lawsuit. On April 8, 2008, the Company filed a motion for leave to assert counterclaims against Ventas as part of the above litigation. HCP s proposed counterclaims allege, among other things, that Sunrise REIT fraudulently induced HCP to participate in a flawed and unfair auction process, and that absent such misconduct, HCP would have succeeded in acquiring Sunrise REIT. HCP seeks to recover compensatory and punitive damages. The proposed counterclaims further allege that Ventas, in acquiring Sunrise REIT, assumed the liability of Sunrise REIT. On July 25, 2008, the Court granted HCP s motion over Ventas opposition, allowing HCP to file its counterclaims. HCP intends to pursue such claims vigorously; however, there can be no assurances that it will prevail on any of the claims or the amount of any recovery that may be awarded. The Company expects that defending its interests and pursuing its own claims in the foregoing matters will require it to expend significant funds. The Company is unable to estimate the ultimate aggregate amount of monetary liability, gain or financial impact with respect to these matters as of June 30, 2008.

In April 2007, the Company and Health Care Property Partners (HCPP), a joint venture between the Company and an affiliate of Tenet Healthcare Corporation (Tenet), served Tenet and certain Tenet subsidiaries with notices of default with respect to its hospital in Tarzana, California, and two other hospitals that are leased by such affiliates from the Company and HCPP. The notices of default generally relate to deferred maintenance and compliance with legal requirements, including compliance with the requirements of State of California Senate Bill 1953 (SB 1953) (further described below). On May 8, 2007, certain subsidiaries of Tenet filed a complaint against the Company in the Superior Court of the State of California for the County of Los Angeles with respect to the hospital owned by the Company and initiated arbitration actions with respect to the two hospitals owned by HCPP, in each case asserting various causes of action generally relating to such notices of default. Upon Tenet s failure to fully remedy all of the items set forth in the notices of default to the Company s satisfaction,

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the Company, on July 27, 2007, exercised its right to terminate the leases to Tenet of four other hospitals owned by the Company, effective December 31, 2007, invoking cross−default provisions under such leases. On September 24, 2007, Tenet amended its original complaint and added claims by the lessees under the four terminated leases substantially similar to the previously filed claims. Tenet s subsidiaries are seeking declaratory, injunctive and monetary relief, including compensatory and punitive damages, against the Company and HCPP. On October 8, 2007, HCPP responded to the claims by Tenet s subsidiaries in the arbitration action, raising its own claims against Tenet and the lessees of the two hospitals relating to the matters described in the notices of default, and on October 17, 2007, the Company similarly filed a counterclaim against Tenet and the plaintiffs in the California state court action. On October 16, 2007, Lake Health Care Facilities, Inc., another subsidiary of Tenet and the non-managing general partner of HCPP, filed a complaint against the Company in the Superior Court of the State of California for the County of Los Angeles in which it alleges that the service of the notices of default upon HCPP s tenants was a breach of the Company s fiduciary duties as managing partner of HCPP and that the Company has breached the HCPP partnership agreement. The Company believes that the claims by Tenet s subsidiaries are without merit and, subject to the tentative settlement described below, intends to vigorously defend against those claims in the litigation and arbitration proceedings.

Due to pending settlement discussions, on February 21, 2008, at the request of the parties, the Court entered orders to accommodate such discussions. Similarly, the arbitrators approved a stipulation in the arbitration action that accommodates the settlement discussions. On June 30, 2008, the parties executed a definitive settlement agreement relating to the disputes that are the subject of litigation and arbitration proceedings described above. The agreement provides for, among other things, the sale of a hospital in Tarzana, California, by the Company to a Tenet affiliate, the non-renewal by Tenet subsidiaries of leases with respect to hospitals in Irvine, California, and Los Gatos, California, and the extension of the terms of three other hospitals leased by an affiliate of the Company to affiliates of Tenet. With the execution of settlement documents, the parties agreed to appear before the Court to secure further accommodations pending the consummation of the settlement, if at all. The effectiveness of the settlement is contingent on the closing of the sale by Tenet of the hospital in Tarzana, California, which closing is subject to customary conditions and regulatory approvals, and there can be no assurances that the closing will occur. If the settlement does not become effective, the Company will continue to vigorously defend against the claims made by Tenet s subsidiaries and pursue its own claims against Tenet and its affiliates.

State of California Senate Bill 1953. The hospital owned by the Company in Tarzana, California, which hospital is under contract to be sold to an affiliate of Tenet as described above, is affected by SB 1953, which requires certain seismic safety building standards for acute care hospital facilities. This hospital is currently operated by Tenet under a lease expiring in February 2009. As indicated above, the Company is currently disputing Tenet s responsibility for performance of compliance activities, but has reached an agreement, subject to customary conditions and regulatory approvals, to sell the hospital as described above, which sale would relieve HCP of any SB 1953 compliance obligations it has, if any. Rental income from the hospital for the six months ended June 30, 2008 and the year ended December 31, 2007 were $4.4 million and $10.9 million, respectively. At June 30, 2008, the carrying amount of the property was $70.6 million. The results of operations and carrying value of this property are reflected in discontinued operations and real estate held for sale, net, respectively.

Development Commitments. As of June 30, 2008, the Company was committed under the terms of contracts to complete the construction of properties undergoing development at a remaining aggregate cost of approximately $58 million.

Concentration of Credit Risk. Concentration of credit risk arises 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.

On December 21, 2007, the Company made an investment in mezzanine loans to HCR ManorCare with an aggregate face value of $1.0 billion, for approximately $900 million. At June 30, 2008, these loans represented approximately 78% of our skilled nursing segment assets and 7% of our total segment assets.

At June 30, 2008, the Company had 81 of its senior housing facilities leased to nine tenants that have been identified as VIEs (VIE Tenants). These VIE Tenants are thinly capitalized entities that rely on the cash flow generated from the senior housing facilities to pay operating expenses, including rent obligations under their leases. The 81 senior housing facilities leased to the VIE Tenants are operated by Sunrise Senior Living Management, Inc., a wholly-owned subsidiary of Sunrise Senior Living, Inc. (Sunrise). Sunrise is publicly traded and is subject to the informational filing requirements of the Securities and Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. However, Sunrise is the subject of a formal SEC investigation. In addition, Sunrise has not filed its periodic reports on Form 10-Q subsequent to its Form 10-K for the fiscal year ended December 31, 2007, which was filed on July 31, 2008.

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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 Partnerships. In connection with the formation of certain DownREIT partnerships, partners generally contributed appreciated real estate to the DownREIT in exchange for DownREIT units. These contributions are generally tax-free, so that the pre-contribution gain related to the property is not taxed to the contributing partner. However, if the contributed property is later sold by the partnership, the pre-contribution gain that exists at the date of sale is specially allocated and taxed to the contributing partners. In many of the DownREITs, the Company has entered into indemnification agreements with those partners who contributed appreciated property into the partnership. Under these indemnification agreements, if any of the appreciated real estate contributed by the partners is sold by the partnership in a taxable transaction within a specified number of years after the property was contributed, HCP will reimburse the affected partners for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected partner 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 $138.3 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. The Company s obligation under such indebtedness is guaranteed by the debtor who has an investment grade credit rating. These senior housing facilities are classified as DFLs and have a carrying value of $349.5 million at June 30, 2008.

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

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

(13) Stockholders Equity

Preferred Stock

On January 28, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends were paid on March 31, 2008 to stockholders of record as of the close of business on March 14, 2008.

On April 24, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends were paid on June 30, 2008 to stockholders of record as of the close of business on June 16, 2008.

On July 31, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends will be paid on September 30, 2008 to stockholders of record as of the close of business on September 15, 2008.

Common Stock

During the six months ended June 30, 2008 and 2007, the Company issued 285,000 and 656,000 shares of common stock, respectively, under its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company also issued 481,000 and 37,000 shares upon exercise of stock options, and 1.8 million and 150,000 shares of common stock upon the conversion of DownREIT units during the six months ended June 30, 2008 and 2007, respectively.

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During the six months ended June 30, 2008 and 2007, the Company issued 138,000 shares of restricted stock under the Company s 2006 Performance Incentive Plan. The Company also issued 131,000 and 109,000 shares upon the vesting of performance restricted stock units during the six months ended June 30, 2008 and 2007, respectively.

In connection with HCP s addition to the S&P 500 Index on March 28, 2008, to partially satisfy the anticipated demand for shares of the Company s common stock by index funds, the Company issued 12.5 million shares of its common stock on April 2, 2008. In a separate transaction, the Company issued 4.5 million shares to an active REIT-dedicated institutional investor on April 2, 2008. The net proceeds received from these two offerings in the aggregate were approximately $560 million, which were used to repay a portion of the outstanding indebtedness under the Company s revolving line of credit facility.

On January 28, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.455 per share. The common stock cash dividend was paid on February 21, 2008 to stockholders of record as of the close of business on February 7, 2008.

On April 24, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.455 per share. The common stock cash dividend was paid on May 19, 2008 to stockholders of record as of the close of business on May 5, 2008.

On July 31, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.455 per share. The common stock cash dividend will be paid on August 21, 2008 to stockholders of record as of the close of business on August 11, 2008.

Accumulated Other Comprehensive Income (Loss) (AOCI)

		June 30, 2008		**December 31, 2007**
		(in thousands)		
AOCI unrealized gains on available-for-sale securities, net	$	5,365	$	14,222
AOCI unrealized losses on cash flow hedges, net		(11,800)		(14,243)
Supplemental Executive Retirement Plan minimum liability		(2,063)		(2,113)
Foreign currency translation adjustment		300		32
Total Accumulated Other Comprehensive Loss	$	(8,198)	$	(2,102)

Total Comprehensive Income (Loss)

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

	Three Months Ended June 30,	**Six Months Ended June 30,**

	2008	2007	2008	2007
Net income	$ 232,295	$ 71,284	$ 282,707	$ 216,572
Other comprehensive income (loss)	47,699	(4,194)	(6,096)	(3,407)
Total comprehensive income	$ 279,994	$ 67,090	$ 276,611	$ 213,165

Substantially all of other comprehensive income for the three months ended June 30, 2008 related to two forward-starting interest rate swap contracts, which were settled in June 2008. See also discussions of derivative instruments in Note 15.

(14) Segment Disclosures

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, the Company invests primarily in single operator or tenant properties through acquisition and development of real estate, secured financing and marketable debt securities of operators in these sectors. Under the medical office segment, the Company invests through acquisition and secured financing in MOBs that are primarily leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management. The acquisition of SEUSA on August 1, 2007 resulted in a change to the Company s reportable segments. Prior to the SEUSA acquisition, the Company operated through two reportable segments triple-net leased and medical office buildings. The senior housing, life science, hospital and skilled nursing segments were previously aggregated under the Company s triple-net leased segment. SEUSA s results are included in the Company s

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consolidated financial statements from the date of the Company s acquisition on August 1, 2007. The accounting policies of the segments are the same as those described under Summary of Significant Accounting Policies (see Note 2). There were no intersegment sales or transfers during the six months ended June 30, 2008 and 2007. The Company evaluates performance based upon property net operating income from continuing operations (NOI) of the combined properties in each segment.

Non-segment assets consist primarily of real estate held for sale and corporate assets including cash, restricted cash, accounts receivable, net and deferred financing costs. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company s performance measure. See Note 12 for other information regarding concentrations of credit risk.

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

For the three months ended June 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 69,996	$	$ 14,129	$ 793	$ 84,918	$ 80,909	$ 286
Life science	46,300	8,285		1	54,586	44,510	
Medical office	66,139	11,419		663	78,221	44,338	
Hospital	24,166	466			24,632	23,563	11,686
Skilled nursing	9,015				9,015	9,015	20,801
Total segments	215,616	20,170	14,129	1,457	251,372	202,335	32,773
Non-segment							(2,034)
Total	$ 215,616	$ 20,170	$ 14,129	$ 1,457	$ 251,372	$ 202,335	$ 30,739

For the three months ended June 30, 2007:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 69,410	$	$ 15,215	$ 799	$ 85,424	$ 81,815	$ 369
Life science	3,949	620			4,569	3,317	
Medical office	68,918	10,999		3,421	83,338	46,896	
Hospital	24,612	57			24,669	24,540	14,082
Skilled nursing	8,846				8,846	8,846	439
Total segments	175,735	11,676	15,215	4,220	206,846	165,414	14,890
Non-segment							3,832
Total	$ 175,735	$ 11,676	$ 15,215	$ 4,220	$ 206,846	$ 165,414	$ 18,722

For the six months ended June 30, 2008:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 141,298	$	$ 29,103	$ 1,589	$ 171,990	$ 163,589	$ 602
Life science	89,529	17,667		2	107,198	85,526	
Medical office	131,753	23,000		1,333	156,086	88,178	
Hospital	43,822	954			44,776	42,833	22,270
Skilled nursing	17,808				17,808	17,808	43,985
Total segments	424,210	41,621	29,103	2,924	497,858	397,934	66,857
Non-segment							(791)
Total	$ 424,210	$ 41,621	$ 29,103	$ 2,924	$ 497,858	$ 397,934	$ 66,066

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For the six months ended June 30, 2007:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Investment Management Fees	Total Revenues	NOI(1)	Interest and Other
Senior housing	$ 137,285	$	$ 30,205	$ 6,964	$ 174,454	$ 160,205	$ 723
Life science	8,774	1,358			10,132	7,743	
Medical office	143,361	23,916		3,495	170,772	99,664	
Hospital	42,126	86			42,212	41,831	24,493
Skilled nursing	17,343				17,343	17,343	879
Total segments	348,889	25,360	30,205	10,459	414,913	326,786	26,095
Non-segment							7,091
Total	$ 348,889	$ 25,360	$ 30,205	$ 10,459	$ 414,913	$ 326,786	$ 33,186

(1) Net Operating Income from Continuing Operations (NOI) is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate. The Company defines NOI as rental revenues, including tenant recoveries and income from direct financing leases, less property-level operating expenses. NOI excludes investment management fee income, depreciation and amortization, general and administrative expenses, impairments, gain on sale of real estate interest, and other income, net, interest expense, income taxes, equity income from unconsolidated joint ventures, minority interests share in earnings and discontinued operations. The Company believes NOI provides investors relevant and useful information because it measures the operating performance of the Company s real estate at the property level on an unleveraged basis. The Company uses NOI to make decisions about resource allocations and assess property-level performance. The Company believes that net income is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income as defined by GAAP since it does not reflect the aforementioned excluded items. Further, the Company s definition of NOI may not be comparable to the definition used by other real estate investment trusts, as those companies may use different methodologies for calculating NOI.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net operating income from continuing operations	$ 202,335	$ 165,414	$ 397,934	$ 326,786
Investment management fee income	1,457	4,220	2,924	10,459
Depreciation and amortization	(78,308)	(56,666)	(156,369)	(113,811)
General and administrative	(18,840)	(17,290)	(39,371)	(37,395)
Impairments	(9,715)		(9,715)	
Gain on sale of real estate interest		10,141		10,141
Interest and other income, net	30,739	18,722	66,066	33,186
Interest expense	(85,509)	(72,973)	(181,835)	(150,756)
Income taxes	(1,274)	395	(3,519)	152
Equity income from unconsolidated joint ventures	1,221	1,302	2,509	2,516
Minority interests share in earnings	(5,536)	(6,739)	(11,252)	(11,974)
Total discontinued operations	195,725	24,758	215,335	147,268

Net income	$	232,295	$	71,284	$	282,707	$	216,572

The Company s total assets by segment were:

Segments		June 30, 2008		December 31, 2007
Senior housing	$	4,453,769	$	4,440,832
Life science		3,502,993		3,461,101
Medical office		2,287,261		2,258,785
Hospital		1,103,514		1,126,152
Skilled nursing		1,171,718		1,163,157
Gross segment assets		12,519,255		12,450,027
Accumulated depreciation and amortization		(819,618)		(691,838)
Net segment assets		11,699,637		11,758,189
Real estate held for sale, net		90,668		403,614
Non-segment assets		433,425		359,969
Total assets	$	12,223,730	$	12,521,772

Segment assets include an allocation of the carrying value of goodwill. At June 30, 2008, goodwill is allocated as follows: (i) senior housing $30.5 million, (ii) life science $1.4 million, (iii) medical office $11.4 million, (iv) hospital $5.1 million, and (v) skilled nursing $3.3 million.

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(15) Derivative Instruments

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

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

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, primarily global institutional banks, on a regular basis. Should a counterparty fail to perform, the Company would incur a financial loss to the extent that the associated derivative contract was in an asset position. At June 30, 2008, the Company does not anticipate non-performance by counterparties to its outstanding derivative contracts.

In July 2005, the Company entered into three interest rate swap contracts that are designated as hedging the variability of expected cash flows related to floating rate debt assumed in connection with the acquisition of a real estate portfolio. The cash flow hedges have a notional amount of $45.6 million and mature in July 2020. The aggregate fair value of the derivative contracts is a $1.0 million liability and is included in accounts payable and accrued liabilities. At June 30, 2008, no amounts of ineffectiveness for the derivative contracts were recorded.

During October and November 2007, the Company entered into two forward-starting interest rate swap contracts with notional amounts aggregating $900 million. The interest rate swap contracts are 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 expected to be issued during the current fiscal year. As of June 30, 2008, the Company terminated these hedges per the cash settlement provisions of the derivative contracts. The termination of the $500 million notional contract required a payment of $14.8 million and the termination of the $400 million notional contract resulted in a cash receipt of $5.2 million. Upon settlement of these derivative contracts, the Company revised its best estimate of the hedged forecasted transactions, and as a result an ineffectiveness charge of $2.4 million was recognized in interest and other income, net in the consolidated statements of income. All components of the forward-starting interest rate swap contracts were included in the Company s final assessment and measurement of hedge effectiveness upon settlement of these derivative instruments. At June 30, 2008, the Company expects that the hedged forecasted transactions remain probable of occurring in accordance with its designated assertions.

(16) Supplemental Cash Flow Information

	Six Months Ended June 30, 2008	2007
	(in thousands)	
Supplemental cash flow information:		
Interest paid, net of capitalized interest and other	$ 179,678	$ 141,131

Taxes paid	3,508	219
Supplemental schedule of non-cash investing activities:		
Capitalized interest	16,900	173
Accrued construction costs	2,295	
Real estate exchanged in real estate acquisitions		35,205
Supplemental schedule of non-cash financing activities:		
Mortgages assumed with real estate acquisitions	4,892	
Restricted stock issued	138	138
Vesting of restricted stock units	131	109
Cancellation of restricted stock	(29)	(25)
Conversion of non-managing member units into common stock	63,895	3,477
Non-managing member units issued in connection with acquisitions		180,698
Unrealized gains (losses) on available for sale securities and derivatives designated as cash flow hedges	(11,639)	738

See also discussions of the SEUSA acquisition and HCP Ventures II and HCP Ventures IV, in Notes 3 and 8, respectively.

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(17) Earnings Per Common Share

The Company computes earnings per share in accordance with SFAS No. 128, *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. Options to purchase approximately 0.5 million and 0.6 million shares of common stock that had an exercise price in excess of the average market price of the common stock during the three months ended June 30, 2008 and 2007, respectively, were not included because they are not dilutive. Additionally, 5.2 million shares issuable upon conversion of 5.9 million DownREIT units during the three months ended June 30, 2008 and 10.1 million shares issuable upon conversion of 7.6 million non-managing member units during the three months ended June 30, 2007 were not included since they are anti-dilutive.

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 June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in thousands, except per share data)		(in thousands, except per share data)	
Numerator				
Income from continuing operations	$ 36,570	$ 46,526	$ 67,372	$ 69,304
Preferred stock dividends	(5,283)	(5,283)	(10,566)	(10,566)
Income from continuing operations applicable to common shares	31,287	41,243	56,806	58,738
Discontinued operations	195,725	24,758	215,335	147,268
Net income applicable to common shares for basic and diluted earnings per share	$ 227,012	$ 66,001	$ 272,141	$ 206,006
Denominator				
Basic weighted average common shares	235,117	205,755	225,945	204,882
Dilutive stock options and restricted stock	1,350	1,269	1,120	1,588
Diluted weighted average common shares	236,467	207,024	227,065	206,470
Basic earnings per common share				
Income from continuing operations	$ 0.13	$ 0.20	$ 0.25	$ 0.29
Discontinued operations	0.84	0.12	0.95	0.72
Net income applicable to common shares	$ 0.97	$ 0.32	$ 1.20	$ 1.01
Diluted earnings per common share				
Income from continuing operations	$ 0.13	$ 0.20	$ 0.25	$ 0.28
Discontinued operations	0.83	0.12	0.95	0.72
Net income applicable to common shares	$ 0.96	$ 0.32	$ 1.20	$ 1.00

(18) Fair Value Measurements

The following tables illustrate the Company s fair value measurements of its financial assets and liabilities as classified in the fair value hierarchy. Further, the second table includes the associated unrealized and realized gains and losses, as well as purchases, sales, issuances, settlements (net) or transfers out of the Level 3 classification. Realized gains and losses are recorded in interest and other income, net on the Company s consolidated statements of income.

The following is a summary of fair value measurements at June 30, 2008 (in thousands):

Financial Instrument	Fair Value	Level 1	Level 2	Level 3
Equity securities	$ 8,755	$ 8,755	$	$
Debt securities	270,675	252,350	18,325	
Interest rate swaps(1)	(1,044)		(1,044)	
Warrants(1)	2,586			2,586
Total	$ 280,972	$ 261,105	$ 17,281	$ 2,586

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

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The following is a reconciliation of fair value measurements classified as Level 3 at June 30, 2008 (in thousands):

		Warrants
December 31, 2007	$	2,560
Total gains or losses (realized and unrealized)		
Included in earnings		26
Included in other comprehensive income		
Purchases, issuances, and settlements		
Transfers in and/or out of Level 3		
June 30, 2008	$	2,586

(19) Impairments

During the three months ended June 30, 2008, as a result of anticipated dispositions, four properties in the senior housing segment and one hospital were determined to be impaired resulting in impairments of $9.7 million. No properties were determined to be impaired in 2007.

(20) Subsequent Events

On July 30, 2008, the Company received and recognized lease termination fees of $18 million from a tenant in connection with the early termination of three leases representing 149,000 square feet of the Company s life science segment. On July 30, 2008, the Company recognized an impairment of $4 million related to intangible assets associated with these leases.

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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, as amended, for the fiscal year ended December 31, 2007, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

(a) 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;

(b) 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;

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

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

(e) 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;

(f) 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;

(g) Changes in national, regional and local economic conditions, including changes in interest rates and the availability and cost of capital;

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

(i) The financial, legal and regulatory difficulties of significant operators of our properties, including Sunrise Senior Living, Inc. and Tenet Healthcare Corporation;

(j) 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;

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

(l) The potential impact of existing and future litigation matters, including related developments.

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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
- 2008 Transaction Overview
- Other Events
- 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 Maryland corporation organized to qualify as a REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States. We acquire, develop, lease, dispose and manage healthcare real estate and provide mortgage and specialty financing to healthcare providers. At June 30, 2008, our real estate portfolio, excluding assets held for sale but including mortgage loans and properties owned by joint ventures, consisted of interests in 706 facilities.

Investment Strategy

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 follow a disciplined approach to enhancing the value of our existing portfolio, including the ongoing evaluation of the potential disposition of properties that no longer fit our strategy. During the six months ended June 30, 2008, we sold 44 properties for $513 million. At June 30, 2008, we had eight properties with a carrying amount of $91 million classified as held for sale.

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 MOB and life science leases are structured as gross or modified gross leases. Accordingly, for such MOBs and life science facilities we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. Our growth depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

Access to external capital on favorable terms is critical to the success of our strategy. Generally, we attempt to match the long-term duration of most of our investments with long-term fixed-rate financing. At June 30, 2008, 25% of our consolidated debt is at variable interest rates, which includes $1.15 billion for the outstanding balance of the bridge loan. We intend to maintain an investment grade rating on our senior debt securities and manage various capital ratios and amounts within appropriate parameters. As of July 31, 2008, we had a credit rating of Baa3 (stable) from Moody s, BBB (negative outlook) from S&P and BBB (stable) from Fitch on our senior unsecured debt securities, and Ba1 (stable) from Moody s, BB+ (negative outlook) from S&P and BBB- (stable) from Fitch on our preferred securities.

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Access to capital markets impacts our ability to refinance existing indebtedness as it matures and fund future acquisitions and development through the issuance of additional securities. Our ability to access capital on favorable terms is dependent on various factors, including general market conditions, interest rates, credit ratings on our securities, perception of our potential future earnings and cash distributions, and the market price of our capital stock.

2008 Transaction Overview

Investment Transactions

During the six months ended June 30, 2008, we sold assets valued at $526 million, which included the sale of 44 properties for $513 million and other investments for $13 million. These sales were made from the following segments: (i) 61% hospital, (ii) 18% skilled nursing, (iii) 17% medical office, and (iv) 4% senior housing.

During the six months ended June 30, 2008, we acquired a senior housing facility for $11 million and funded construction and other capital projects aggregating $92 million, primarily in our life science and medical office segments.

Financing Transactions

In April 2008, in connection with HCP s addition to the S&P 500 Index, we issued 17 million shares of our common stock. We received approximately $560 million of net proceeds, which were used to repay a portion of our outstanding indebtedness under our revolving line of credit facility.

In May 2008, we placed $259 million of seven-year mortgage financing on 21 of our senior housing assets. The assets are cross-collateralized and the debt has a fixed interest rate of 5.83%. The proceeds were used to repay outstanding indebtedness under our revolving line of credit facility and bridge loan.

During the quarter ended June 30, 2008, we settled two forward-starting swaps with an aggregate notional amount of $900 million and recognized an ineffectiveness charge of $2.4 million, or $0.01 per diluted share of common stock, in interest and other income, net.

Other Events

On June 30, 2008, HCP and Tenet Healthcare Corporation (Tenet) executed a definitive agreement relating to restructuring our hospital portfolio leased to Tenet and settling various disputes. The agreement provides for, among other things, the sale of our hospital in Tarzana, California, the non-renewal by Tenet of leases with respect to our hospitals in Irvine, California, and Los Gatos, California, and the extension of the terms of three other hospitals leased by us to Tenet. The restructure and settlement are expected to be effective by September 30, 2008 and are contingent on the closing of the sale by Tenet of the hospital in Tarzana, California, which closing is subject to customary conditions and regulatory approvals. On the effective date of the settlement, we expect to recognize income ranging from $41 million to $46 million.

On July 30, 2008, we received and recognized lease termination fees of $18 million from a tenant in connection with the early termination of three leases representing 149,000 square feet of our life science segment. On July 30, 2008, we recognized an impairment of $4 million related to intangible assets associated with these leases.

Dividends

On July 31, 2008, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.455 per share. The dividend will be paid on August 21, 2008 to stockholders of record as of the close of business on August 11, 2008.

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

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financial statements. For a description of the risks associated with our critical accounting policies, see Risk Factors Risks Related to Our Business as included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2007. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain.

Results of Operations

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, we invest primarily in single operator or tenant properties through the acquisition and development of real estate, secured financing, mezzanine financing and investment in marketable debt securities of operators in these sectors. Under the medical office segment, we invest through acquisition and secured financing in MOBs that are leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management. The acquisition of Slough Estates USA Inc. (SEUSA) on August 1, 2007 resulted in a change to our reportable segments. Prior to the SEUSA acquisition, we operated through two reportable segments triple-net leased and medical office buildings. The senior housing, life science, hospital and skilled nursing segments were previously aggregated under our triple-net leased segment. SEUSA s results are included in our consolidated financial statements from the date of acquisition of August 1, 2007. 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).

We completed our acquisition of SEUSA on August 1, 2007 and SEUSA s results of operations are reflected in our consolidated financial statements from that date. We expect increases in revenues, expenses and interest income from a full year of results from our SEUSA acquisition and mezzanine loan investments for the remaining periods of 2008 relative to the comparable periods prior to the date that the investments were made in 2007. In addition, we expect that the 17 million common shares we issued on April 2, 2008 will have a dilutive effect on per share amounts in future periods.

Our financial results for the three and six months ended June 30, 2008 and 2007 are summarized as follows:

Comparison of the Three Months Ended June 30, 2008 to the Three Months Ended June 30, 2007

Rental and related revenues.

Segments	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Change $	Change %
	(dollars in thousands)			
Senior housing	$ 69,996	$ 69,410	$ 586	1%
Life science	46,300	3,949	42,351	NM(1)
Medical office	66,139	68,918	(2,779)	(4)
Hospital	24,166	24,612	(446)	(2)
Skilled nursing	9,015	8,846	169	2
Total	$ 215,616	$ 175,735	$ 39,881	23%

(1) Percentage change not meaningful.

- *Senior housing.* The increase in senior housing rental and related revenues relates to the additive effect of our acquisitions during 2008 and 2007.

Included in senior housing rental and related revenues were facility-level operating revenues for five senior housing properties that were previously leased on a triple-net basis. From time to time, tenants default on their leases, which causes us to take possession of the operations of the facility. We contract with third-party managers to manage these properties until a replacement tenant can be identified or the property can be sold. The operating revenues and expenses for these properties are included in senior housing rental and related revenues and operating expenses, respectively. The rental and related revenues for the three months ended June 30, 2008 and 2007 for these facilities were $2.7 million and $2.8 million, respectively.

- *Life science.* Life science rental and related revenues increased primarily as a result of our acquisition of SEUSA on August 1, 2007.

- *Medical office.* Medical office rental and related revenues for the three months ended June 30, 2007 includes $4.5 million from assets that are no longer consolidated and are now in our HCP Ventures IV, LLC joint venture (HCP Ventures IV). On April 30, 2007, we sold an 80% interest in HCP Ventures IV and began accounting for our

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retained interest as an equity method investment. However, due to our continued interest in HCP Ventures IV, 2007 results of operations have not been reclassified to discontinued operations. The decrease in medical office rental and related revenues resulting from HCP Ventures IV was partially offset by the additive effect of our Medical City Dallas campus acquisition on February 9, 2007.

Tenant recoveries.

Segments	Three Months Ended June 30, 2008	2007	Change $	%
		(dollars in thousands)		
Life science	$ 8,285	$ 620	$ 7,665	NM(1)
Medical office	11,419	10,999	420	4%
Hospital	466	57	409	NM(1)
Total	$ 20,170	$ 11,676	$ 8,494	73%

(1) Percentage change not meaningful.

- *Life science.* Life science tenant recoveries increased primarily as a result of our acquisition of SEUSA on August 1, 2007.

- *Medical office.* The increase in medical office tenant recoveries primarily relates to the additive effect of our Medical City Dallas campus acquisition on February 9, 2007, which was partially offset by $0.8 million reduction of tenant recoveries from HCP Ventures IV, for the three months ended June 30, 2007, which have not been reclassified to discontinued operations.

- *Hospital.* The increase in hospital tenant recoveries primarily relates to the additive effect of our Medical City Dallas campus acquisition on February 9, 2007.

Income from direct financing leases. The decrease in income from direct financing leases decreased for the three months ended June 30, 2008 was primarily due to two direct financing lease tenants exercising their purchase options during 2007.

Investment management fee income. Investment management fee income decreased by $2.8 million to $1.5 million for the three months ended June 30, 2008. The decrease was primarily due to the one-time acquisition fee of $3.0 million earned in 2007 related to HCP Ventures IV. No acquisition fees were earned for the three months ended June 30, 2008.

Depreciation and amortization expense. Depreciation and amortization expense increased $21.6 million to $78.3 million for the three months ended June 30, 2008. The increase was primarily due to our SEUSA acquisition. The increase in depreciation and amortization from our other acquisitions in 2007 was offset by the 2007 results from HCP Ventures IV, which have not been reclassified to discontinued operations.

Operating expenses.

Segments	Three Months Ended June 30, 2008	2007	Change $	%
	(dollars in thousands)			
Senior housing	$ 3,216	$ 2,810	$ 406	14%
Life science	10,075	1,252	8,823	NM(1)
Medical office	33,220	33,021	199	1
Hospital	1,069	129	940	NM(1)
Total	$ 47,580	$ 37,212	$ 10,368	28%

(1) Percentage change not meaningful.

Operating expenses are predominantly related to MOB and life science properties where we incur the expenses and recover 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 expense.

- *Senior housing.* The increase in senior housing operating expenses primarily relates to an increase in facility level operating expenses for five senior housing properties that were previously leased on a triple-net basis.

From time to time, tenants default on their leases, which causes us to take possession of the operations of the facility. We contract with third-party managers to manage these properties until a replacement tenant can be

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identified or the property can be sold. The operating revenues and expenses for these properties are included in healthcare rental revenues and operating expenses, respectively. The operating expenses for the three months ended June 30, 2008 and 2007 for these facilities were $3.1 million and $2.9 million, respectively.

- *Life science.* Life science operating expenses increased primarily as a result of our acquisition of SEUSA on August 1, 2007.

- *Hospital.* The increase in hospital operating expenses primarily relates to the additive effect of our Medical City Dallas campus acquisition on February 9, 2007.

General and administrative expenses. General and administrative expenses increased $1.6 million to $18.8 million for the three months ended June 30, 2008. Included in general and administrative expenses are merger and integration-related expenses associated with the SEUSA acquisition of $56,000 for the three months ended June 30, 2008 compared to $1.7 million associated with the CNL Retirement Properties, Inc. merger for the three months ended June 30, 2007. Excluding the merger and integration-related expenses, the increase in general and administrative expenses was primarily due to various items, including increased compensation related expenses, and professional and legal fees.

The information set forth under the heading Legal Proceedings of Note 12 to the Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

Impairments. During the three months ended June 30, 2008, we recognized impairments of $9.7 million related to five properties. No properties were determined to be impaired during the three months ended June 30, 2007.

Gain on sale of real estate interest. On April 30, 2007, we sold an 80% interest in HCP Ventures IV, which resulted in a gain of $10.1 million. No similar transactions occurred during the three months ended June 30, 2008.

Interest and other income, net. For the three months ended June 30, 2008, interest and other income, net increased $12.0 million, to $30.7 million. This increase was primarily related to an increase in interest income of $20.4 million from our HCR ManorCare mezzanine loan investment made in December 2007, which was partially offset by (i) a hedging ineffectiveness charge of $2.4 million on a forward-starting interest rate swap contract that was settled on June 30, 2008, (ii) a decrease in gains from the sale of marketable debt securities of $3.2 million and (iii) an other-than-temporary impairment of $3.5 million on marketable equity securities. For a more detailed description of our mezzanine loan investment and marketable securities, see Note 7 and Note 10, respectively, of the Condensed Consolidated Financial Statements and Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest expense. Interest expense increased $12.5 million to $85.5 million for the three months ended June 30, 2008. The increase was primarily due to $10.1 million of interest expense from the issuance of $600 million of senior unsecured notes in October 2007 and $12.1 million from the increase in outstanding indebtedness under our bridge loan and line of credit facilities, and the related amortization of debt issuance costs. The combined increase in interest expense was partially offset by a $7.5 million increase in the amount of capitalized interest relating to the increase in assets under development primarily from our acquisition of SEUSA and an overall decrease in short-term variable interest rates.

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

	As of June 30,	
	2008	**2007**
Balance:		
Fixed rate	$ 4,938,803	$ 4,085,852
Variable rate	1,670,196	519,649
Total	$ 6,608,999	$ 4,605,501
Percent of total debt:		
Fixed rate	75%	89%
Variable rate	25	11
Total	100%	100%
Weighted average interest rate at end of period:		
Fixed rate	6.25%	6.12%
Variable rate	3.56%	5.98%
Total weighted average rate	5.57%	6.10%

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Minority interests share in earnings. For the three months ended June 30, 2008, minority interests share in earnings decreased $1.2 million, to $5.5 million. This decrease is primarily due to the conversions of 1.8 million of our minority interest DownREIT units into common stock during the first half of 2008.

Income taxes. For the three months ended June 30, 2008, income taxes increased $1.7 million, to $1.3 million. This increase is primarily due to higher levels of income of our taxable REIT subsidiaries.

Discontinued operations. The increase of $171 million in income from discontinued operations to $196 million for the three months ended June 30, 2008 compared to $25 million for the comparable period in the prior year is primarily due to an increase in gains on real estate dispositions of $188 million, partially offset by a decline in operating income from discontinued operations of $17 million. During the three months ended June 30, 2008, we sold 40 properties for $483 million, as compared to 20 properties for $187 million in the year ago period. Discontinued operations for the three months ended June 30, 2008 included 48 properties compared to 122 properties for the three months ended June 30, 2007. Included in discontinued operations during the three months ended June 30, 2007 was $6 million of rental income we recognized, resulting from a change in estimate related to the collectibility of straight-line rental income from Emeritus Corporation.

Comparison of the Six Months Ended June 30, 2008 to the Six Months Ended June 30, 2007

Rental and related revenues.

	Six Months Ended June 30,		Change	
Segments	**2008**	**2007**	**$**	**%**
		(dollars in thousands)		
Senior housing	$ 141,298	$ 137,285	$ 4,013	3%
Life science	89,529	8,774	80,755	NM(1)
Medical office	131,753	143,361	(11,608)	(8)
Hospital	43,822	42,126	1,696	4
Skilled nursing	1			