

HCP, INC.  
Form 10-Q  
July 31, 2012  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended June 30, 2012.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-08895

---

## HCP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large Accelerated Filer   
Non-accelerated Filer   
(Do not check if a smaller reporting company)

Accelerated Filer   
Smaller Reporting Company

Edgar Filing: HCP, INC. - Form 10-Q

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

**As of July 26, 2012, there were 429,523,635 shares of the registrant's \$1.00 par value common stock outstanding.**

---

Table of Contents

**HCP, INC.**

**INDEX**

**PART I. FINANCIAL INFORMATION**

Item 1.	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Income</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
	<u>Condensed Consolidated Statements of Equity</u>	6
	<u>Condensed Consolidated Statements of Cash Flows</u>	7
	<u>Notes to the Condensed Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4.</u>	<u>Controls and Procedures</u>	43
<b><u>PART II. OTHER INFORMATION</u></b>		
<u>Item 1A.</u>	<u>Risk Factors</u>	44
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 6.</u>	<u>Exhibits</u>	45
<u>Signatures</u>		46

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Real estate:		
Buildings and improvements	\$ 8,994,048	\$ 8,933,278
Development costs and construction in progress	204,018	190,590
Land	1,734,469	1,729,677
Accumulated depreciation and amortization	(1,614,148)	(1,472,272)
Net real estate	9,318,387	9,381,273
Net investment in direct financing leases	6,804,929	6,727,777
Loans receivable, net	125,521	110,253
Investments in and advances to unconsolidated joint ventures	219,877	224,052
Accounts receivable, net of allowance of \$1,696 and \$1,341, respectively	25,974	26,681
Cash and cash equivalents	169,636	33,506
Restricted cash	42,782	41,553
Intangible assets, net	347,670	373,763
Real estate held for sale, net		4,159
Other assets, net	734,992	485,458
Total assets	\$ 17,789,768	\$ 17,408,475
<b>LIABILITIES AND EQUITY</b>		
Bank line of credit	\$ 215,015	\$ 454,000
Senior unsecured notes	5,615,979	5,416,063
Mortgage debt	1,726,944	1,764,571
Other debt	84,060	87,985
Intangible liabilities, net	114,939	124,142
Accounts payable and accrued liabilities	273,344	275,478
Deferred revenue	68,548	65,614
Total liabilities	8,098,829	8,187,853
<b>Commitments and contingencies</b>		
Preferred stock, \$1.00 par value: aggregate liquidation preference of \$295.5 million as of December 31, 2011		285,173
Common stock, \$1.00 par value: 750,000,000 shares authorized; 429,401,611 and 408,629,444 shares issued and outstanding, respectively	429,402	408,629
Additional paid-in capital	10,159,580	9,383,536
Cumulative dividends in excess of earnings	(1,062,049)	(1,024,274)
Accumulated other comprehensive loss	(19,703)	(19,582)
Total stockholders' equity	9,507,230	9,033,482
Joint venture partners	15,855	16,971
Non-managing member unitholders	167,854	170,169
Total noncontrolling interests	183,709	187,140

Edgar Filing: HCP, INC. - Form 10-Q

Total equity		9,690,939		9,220,622
Total liabilities and equity	\$	17,789,768	\$	17,408,475

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Rental and related revenues	\$ 248,627	\$ 260,157	\$ 492,962	\$ 513,238
Tenant recoveries	23,581	22,441	46,231	45,885
Resident fees and services	35,569	835	71,748	3,340
Income from direct financing leases	154,976	143,662	309,511	157,057
Interest income	1,216	60,526	2,035	98,622
Investment management fee income	470	504	963	1,111
Total revenues	464,439	488,125	923,450	819,253
<b>Costs and expenses:</b>				
Interest expense	103,225	105,129	207,793	213,705
Depreciation and amortization	87,924	89,814	176,165	180,996
Operating	70,087	46,615	137,436	93,460
General and administrative	14,812	34,872	34,914	56,824
Total costs and expenses	276,048	276,430	556,308	544,985
Other income, net	1,028	7,518	1,464	17,827
<b>Income before income taxes and equity income from unconsolidated joint ventures</b>				
	189,419	219,213	368,606	292,095
Income taxes	(176)	(248)	533	(285)
Equity income from unconsolidated joint ventures	15,732	14,950	29,407	15,748
<b>Income from continuing operations</b>	204,975	233,915	398,546	307,558
<b>Discontinued operations:</b>				
Income before gain on sales of real estate, net of income taxes		337	137	678
Gain on sales of real estate, net of income taxes			2,856	
Total discontinued operations		337	2,993	678
<b>Net income</b>	204,975	234,252	401,539	308,236
Noncontrolling interests share in earnings	(2,951)	(5,493)	(6,135)	(9,384)
<b>Net income attributable to HCP, Inc.</b>	202,024	228,759	395,404	298,852
Preferred stock dividends		(5,283)	(17,006)	(10,566)
Participating securities share in earnings	(557)	(483)	(1,674)	(1,347)
<b>Net income applicable to common shares</b>	\$ 201,467	\$ 222,993	\$ 376,724	\$ 286,939
<b>Basic earnings per common share:</b>				
Continuing operations	\$ 0.48	\$ 0.55	\$ 0.90	\$ 0.74
Discontinued operations			0.01	
Net income applicable to common shares	\$ 0.48	\$ 0.55	\$ 0.91	\$ 0.74
<b>Diluted earnings per common share:</b>				
Continuing operations	\$ 0.48	\$ 0.55	\$ 0.90	\$ 0.73

Edgar Filing: HCP, INC. - Form 10-Q

Discontinued operations

Net income applicable to common shares	\$	0.48	\$	0.55	\$	0.90	\$	0.73
--	----	------	----	------	----	------	----	------

**Weighted average shares used to calculate earnings per common share:**

Basic		420,468		406,193		415,243		389,249
Diluted		421,671		411,710		416,666		391,100

<b>Dividends declared per common share</b>	\$	0.50	\$	0.48	\$	1.00	\$	0.96
--	----	------	----	------	----	------	----	------

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents**HCP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 204,975	\$ 234,252	\$ 401,539	\$ 308,236
Other comprehensive income (loss):				
Unrealized gains (losses) on securities	(961)	1,331	343	1,331
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized losses	(1,056)	(1,368)	(780)	(1,041)
Reclassification adjustment realized in net income	90	95	179	(1,218)
Change in Supplemental Executive Retirement Plan obligation	45	32	90	66
Foreign currency translation adjustment	(155)	85	47	266
Total other comprehensive income (loss)	(2,037)	175	(121)	(596)
Total comprehensive income	202,938	234,427	401,418	307,640
Total comprehensive income attributable to noncontrolling interests	(2,951)	(5,493)	(6,135)	(9,384)
Total comprehensive income attributable to HCP, Inc.	\$ 199,987	\$ 228,934	\$ 395,283	\$ 298,256

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Noncontrolling	Equity
					Capital	In Excess	Comprehensive	Equity	Interests	Equity
						Of Earnings	Income (Loss)			
<b>January 1, 2012</b>	11,820	\$ 285,173	408,629	\$ 408,629	\$ 9,383,536	\$ (1,024,274)	\$ (19,582)	\$ 9,033,482	\$ 187,140	\$ 9,220,622
Net income						395,404		395,404	6,135	401,539
Other comprehensive income							(121)	(121)		(121)
Preferred stock redemption	(11,820)	(285,173)				(10,327)		(295,500)		(295,500)
Issuance of common stock, net			18,912	18,912	737,145			756,057	(2,273)	753,784
Repurchase of common stock			(189)	(189)	(7,678)			(7,867)		(7,867)
Exercise of stock options			2,050	2,050	35,170			37,220		37,220
Amortization of deferred compensation					11,407			11,407		11,407
Preferred dividends						(6,679)		(6,679)		(6,679)
Common dividends (\$1.00 per share)						(416,173)		(416,173)		(416,173)
Distributions to noncontrolling interests									(7,778)	(7,778)
Issuance of noncontrolling interests									873	873
Purchase of noncontrolling interests									(388)	(388)
<b>June 30, 2012</b>		\$ 429,402	429,402	\$ 429,402	\$ 10,159,580	\$ (1,062,049)	\$ (19,703)	\$ 9,507,230	\$ 183,709	\$ 9,690,939

	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	Total	Total	Total
	Shares	Amount	Shares	Amount	Paid-In	Dividends	Other	Stockholders	Noncontrolling	Equity
					Capital	In Excess	Comprehensive	Equity	Interests	Equity
						Of Earnings	Income (Loss)			
<b>January 1, 2011</b>	11,820	\$ 285,173	370,925	\$ 370,925	\$ 8,089,982	\$ (775,476)	\$ (13,237)	\$ 7,957,367	\$ 188,680	\$ 8,146,047
Net income						298,852		298,852	9,384	308,236
Other comprehensive loss							(596)	(596)		(596)
Issuance of common stock, net			35,691	35,691	1,236,276			1,271,967	(2,599)	1,269,368
			(131)	(131)	(4,678)			(4,809)		(4,809)

Edgar Filing: HCP, INC. - Form 10-Q

Repurchase of common stock											
Exercise of stock options	635	635	16,381				17,016				17,016
Amortization of deferred compensation			10,205				10,205				10,205
Preferred dividends						(10,566)	(10,566)				(10,566)
Common dividends (\$0.96 per share)						(374,349)	(374,349)				(374,349)
Distributions to noncontrolling interests									(7,166)		(7,166)
Noncontrolling interest in acquired assets									1,500		1,500
Purchase of noncontrolling interests						(19,559)	(19,559)	(14,059)			(33,618)
<b>June 30, 2011</b>	11,820	\$ 285,173	407,120	\$ 407,120	\$ 9,328,607	\$ (861,539)	\$ (13,833)	\$ 9,145,528	\$ 175,740	\$ 9,321,268	

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## HCP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 401,539	\$ 308,236
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	176,165	180,996
Discontinued operations	35	476
Amortization of above and below market lease intangibles, net	(1,322)	(2,093)
Amortization of deferred compensation	11,407	10,205
Amortization of deferred financing costs, net	8,459	18,402
Straight-line rents	(21,787)	(32,912)
Loan and direct financing lease interest accretion	(48,159)	(41,858)
Deferred rental revenues	1,169	(1,077)
Equity income from unconsolidated joint ventures	(29,407)	(15,748)
Distributions of earnings from unconsolidated joint ventures	1,878	1,569
Gain on sales of real estate	(2,856)	
Gain upon settlement of loans receivable		(22,812)
Gain upon consolidation of joint venture		(7,769)
Derivative gains, net	(52)	(3,308)
Changes in:		
Accounts receivable, net	708	8,822
Other assets	(8,188)	(4,010)
Accounts payable and accrued liabilities	(6,038)	35,696
Net cash provided by operating activities	483,551	432,815
<b>Cash flows from investing activities:</b>		
Cash used in the HCR ManorCare Acquisition, net of cash acquired		(3,801,624)
Cash used in the HCP Ventures II purchase, net of cash acquired		(135,550)
Other acquisitions and development of real estate	(62,860)	(148,032)
Leasing costs and tenant and capital improvements	(27,112)	(20,940)
Proceeds from sales of real estate, net	7,238	
Purchase of an interest in unconsolidated joint ventures		(95,000)
Distributions in excess of earnings from unconsolidated joint ventures	1,529	1,558
Principal repayments on loans receivable	4,508	303,720
Investments in loans receivable	(20,757)	(360,932)
Increase in restricted cash	(1,229)	(7,851)
Purchase of marketable securities	(214,859)	
Net cash used in investing activities	(313,542)	(4,264,651)
<b>Cash flows from financing activities:</b>		
Net repayments under bank line of credit	(238,985)	
Repayments of mortgage and other debt	(42,538)	(141,684)
Issuance of senior unsecured notes	450,000	2,400,000
Repayment of senior unsecured notes	(250,000)	
Deferred financing costs	(10,236)	(42,852)
Preferred stock redemption	(295,500)	
Net proceeds from the issuance of common stock and exercise of options	783,137	1,281,575
Dividends paid on common and preferred stock	(422,852)	(384,915)

Edgar Filing: HCP, INC. - Form 10-Q

Issuance (purchase) of noncontrolling interests	873	(33,618)
Distributions to noncontrolling interests	(7,778)	(7,166)
Net cash provided by (used in) financing activities	(33,879)	3,071,340
Net increase (decrease) in cash and cash equivalents	136,130	(760,496)
Cash and cash equivalents, beginning of period	33,506	1,036,701
Cash and cash equivalents, end of period	\$ 169,636	\$ 276,205

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

**HCP, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Business**

HCP, Inc., an S&P 500 company, together with its consolidated entities (collectively, HCP or the Company), invests primarily in real estate serving the healthcare industry in the United States ( U.S. ). The Company is a Maryland corporation and was organized to qualify as a self-administered real estate investment trust ( REIT ) in 1985. The Company is headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. The Company's portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. The Company makes investments within the healthcare segments using the following five investment products: (i) properties under lease, (ii) debt investments, (iii) developments and redevelopments, (iv) investment management and (v) RIDEA, which represents investments in senior housing operations utilizing the structure permitted by the Housing and Economic Recovery Act of 2008.

**(2) Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information. Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

The condensed consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures or variable interest entities ( VIEs ) that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been included. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ( SEC ).

Certain amounts in the Company's condensed consolidated financial statements have been reclassified for prior periods to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets

## Edgar Filing: HCP, INC. - Form 10-Q

and the related operating results reclassified from continuing to discontinued operations on the condensed consolidated income statements (see Note 5). Facility-level revenues from 21 senior housing communities that are in a RIDEA structure are presented in resident fees and services on the condensed consolidated income statements; all facility-level resident fee and service revenue previously reported in rental and related revenues has been reclassified to resident fees and services (see Note 12 for additional information regarding the 21 RIDEA facilities).

### *Foreign Currency Translation and Transactions*

Assets and liabilities denominated in foreign currencies that are translated into U.S. dollars use exchange rates in effect at the end of the period, and revenues and expenses denominated in foreign currencies that are translated into U.S. dollars use average rates of exchange in effect during the related period. Gains or losses resulting from translation are included in accumulated other comprehensive income, a component of stockholders' equity on the condensed consolidated balance sheets. Gains or losses resulting from foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income, net in the condensed consolidated statements of income.

### *Recent Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). The amendments in this update result in additional fair value measurement and disclosure requirements within U.S. GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 on January 1, 2012 did not have an impact on the Company's consolidated financial position or results of operations.

Table of Contents**(3) HCR ManorCare Acquisition**

On April 7, 2011, the Company completed its acquisition of substantially all of the real estate assets of HCR ManorCare, Inc. ( HCR ManorCare ), for a purchase price of \$6 billion ( HCR ManorCare Acquisition ). The purchase price consisted of the following: (i) \$4 billion in cash consideration; and (ii) \$2 billion representing the fair value of the Company's former HCR ManorCare debt investments that were settled as part of this acquisition. Through this transaction, the Company acquired 334 HCR ManorCare post-acute, skilled nursing and assisted living facilities. The facilities are located in 30 states, with the highest concentrations in Ohio, Pennsylvania, Florida, Illinois and Michigan. A wholly-owned subsidiary of HCR ManorCare operates the assets pursuant to a long-term triple-net master lease agreement supported by a guaranty from HCR ManorCare. Additionally, the Company exercised its option to purchase an ownership interest in HCR ManorCare for \$95 million that represented a 9.9% equity interest at closing.

The total purchase price of the HCR ManorCare Acquisition follows (in thousands):

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

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

(2) In August 2011, the Company paid these amounts to certain taxing authorities or the seller.

(3) Represents estimated fees and costs of \$15.5 million (general and administrative) and the write-off of unamortized bridge loan fees of \$11.3 million (interest expense) upon its termination that were expensed in 2010 and 2011, respectively. These charges are directly attributable to the transaction and represent non-recurring costs.

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

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



## Edgar Filing: HCP, INC. - Form 10-Q

In connection with the HCR ManorCare Acquisition, the Company entered into a credit agreement for a 365-day bridge loan facility (from funding to maturity) in an aggregate amount of up to \$3.3 billion, which was terminated in accordance with its terms in March 2011.

The assets and liabilities of the Company's investments related to HCR ManorCare and the related results of operations are included in the condensed consolidated financial statements from the April 7, 2011 acquisition date. The Company recognized revenues and earnings from its investments related to HCR ManorCare of \$143 million and \$158 million, respectively, for the three months ended June 30, 2012, and \$285 million and \$313 million, respectively, for the six months ended June 30, 2012. The Company recognized revenues and earnings from its investments related to HCR ManorCare of \$130 million and \$145 million, respectively, for both the three and six months ended June 30, 2011.

See Note 8 for additional information regarding the Company's investment related to HCR ManorCare.

Table of Contents*Pro Forma Results of Operations*

The following unaudited pro forma consolidated results of operations assume that the HCR ManorCare Acquisition, including the Company's equity interest in HCR ManorCare, was completed as of January 1, 2011 (in thousands, except per share amounts):

	<b>Three Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2011</b>
Revenues	\$ 472,186	\$ 911,959
Net income	219,335	409,372
Net income applicable to HCP, Inc.	213,842	399,988
Basic earnings per common share	\$ 0.51	\$ 0.96
Diluted earnings per common share	0.51	0.96

**(4) Other Real Estate Property Investments**

A summary of real estate acquisitions for the six months ended June 30, 2012 follows (in thousands):

Segment	Consideration		Assets Acquired		
	Cash Paid	Noncontrolling Interest	Real Estate	Net Intangibles	
Life science	\$ 7,970	\$ 80	\$ 7,580	\$ 470	
Hospital	3,000		3,000		
	\$ 10,970	\$ 80	\$ 10,580	\$ 470	

During the six months ended June 30, 2012, the Company funded an aggregate of \$79 million for construction, tenant and other capital improvement projects, primarily in its life science and medical office segments.

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

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

See discussion of the January 2011 purchase and consolidation of HCP Ventures II in Note 8.

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

**(5) Dispositions of Real Estate and Discontinued Operations**

During the first quarter of 2012, the Company sold a medical office building for \$7 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Rental and related revenues	\$	\$ 581	\$ 246	\$ 1,158
Depreciation and amortization expenses		238	35	476
Operating expenses		6	2	7
Other (income) expense, net			72	(3)
Income, net of income taxes	\$	\$ 337	\$ 137	\$ 678
Gain on sales of real estate, net of income taxes	\$	\$	\$ 2,856	\$
Number of properties included in discontinued operations		4	1	4

Table of Contents**(6) Net Investment in Direct Financing Leases**

On April 7, 2011, the Company completed the acquisition of 334 HCR ManorCare properties subject to a single master lease that the Company classified as a direct financing lease ( DFL ). See discussion of the HCR ManorCare Acquisition in Note 3.

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Minimum lease payments receivable(1)	\$ 25,483,105	\$ 25,744,161
Estimated residual values	4,010,514	4,010,514
Less unearned income	(22,688,690)	(23,026,898)
Net investment in direct financing leases	\$ 6,804,929	\$ 6,727,777
Properties subject to direct financing leases	361	361

(1) The minimum lease payments receivable are primarily attributable to HCR ManorCare (\$24.3 billion and \$24.5 billion at June 30, 2012 and December 31, 2011, respectively). The triple-net master lease with HCR ManorCare provides for annual rent of \$489 million beginning April 1, 2012. The rent increases by 3.5% per year over the next four years and by 3% for the remaining portion of the initial lease term. The properties are grouped into four pools, and HCR ManorCare has a one-time extension option for each pool with rent increased for the first year of the extension option to the greater of fair market rent or a 3% increase over the rent for the prior year. Including the extension options, which the Company determined to be bargain renewal options, the four leased pools had total initial available terms ranging from 23 to 35 years.

Certain of the non-HCR ManorCare 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.

**(7) Loans Receivable**

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

	<b>June 30, 2012</b>			<b>December 31, 2011</b>		
	<b>Real Estate Secured</b>	<b>Other Secured</b>	<b>Total</b>	<b>Real Estate Secured</b>	<b>Other Secured</b>	<b>Total</b>
Mezzanine	\$ 57,258	\$ 83,282	\$ 83,282	\$ 35,643	\$ 90,148	\$ 90,148
Other	57,258		57,258	35,643		35,643
Unamortized discounts, fees and costs	(521)	(1,088)	(1,609)	(1,040)	(1,088)	(2,128)
Allowance for loan losses		(13,410)	(13,410)		(13,410)	(13,410)

Edgar Filing: HCP, INC. - Form 10-Q

\$	56,737	\$	68,784	\$	125,521	\$	34,603	\$	75,650	\$	110,253
----	--------	----	--------	----	---------	----	--------	----	--------	----	---------

*Delphis Operations, L.P. Loan*

The Company holds a secured term loan made to Delphis Operations, L.P. ( Delphis or the Borrower ) that is collateralized by all of the assets of the Borrower, which collateral is comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by the Company or HCP Ventures IV, LLC, an unconsolidated joint venture of the Company. In December 2009, the Company determined that the loan was impaired and recognized a provision for loan loss (impairment) of \$4.3 million. In January 2011, the Company placed the loan on cost-recovery status, whereby accrual of interest income was suspended and any payments received from the Borrower are applied to reduce the recorded investment in the loan. In September 2011, the Company determined that the fair value of the collateral assets was no longer in excess of the carrying value of the loan and therefore recognized an additional provision for losses of \$15.4 million.

As part of a March 2012 agreement (the 2012 Agreement ) between Delphis, certain past and current principals of Delphis and the Cirrus Group, LLC (the Guarantors ), and the Company, the Company agreed, among other things, to allow the distribution of \$1.5 million to certain of the Guarantors from funds generated from sales of assets that were pledged as additional collateral for this loan. In consideration of this distribution, among other things, the Company received cash of \$4.9 million (including funds that had been escrowed from past sales of the Guarantors collateral) and the assignment of certain rights to general and limited partnership interests (including the release of claims by such entities). Further, the Company, as part of the 2012 Agreement, agreed to provide financial incentives to the Borrower regarding the liquidation of the primary collateral assets for this loan.

Table of Contents

The Company valued the cash payments and other consideration received through the 2012 Agreement (after reducing the consideration by \$0.5 million for related legal expenses) at \$6.9 million, which the Company applied to the carrying value of the loan, reducing the balance to \$68.8 million as of June 30, 2012 from its balance of \$75.7 million as of December 31, 2011. During the six months ended June 30, 2011, the Company received cash payments from the Borrower of \$1.2 million. At June 30, 2012, the Company believes that the fair value of the collateral supporting this loan is in excess of the loan's carrying value.

*HCR ManorCare Loans*

In December 2007, the Company made a \$900 million investment (at a discount of \$100 million) in HCR ManorCare mezzanine loans, which paid interest at a floating rate of one-month London Interbank Offered Rate (LIBOR) plus 4.0%. Also, in August 2009 and January 2011, the Company purchased \$720 million (at a discount of \$130 million) and \$360 million, respectively, in participations in HCR ManorCare first mortgage debt, which paid interest at LIBOR plus 1.25%.

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

*Genesis HealthCare Loans*

In September and October 2010, the Company purchased participations in a senior loan and mezzanine note of Genesis HealthCare (Genesis) with par values of \$278 million (at a discount of \$28 million) and \$50 million (at a discount of \$10 million), respectively. The Genesis senior loan paid interest at LIBOR (subject to a floor of 1.5%, increasing to 2.5% by maturity) plus a spread of 4.75%, increasing to 5.75% by maturity. The senior loan was secured by all of Genesis' assets. The mezzanine note paid interest at LIBOR plus a spread of 7.50%. In addition to the coupon interest payments, the mezzanine note required the payment of a termination fee, of which the Company's share prior to the early repayment of this loan was \$2.3 million.

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

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

*HCP Ventures II*

## Edgar Filing: HCP, INC. - Form 10-Q

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

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

Cash paid for HCP Ventures II's partnership interest	\$	135,550
Fair value of HCP's 35% interest in HCP Ventures II (carrying value of \$65,223 at closing)(1)		72,992
Total consideration	\$	208,542
Estimated fees and costs		
Legal, accounting and other fees and costs(2)	\$	150
Debt assumption fees(3)		500
Total	\$	650

---

(1) In January 2011, the Company recognized a gain of approximately \$8 million, included in other income, net, which represents the fair value of the Company's 35% interest in HCP Ventures II in excess of its carrying value on the acquisition date.

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

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

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

## Edgar Filing: HCP, INC. - Form 10-Q

### Table of Contents

The following table summarizes the fair values of the HCP Ventures II assets acquired and liabilities assumed at the January 14, 2011 acquisition date (in thousands):

<b>Assets acquired</b>	
Buildings and improvements	\$ 683,633
Land	79,580
Cash	2,585
Restricted cash	1,861
Intangible assets	78,293
<b>Total assets acquired</b>	<b>\$ 845,952</b>
<b>Liabilities assumed</b>	
Mortgage debt	\$ 635,182
Other liabilities	2,228
<b>Total liabilities assumed</b>	<b>637,410</b>
<b>Net assets acquired</b>	<b>\$ 208,542</b>

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

### *Summary of Unconsolidated Joint Venture Information*

The Company owns interests in the following entities that are accounted for under the equity method at June 30, 2012 (dollars in thousands):

Entity(1)	Properties/Segment	Investment(2)	Ownership%
HCR ManorCare	post-acute/skilled nursing operations	\$ 96,370	9.4(3)
HCP Ventures III, LLC	13 medical office	8,012	30
HCP Ventures IV, LLC	54 medical office and 4 hospital	33,964	20
HCP Life Science(4)	4 life science	66,883	50-63
Horizon Bay Hyde Park, LLC	1 senior housing	6,964	72
Suburban Properties, LLC	1 medical office	7,485	67
Advances to unconsolidated joint ventures, net		199	
		<b>\$ 219,877</b>	
Edgewood Assisted Living Center, LLC	1 senior housing	\$ (406)	45
Seminole Shores Living Center, LLC	1 senior housing	(649)	50
		<b>\$ (1,055)</b>	

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company's Annual Report on Form 10-K filed with the SEC regarding the Company's policy on consolidation.

(2) Represents the carrying value of the Company's investment in the unconsolidated joint venture. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company's Annual Report on Form 10-K filed with the SEC regarding the Company's policy for accounting for joint venture interests.



## Edgar Filing: HCP, INC. - Form 10-Q

- (3) Presented after adjusting the Company's 9.9% ownership rate for the dilution of certain of HCR ManorCare's employee equity awards. See HCR ManorCare Acquisition discussion in Note 3.
- (4) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships: (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

## Edgar Filing: HCP, INC. - Form 10-Q

### Table of Contents

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Real estate, net	\$ 3,769,676	\$ 3,806,187
Goodwill	2,736,400	2,736,400
Other assets, net	3,029,772	3,061,290
Total assets	\$ 9,535,848	\$ 9,603,877
Capital lease obligations and other debt	\$ 6,037,500	\$ 5,976,500
Mortgage debt	890,488	895,243
Accounts payable	946,177	1,083,581
Other partners' capital	1,476,857	1,465,536
HCP's capital(1)	184,826	183,017
Total liabilities and partners' capital	\$ 9,535,848	\$ 9,603,877

(1) The combined basis difference of the Company's investments in these joint ventures of \$34 million, as of June 30, 2012, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease related net intangibles.

	<b>Three Months Ended June 30,(1)</b>		<b>Six Months Ended June 30,(1)</b>	
	<b>2012</b>	<b>2011(2)</b>	<b>2012</b>	<b>2011(2)</b>
Total revenues	\$ 1,093,873	\$ 1,032,420	\$ 2,138,519	\$ 1,059,309
Net income (loss)	16,124	(26,439)	17,267	(26,062)
HCP's share in earnings(3)	15,732	14,950	29,407	15,748
Fees earned by HCP	470	504	963	1,111
Distributions received by HCP	1,278	2,158	3,407	3,127

(1) Beginning April 7, 2011, includes the financial information of HCR ManorCare, in which the Company acquired an interest for \$95 million that represented a 9.9% equity interest at closing.

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

(3) The Company's joint venture interest in HCR ManorCare is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP's ownership in HCR ManorCare. The Company recorded a reduction of \$14.8 million and \$29.5 million for the three and six months ended June 30, 2012, respectively, and a reduction of \$13.3 million for both the three and six months ended June 30, 2011. Further, the Company's share of earnings from HCR ManorCare (equity income) increases for the corresponding reduction of related lease expense recognized at the HCR ManorCare level.

### **(9) Intangibles**

At June 30, 2012 and December 31, 2011, 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 \$560.9 million and \$574.0 million, respectively. At June 30, 2012 and December 31, 2011, the accumulated amortization of intangible assets was \$213.2 million and \$200.2 million, respectively.

## Edgar Filing: HCP, INC. - Form 10-Q

At June 30, 2012 and December 31, 2011, intangible lease liabilities, comprised of below market lease intangibles and above market ground lease intangible liabilities were \$205.6 million and \$219.6 million, respectively. At June 30, 2012 and December 31, 2011, the accumulated amortization of intangible liabilities was \$90.7 million and \$95.5 million, respectively.

### (10) Other Assets

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

	June 30, 2012	December 31, 2011
Straight-line rent assets, net of allowance of \$34,822 and \$34,457, respectively	\$ 287,590	\$ 266,620
Marketable debt securities(1)	214,860	
Leasing costs, net	93,524	92,288
Deferred financing costs, net	38,139	35,649
Goodwill	50,346	50,346
Marketable equity securities	17,396	17,053
Other(2)	33,137	23,502
Total other assets	\$ 734,992	\$ 485,458

(1) Represents £136.8 million translated into U.S. dollars as of June 30, 2012.

(2) Includes a \$5.4 million allowance for losses related to accrued interest receivable on the Delphis loan, which accrued interest is included in other assets. At both June 30, 2012 and December 31, 2011, the carrying value of interest accrued related to the Delphis loan was zero. See Note 7 for additional information about the Delphis loan and the related impairment.

Table of Contents

On June 28, 2012, the Company purchased senior unsecured notes with an aggregate par value of £138.5 million at a discount for £136.8 million (\$214.9 million). The notes are issued by Elli Investments Limited, a subsidiary of Terra Firma, a European private equity firm, as part of its financing for the acquisition of Four Seasons Health Care, an elderly and specialist care provider in the United Kingdom. The notes mature in June 2020 and are non-callable until June 2016. The notes bear interest on their par value at a fixed rate of 12.25% per annum, with an original discount resulting in a yield to maturity of 12.5%. This investment is match funded by an equivalent GBP denominated unsecured term loan that is discussed in Note 11. These marketable debt securities are classified as held-to-maturity and had a carrying value of \$214.9 million at June 30, 2012.

The marketable equity securities are classified as available-for-sale and had a fair value and adjusted cost basis of \$17.4 million and \$17.1 million, respectively, at June 30, 2012. At December 31, 2011, the fair value and adjusted cost basis of the marketable equity securities were both \$17.1 million.

**(11) Debt**

*Bank Line of Credit*

On March 27, 2012, the Company executed an amendment to its existing \$1.5 billion unsecured revolving line of credit facility (the Facility). This amendment reduces the cost to the Company of the Facility (lower borrowing rate and facility fee) and extends the Facility's maturity by one additional year to March 2016. The Facility contains a one-year extension option. Borrowings under this Facility accrue interest at LIBOR plus a margin that depends on the Company's debt ratings. The Company pays a facility fee on the entire revolving commitment that depends upon its debt ratings. Based on the Company's debt ratings at June 30, 2012, the margin on the Facility was 1.075%, and the facility fee was 0.175%. The Company has the right to increase the commitments under the Facility by an aggregate amount of up to \$500 million, subject to customary conditions. At June 30, 2012, the Company had \$137 million (\$215 million) outstanding under this Facility with a weighted average effective interest rate of 2.07%, which was repaid in full on July 30, 2012 with proceeds from the Company's unsecured term loan discussed below.

The Facility contains certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreement (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60%, (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times and (v) require a formula-determined Minimum Consolidated Tangible Net Worth of \$8.3 billion at June 30, 2012. At June 30, 2012, the Company was in compliance with each of these restrictions and requirements of the Facility.

*Term Loan*

On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million four-year unsecured term loan (the Loan) that accrues interest at a rate of GBP LIBOR plus 1.20%, based on the Company's current debt ratings. Concurrent with the closing of the Loan, the Company entered into a four-year interest rate swap agreement that fixes the rate of the Loan at 1.81%, subject to adjustments based on the Company's credit ratings. The Loan contains a one-year committed extension option and similar covenants to those in the Facility.

*Senior Unsecured Notes*

At June 30, 2012, the Company had senior unsecured notes outstanding with an aggregate principal balance of \$5.6 billion. At June 30, 2012, interest rates on the notes ranged from 1.37% to 7.07% with a weighted average effective interest rate of 5.51% and a weighted average maturity of 6.17 years. Discounts and premiums are amortized to interest expense over the term of the related senior unsecured notes. The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at June 30, 2012.

On July 23, 2012, the Company issued \$300 million of 3.15% senior unsecured notes due in 2022. The notes were priced at 98.888% of the principal amount with an effective yield to maturity of 3.28%; net proceeds from the offering were \$294 million.

On June 25, 2012, the Company repaid \$250 million of maturing senior unsecured notes, which accrued interest at a rate of 6.45%. The senior unsecured notes were repaid with proceeds from the Company's June 2012 common stock offering.

Table of Contents

On January 23, 2012, the Company issued \$450 million of 3.75% senior unsecured notes due in 2019; net proceeds from the offering were \$444 million.

In September 2011, the Company repaid \$292 million of maturing senior unsecured notes, which accrued interest at a rate of 4.82%. The senior unsecured notes were repaid with funds available under the Facility.

On January 24, 2011, the Company issued \$2.4 billion of senior unsecured notes as follows: (i) \$400 million of 2.70% notes due 2014; (ii) \$500 million of 3.75% notes due 2016; (iii) \$1.2 billion of 5.375% notes due 2021; and (iv) \$300 million of 6.75% notes due 2041. The notes had an initial weighted average maturity of 10.3 years and a weighted average yield of 4.83%; net proceeds from the offering were \$2.37 billion.

*Mortgage Debt*

At June 30, 2012, the Company had \$1.7 billion in aggregate principal amount of mortgage debt outstanding that is secured by 135 healthcare facilities (including redevelopment properties) with a carrying value of \$2.2 billion. At June 30, 2012, interest rates on the mortgage debt ranged from 1.54% to 8.72% with a weighted average effective interest rate of 6.14% and a weighted average maturity of 3.93 years.

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

*Other Debt*

At June 30, 2012, the Company had \$84 million of non-interest bearing life care bonds at two of its continuing care retirement communities and non-interest bearing occupancy fee deposits at two of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds ). At June 30, 2012, \$28 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and \$56 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

*Debt Maturities*

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at June 30, 2012 (in thousands):

Edgar Filing: HCP, INC. - Form 10-Q

Year	Bank Line of Credit	Senior Unsecured Notes	Mortgage Debt	Total(1)
2012 (Six months)	\$	\$	\$ 28,148	\$ 28,148
2013		550,000	367,374	917,374
2014		487,000	183,758	670,758
2015		400,000	302,102	702,102
2016	215,015(2)	900,000	285,586	1,400,601
Thereafter		3,300,000	572,687	3,872,687
	215,015	5,637,000	1,739,655	7,591,670
(Discounts) and premiums, net		(21,021)	(12,711)	(33,732)
	\$ 215,015	\$ 5,615,979	\$ 1,726,944	\$ 7,557,938

(1) Excludes \$84 million of other debt that represents the Life Care Bonds that have no scheduled maturities.

(2) Represents £137 million obligation under the Facility translated into U.S. dollars as of June 30, 2012. This amount was repaid in full on July 30, 2012 with proceeds from the Company's unsecured term loan.

Table of Contents**(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. 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.

*Concentration of Credit Risk*

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

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

## Segment Concentrations:

Senior Housing Operators	Percentage of Senior Housing Gross Assets		Percentage of Senior Housing Revenues		Percentage of Senior Housing Revenues	
	June 30, 2012	December 31, 2011	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
HCR ManorCare(1)	14%	14%	12%	12%	12%	7%
Brookdale(2)	15	16	16	14	16	14
Emeritus	18	18	20	24	20	25
Sunrise(3)	22	22	15	19	15	22

  

Post-Acute/Skilled Nursing Operators	Percentage of Post-Acute/Skilled Nursing Gross Assets		Percentage of Post-Acute/Skilled Nursing Revenues		Percentage of Post-Acute/Skilled Nursing Revenues	
	June 30, 2012	December 31, 2011	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
HCR ManorCare(1)	90%	94%	93%	76%	93%	73%



## Edgar Filing: HCP, INC. - Form 10-Q

### Total Company Concentrations:

Operators	Percentage of Total Company Gross Assets		Percentage of Total Company Revenues		Percentage of Total Company Revenues	
	June 30, 2012	December 31, 2011	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
HCR ManorCare(1)	35%	35%	31%	32%	31%	23%
Brookdale(2)	5	5	5	4	5	4
Emeritus	6	6	7	6	7	8
Sunrise(3)	7	7	5	5	5	6

(1) On April 7, 2011, the Company completed the acquisition of HCR ManorCare's real estate assets, which included the settlement of the Company's HCR ManorCare debt investments, see Notes 3 and 7 for additional information.

(2) As of June 30, 2012 and December 31, 2011, Brookdale percentages exclude \$685.5 and \$682.7 million, respectively, of senior housing assets related to 21 senior housing facilities that Brookdale operates on the Company's behalf under a RIDEA structure. Assuming that these assets were attributable to Brookdale, the percentage of segment and total assets for Brookdale would be 27% and 9% respectively, as of both June 30, 2012 and December 31, 2011. For the three and six months ended June 30, 2012, Brookdale percentages exclude \$35.6 million and \$70.7 million, respectively, of senior housing revenues related to these facilities. Assuming that these revenues were attributable to Brookdale, the percentage of segment and total revenues for Brookdale would be 39% and 13% respectively, for both the three months and six months ended June 30, 2012.

(3) Certain of the Company's properties are leased to tenants who have entered into management contracts with Sunrise to operate the respective property on their behalf. The Company's concentration of gross assets includes properties directly leased to Sunrise and properties that are managed by Sunrise on behalf of third party tenants.

Table of Contents

On September 1, 2011, the Company completed a strategic venture with Brookdale that includes the operation of 37 HCP-owned senior living communities previously leased to or operated by Horizon Bay Retirement Living ( Horizon Bay ). As part of this transaction, Brookdale acquired Horizon Bay and: (i) assumed an existing triple-net lease for nine HCP communities; (ii) entered into a new triple-net lease related to four HCP communities; (iii) assumed Horizon Bay's management of three HCP communities, one of which was developed by HCP; and (iv) entered into management contracts and a joint venture agreement for a 10% interest in the real estate and operations for 21 of the Company's communities that are in a RIDEA structure. Concurrent with these transactions, the Company purchased \$22.4 million of Brookdale's common stock in June 2011 (see Note 10 for additional information regarding these marketable equity securities).

Under the provisions of RIDEA, a REIT may lease qualified healthcare properties on an arm's length basis to a taxable REIT subsidiary if the property is operated on behalf of such subsidiary by a person who qualifies as an eligible independent contractor. The three months ended June 30, 2012 include \$35.6 million and \$22.7 million in revenues and operating expenses, respectively, and the six months ended June 30, 2012 include \$70.7 million and \$43.4 million in revenues and operating expenses, respectively, as a result of reflecting the facility-level results for the 21 RIDEA facilities operated by Brookdale beginning September 1, 2011.

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

*Credit Enhancement Guarantee*

Certain of the Company's senior housing facilities serve as collateral for \$120 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of \$372 million as of June 30, 2012.

**(13) Equity**

*Preferred Stock*

On April 23, 2012, the Company redeemed all of its outstanding preferred stock consisting of 4,000,000 shares of its 7.25% Series E and the 7,820,000 shares of its 7.10% Series F preferred stock. The shares of Series E and Series F preferred stock were redeemed at a price of \$25.00 per share, or \$295.5 million in aggregate, plus all accrued and unpaid dividends to the redemption date. As a result of the redemption, which was announced on March 22, 2012, the Company incurred a charge of \$10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in the Company's consolidated income statements).

## Edgar Filing: HCP, INC. - Form 10-Q

On January 26, 2012, 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 30, 2012 to stockholders of record as of the close of business on March 15, 2012.

### *Common Stock*

The following table lists the common stock cash dividends paid and declared by the Company in 2012:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Amount Per Share</b>	<b>Dividend Payable Date</b>
January 26	February 6	\$ 0.50	February 22
April 26	May 7	0.50	May 22
July 26	August 6	0.50	August 21

In June 2012, the Company completed a \$376 million offering of 8.97 million shares of common stock at a price of \$41.88 per share, which proceeds were primarily used to repay \$250 million of maturing senior unsecured notes, which accrued interest at a rate of 6.45%.

In March 2012, the Company completed a \$359 million offering of 9.0 million shares of common stock at a price of \$39.93 per share, which proceeds were primarily used to redeem the Company's preferred stock.

## Edgar Filing: HCP, INC. - Form 10-Q

### Table of Contents

In March 2011, the Company completed a \$1.273 billion public offering of 34.5 million shares of common stock at a price of \$36.90 per share. The Company received total net proceeds of \$1.235 billion, which proceeds were used to fund the HCR ManorCare Acquisition. See Note 3 for additional information on the HCR ManorCare Acquisition.

The following is a summary of the Company's other common stock issuances (shares in thousands):

	Six Months Ended June 30,	
	2012	2011
Dividend Reinvestment and Stock Purchase Plan	501	968
Conversion of DownREIT units(1)	67	30
Exercise of stock options	2,050	635
Vesting of restricted stock units(2)	378	228

(1) Non-managing member LLC units.

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

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

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

	June 30, 2012	December 31, 2011
Unrealized gains on available for sale securities	\$ 343	\$
Unrealized losses on cash flow hedges, net	(16,313)	(15,712)
Supplemental Executive Retirement Plan minimum liability	(2,704)	(2,794)
Cumulative foreign currency translation adjustment	(1,029)	(1,076)
Total accumulated other comprehensive loss	\$ (19,703)	\$ (19,582)

### *Noncontrolling Interests*

At June 30, 2012, there were 4.1 million DownREIT units outstanding in five LLCs, for which the Company is the managing member. At June 30, 2012, the carrying and fair values of these DownREIT units were \$167.9 million and \$257.2 million, respectively.

### **(14) Segment Disclosures**

The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the senior housing, post-acute/skilled nursing, life science and hospital segments, the Company invests or co-invests primarily in single operator or tenant properties, through the acquisition and development of real estate, management of operations and by debt issued by operators in these sectors. Under the medical office segment, the Company invests or co-invests through the acquisition and development of medical office buildings ( MOBs ) that are leased under gross, modified gross or triple-net leases, generally to multiple tenants, and which generally require a greater level of property management. The accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011 in the Company's Annual Report on Form 10-K filed with the SEC. There were no intersegment sales or transfers during the six months ended June 30, 2012 and 2011. The Company evaluates performance based upon property net operating income from continuing operations ( NOI ), adjusted NOI and interest income of the combined investments in each segment.

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

Edgar Filing: HCP, INC. - Form 10-Q

Table of Contents

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

For the three months ended June 30, 2012:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	\$ 116,445	\$ 35,569	\$ 527	\$	\$ 152,541	\$ 128,570	\$ 116,509
Post-acute/skilled	134,677		427		135,104	134,505	116,833
Life science	72,545			1	72,546	58,990	55,735
Medical office	80,905			469	81,374	48,926	47,682
Hospital	22,612		262		22,874	21,675	21,154
Total	\$ 427,184	\$ 35,569	\$ 1,216	\$ 470	\$ 464,439	\$ 392,666	\$ 357,913

For the three months ended June 30, 2011:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	\$ 128,862	\$ 835	\$ 7	\$	\$ 129,704	\$ 128,927	\$ 113,664
Post-acute/skilled	123,545		60,189		183,734	123,491	106,055
Life science	71,527			1	71,528	58,937	53,136
Medical office	80,037			503	80,540	48,058	46,533
Hospital	22,289		330		22,619	21,067	20,442
Total	\$ 426,260	\$ 835	\$ 60,526	\$ 504	\$ 488,125	\$ 380,480	\$ 339,830

For the six months ended June 30, 2012:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management Fee Income	Total Revenues	NOI(2)	Adjusted NOI(2)
Senior housing	\$ 232,806	\$ 71,748	\$ 810	\$	\$ 305,364	\$ 259,480	\$ 233,527
Post-acute/skilled	268,672		707		269,379	268,300	230,002
Life science	144,375			2	144,377	117,936	114,838
Medical office	160,861			961	161,822	97,178	94,604
Hospital	41,990		518		42,508	40,122	39,046
Total	\$ 848,704	\$ 71,748	\$ 2,035	\$ 963	\$ 923,450	\$ 783,016	\$ 712,017

For the six months ended June 30, 2011:

Segments	Rental Revenues(1)	Resident Fees and Services	Interest Income	Investment Management	Total Revenues	NOI(2)	Adjusted NOI(2)
----------	--------------------	----------------------------	-----------------	-----------------------	----------------	--------	-----------------

Edgar Filing: HCP, INC. - Form 10-Q

	Fee Income													
Senior housing	\$	238,372	\$	3,340	\$	7	\$	70	\$	241,789	\$	239,957	\$	211,275
Post-acute/skilled		132,985				97,880				230,865		132,911		115,153
Life science		143,952						2		143,954		118,524		106,759
Medical office		159,607						1,039		160,646		95,593		91,955
Hospital		41,264				735				41,999		39,075		37,798
Total	\$	716,180	\$	3,340	\$	98,622	\$	1,111	\$	819,253	\$	626,060	\$	562,940

(1) Represents rental and related revenues, tenant recoveries, and income from DFLs.

(2) NOI is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate. The Company defines NOI as rental and related revenues, including tenant recoveries, resident fees and services, and income from direct financing leases, less property level operating expenses. NOI excludes interest income, investment management fee income, interest expense, depreciation and amortization, general and administrative expenses, litigation settlement, impairments, impairment recoveries, other income, net, income taxes, equity income from and impairments of investments in unconsolidated joint ventures, and discontinued operations. The Company believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL accretion, amortization of above and below market lease intangibles, and lease termination fees. Adjusted NOI is sometimes referred to as cash NOI. The Company uses NOI and adjusted NOI to make decisions about resource allocations and to assess and compare 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 because 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 REITs, as those companies may use different methodologies for calculating NOI.

Edgar Filing: HCP, INC. - Form 10-Q

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Net income</b>	\$ 204,975	\$ 234,252	\$ 401,539	\$ 308,236
Interest income	(1,216)	(60,526)	(2,035)	(98,622)
Investment management fee income	(470)	(504)	(963)	(1,111)
Interest expense	103,225	105,129	207,793	213,705
Depreciation and amortization	87,924	89,814	176,165	180,996
General and administrative	14,812	34,872	34,914	56,824
Other income, net	(1,028)	(7,518)	(1,464)	(17,827)
Income taxes	176	248	(533)	285
Equity income from unconsolidated joint ventures	(15,732)	(14,950)	(29,407)	(15,748)
Total discontinued operations, net of income taxes		(337)	(2,993)	(678)
<b>NOI</b>	<b>392,666</b>	<b>380,480</b>	<b>783,016</b>	<b>626,060</b>
Straight-line rents	(11,860)	(15,612)	(21,787)	(32,912)
DFL accretion	(22,017)	(22,262)	(47,639)	(24,937)
Amortization of above and below market lease intangibles, net	(625)	(1,187)	(1,322)	(2,093)
Lease termination fees	(251)	(1,589)	(399)	(3,178)
NOI adjustments related to discontinued operations			148	
<b>Adjusted NOI</b>	<b>\$ 357,913</b>	<b>\$ 339,830</b>	<b>\$ 712,017</b>	<b>\$ 562,940</b>

The Company's total assets by segment were (in thousands):

Segments	June 30, 2012	December 31, 2011
Senior housing	\$ 5,956,879	\$ 5,911,352
Post-acute/skilled nursing	5,923,120	5,644,472
Life science	3,915,856	3,886,851
Medical office	2,353,948	2,336,302
Hospital	755,913	757,618
Gross segment assets	18,905,716	18,536,595
Accumulated depreciation and amortization	(1,825,257)	(1,670,511)
Net segment assets	17,080,459	16,866,084
Real estate held for sale, net		4,159
Other non-segment assets	709,309	538,232
<b>Total assets</b>	<b>\$ 17,789,768</b>	<b>\$ 17,408,475</b>

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



## Edgar Filing: HCP, INC. - Form 10-Q

At June 30, 2012, goodwill of \$50 million was allocated to segment assets as follows: (i) senior housing \$31 million, (ii) post-acute/skilled nursing \$3 million, (iii) medical office \$11 million, and (iv) hospital \$5 million.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Numerator - Basic</b>				
Income from continuing operations	\$ 204,975	\$ 233,915	\$ 398,546	\$ 307,558
Noncontrolling interests' share in continuing operations	(2,951)	(5,493)	(6,135)	(9,384)
Income from continuing operations applicable to HCP, Inc.	202,024	228,422	392,411	298,174
Preferred stock dividends		(5,283)	(17,006)	(10,566)
Participating securities' share in continuing operations	(557)	(483)	(1,674)	(1,347)
Income from continuing operations applicable to common shares	201,467	222,656	373,731	286,261
Discontinued operations		337	2,993	678
Net income applicable to common shares	\$ 201,467	\$ 222,993	\$ 376,724	\$ 286,939
<b>Numerator - Dilutive</b>				
Income from continuing operations applicable to common shares	\$ 201,467	\$ 222,656	\$ 373,731	\$ 286,261
Add: distributions on dilutive convertible units		1,656		
Dilutive income from continuing operations applicable to common shares	201,467	224,312	373,731	286,261
Discontinued operations		337	2,993	678
Dilutive net income available to common shares	\$ 201,467	\$ 224,649	\$ 376,724	\$ 286,939
<b>Denominator</b>				
Basic weighted average common shares	420,468	406,193	415,243	389,249
Dilutive potential common shares	1,203	5,517	1,423	1,851
Diluted weighted average common shares	421,671	411,710	416,666	391,100
<b>Basic earnings per common share</b>				
Income from continuing operations	\$ 0.48	\$ 0.55	\$ 0.90	\$ 0.74
Discontinued operations			0.01	
Net income applicable to common shares	\$ 0.48	\$ 0.55	\$ 0.91	\$ 0.74
<b>Diluted earnings per common share</b>				
Income from continuing operations	\$ 0.48	\$ 0.55	\$ 0.90	\$ 0.73
Discontinued operations				
Net income applicable to common shares	\$ 0.48	\$ 0.55	\$ 0.90	\$ 0.73

Restricted stock and certain of the Company's performance restricted stock units are considered participating securities, because dividend payments are not forfeited even if the underlying award does not vest, which require the use of the two-class method when computing basic and diluted earnings per share.

## Edgar Filing: HCP, INC. - Form 10-Q

Options to purchase approximately 1.0 million and 1.1 million shares of common stock that had an exercise price in excess of the average market price of the Company's common stock during the three months ended June 30, 2012 and 2011, respectively, were not included in the Company's earnings per share calculations because they are anti-dilutive. Restricted stock and performance restricted stock units representing 21,000 and 11,000 shares of common stock during the three months ended June 30, 2012 and 2011, respectively, were not included because they are anti-dilutive. Additionally, 5.8 million shares issuable upon conversion of 4.1 million DownREIT units during the three months ended June 30, 2012 were not included because they are anti-dilutive. During the three months ended June 30, 2011, 2.3 million shares issuable upon conversion of 2.3 million DownREIT units were not included because they are anti-dilutive.

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

The following table provides supplemental cash flow information (in thousands):

	Six Months Ended June 30,	
	2012	2011
<i>Supplemental cash flow information:</i>		
Interest paid, net of capitalized interest	\$ 192,853	\$ 142,940
Income taxes paid	1,682	1,460
<i>Supplemental schedule of non-cash investing activities:</i>		
Capitalized interest	13,495	12,538
Accrued construction costs	18,522	8,278
Settlement of loans receivable as consideration for the HCR ManorCare Acquisition		1,990,406
<i>Supplemental schedule of non-cash financing activities:</i>		
Vesting of restricted stock units	378	228
Cancellation of restricted stock	(4)	(35)
Conversion of non-managing member units into common stock	2,273	2,599
Mortgages included in the consolidation of HCP Ventures II		635,182
Mortgages assumed with other real estate acquisitions		48,252
Unrealized gains (losses) on available-for-sale securities and derivatives designated as cash flow hedges, net	(437)	290

See additional information regarding supplemental non-cash financing activities related to the HCR ManorCare transaction in Notes 3 and 7, the HCP Ventures II purchase in Note 8 and preferred stock redemption in Note 13.

**(17) Variable Interest Entities***Unconsolidated Variable Interest Entities*

At June 30, 2012, the Company leased 48 properties to a total of seven VIE tenants and had an additional investment in a loan to a VIE borrower. The Company has determined that it is not the primary beneficiary of these VIEs. The carrying value and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company's involvement with these VIEs are presented below at June 30, 2012 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset/Liability Type	Carrying Amount
VIE tenants operating leases	\$ 319,995	Lease intangibles, net and straight-line rent receivables	\$ 15,136
VIE tenants DFLs	1,141,858	Net investment in DFLs	595,644
Loan senior secured	68,784	Loans receivable, net	68,784

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

As of June 30, 2012, the Company has not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash shortfalls).

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

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

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

The following table presents the Company's fair value measurements of its financial assets and liabilities measured at fair value in the condensed consolidated balance sheets. Recognized gains and losses are recorded in other income, net in the condensed consolidated income statements. During the six months ended June 30, 2012, there were no transfers of financial assets or liabilities within the fair value hierarchy.

The financial assets and liabilities carried at fair value on a recurring basis at June 30, 2012 follow (in thousands):

<b>Financial Instrument</b>	<b>Fair Value</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>	
Marketable equity securities	\$	17,396	\$	17,396	\$		\$	
Interest-rate swap liabilities(1)		(12,903)				(12,903)		
Warrants(1)		1,385						1,385
	\$	5,878	\$	17,396	\$	(12,903)	\$	1,385

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

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

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

The table below summarizes the carrying amounts and fair values of the Company's financial instruments (in thousands):

	<b>June 30, 2012</b>		<b>December 31, 2011</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Loans receivable, net(2)	\$ 125,521	\$ 125,233	\$ 110,253	\$ 111,073
Marketable debt securities(3)	214,860	214,860		
Marketable equity securities(1)	17,396	17,396	17,053	17,053
Warrants(3)	1,385	1,385	1,334	1,334
Bank line of credit(2)	215,015	215,015	454,000	454,000
Senior unsecured notes(1)	5,615,979	6,198,028	5,416,063	5,819,304
Mortgage debt(2)	1,726,944	1,829,647	1,764,571	1,870,070
Other debt(2)	84,060	84,060	87,985	87,985

## Edgar Filing: HCP, INC. - Form 10-Q

Interest-rate swap liabilities(2)	12,903	12,903	12,123	12,123
-----------------------------------	--------	--------	--------	--------

- 
- (1) Level I: Fair value calculated based on quoted prices in active markets.
- (2) Level II: Fair value based on quoted prices for similar or identical instruments in active or inactive markets, respectively, or calculated utilizing model-derived valuations in which significant inputs or value drivers are observable in active markets.
- (3) Level III: Fair value determined based on significant unobservable market inputs using standardized derivative pricing models.

### (20) Derivative Financial Instruments

The following table summarizes the Company's outstanding interest-rate swap contracts as of June 30, 2012 (dollars in thousands):

Date Entered	Maturity Date	Hedge Designation	Fixed Rate	Floating Rate Index	Notional Amount	Fair Value(1)
July 2005(2)	July 2020	Cash Flow	3.82%	BMA Swap Index	\$ 45,600	\$ (8,445)
November 2008(3)	October 2016	Cash Flow	5.95%	1 Month LIBOR+1.50%	27,300	(4,159)
July 2009(4)	July 2013	Cash Flow	6.13%	1 Month LIBOR+3.65%	13,800	(299)

- 
- (1) Interest-rate swap assets are recorded in other assets, net and interest-rate swap liabilities are recorded in accounts payable and accrued liabilities on the condensed consolidated balance sheets.
- (2) Represents three interest-rate swap contracts with an aggregate notional amount of \$45.6 million, which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.
- (3) Acquired in conjunction with mortgage debt assumed related to real estate acquired on December 28, 2010. Hedges fluctuations in interest payments on variable-rate secured debt due to fluctuations in the underlying benchmark interest rate.
- (4) Hedges fluctuations in interest payments on variable-rate secured debt due to fluctuations in the underlying benchmark interest rate.

Table of Contents

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

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

Credit risk is the risk that one of the parties to a derivative contract fails to perform or meet their financial obligation. The Company does not obtain collateral associated with its derivative instruments, but monitors the credit standing of its counterparties on a regular basis. Should a counterparty fail to perform, the Company would incur a financial loss to the extent that the associated derivative contract was in an asset position. At June 30, 2012, the Company does not anticipate non-performance by the counterparties to its outstanding derivative contracts.

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

At June 30, 2012, the Company expects that the hedged forecasted transactions for each of the outstanding qualifying cash flow hedging relationships remain probable of occurring and that no gains or losses recorded to accumulated other comprehensive loss are expected to be reclassified to earnings.

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

Date Entered	Maturity Date	Effects of Change in Interest Rates			
		+50 Basis Points	-50 Basis Points	+100 Basis Points	-100 Basis Points
July 2005	July 2020	\$ 1,610	\$ (1,840)	\$ 3,335	\$ (3,565)
November 2008	October 2016	556	(561)	1,114	(1,119)
July 2009	July 2013	66	(73)	136	(142)

**(21) Subsequent Events**



## Edgar Filing: HCP, INC. - Form 10-Q

On July 30, 2012, the Company executed agreements to acquire eight MOBs located in Scottsdale, Arizona for \$81 million from Scottsdale Healthcare. The Company expects to close this acquisition early August 2012, subject to customary closing conditions.

On July 30, 2012, the Company executed agreements to acquire a portfolio of 12 MOBs from The Boyer Company valued at \$179 million, including DownREIT units and debt valued at \$41 million and \$59 million, respectively. The Company expects to close this acquisition on or before August 31, 2012, subject to customary closing conditions.

Table of Contents

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

**Cautionary Language Regarding Forward-Looking Statements**

Statements in this Quarterly Report on Form 10-Q that are not historical factual statements are forward-looking statements. We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. Forward-looking statements include, among other things, statements regarding our and our officers' intent, belief or expectations as identified by the use of words such as may, will, project, expect, believe, intend, anticipate, forecast, plan, estimate, could, would, should and other comparable and derivative terms or the negatives thereof. In addition, we, through our officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, while forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

- (a) Changes in global, national and local economic conditions, including a prolonged period of weak economic growth;
- (b) Continued volatility in the capital markets, including changes in interest rates and the availability and cost of capital;
- (c) Our ability to manage our indebtedness level and changes in the terms of such indebtedness;
- (d) Changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations of our operators, tenants and borrowers;
- (e) The potential impact of future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;
- (f) Competition for tenants and borrowers, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

## Edgar Filing: HCP, INC. - Form 10-Q

- (g) Our ability to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or we exercise our right to replace an existing operator or tenant upon default;
- (h) Availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;
- (i) The financial, legal, regulatory and reputational difficulties of significant operators of our properties;
- (j) The risk that we may not be able to achieve the benefits of investments within expected time-frames or at all, or within expected cost projections;
- (k) The ability to obtain financing necessary to consummate acquisitions on favorable terms;
- (l) Changes in the reimbursement available to our operators, tenants and borrowers by governmental or private payors (including the July 2011 Centers for Medicare & Medicaid Services final rule reducing Medicare skilled nursing facility Prospective Payment System payments in FY 2012 by 11.1% compared to FY 2011) and other potential changes in Medicare and Medicaid payment levels, which, among other effects, could negatively impact the value of our approximate 10% equity interest in the operations of HCR ManorCare;
- (m) The risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our joint venture partners' financial condition and continued cooperation;
- (n) The ability of our operators, tenants and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us and our ability to recover investments made, if applicable, in their operations; and

Table of Contents

(o) 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.

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
  
- 2012 Transaction Overview
  
- Dividends
  
- Critical Accounting Policies
  
- Results of Operations
  
- Liquidity and Capital Resources
  
- Funds from Operations
  
- Off-Balance Sheet Arrangements
  
- Contractual Obligations

- Inflation
- Recent Accounting Pronouncements

### Executive Summary

We are a Maryland corporation and were organized to qualify as a self-administered real estate investment trust ( REIT ) that, together with our unconsolidated joint ventures, invests primarily in real estate serving the healthcare industry in the United States ( U.S. ). We acquire, develop, lease, manage and dispose of healthcare real estate, and provide financing to healthcare providers. At June 30, 2012, our portfolio of investments, including properties in our Investment Management Platform, consisted of interests in 1,012 facilities. Our Investment Management Platform represents the following joint ventures: (i) HCP Ventures III, LLC, (ii) HCP Ventures IV, LLC and (iii) the HCP Life Science ventures.

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

Our strategy contemplates acquiring and developing properties on terms that are favorable to us. 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 ongoing evaluation of the potential disposition of properties that no longer fit our strategy.

We primarily generate revenue by leasing healthcare properties under long-term leases with fixed or inflation indexed escalators. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for substantial recovery of operating expenses; however, some of our medical office and life science leases are structured as gross or modified gross leases. Accordingly, for such medical office buildings ( MOBs ) and life science facilities, we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. Our growth for these assets depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions. At June 30, 2012, the contractual maturities in our portfolio of leased assets were 10% through 2014 (measured in dollars of expiring rents).

Table of Contents

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

**2012 Transaction Overview**

*Investment Transactions*

On July 30, 2012, we executed agreements to acquire a portfolio of 12 MOBs from The Boyer Company valued at \$179 million, including DownREIT units and debt valued at \$41 million and \$59 million, respectively. We expect to close this acquisition on or before August 31, 2012, subject to customary closing conditions.

On July 30, 2012, we executed agreements to acquire eight MOBs located in Scottsdale, Arizona for \$81 million from Scottsdale Healthcare. We expect to close this acquisition early August 2012, subject to customary closing conditions.

On June 28, 2012, we made an investment in senior unsecured notes with an aggregate par value of £138.5 million at a discount for £136.8 million, as part of the financing for Terra Firma's £825 million acquisition of Four Seasons Health Care ( Four Seasons ), the largest elderly and specialist care provider in the United Kingdom with 445 care homes and 61 specialist care centers. The notes mature in June 2020 and are non-callable until June 2016. The notes bear interest on their par value at a fixed rate of 12.25% per annum, with an original discount resulting in a yield to maturity of 12.5%. Terra Firma, a leading European private equity firm, provided £345 million in equity financing, resulting in a loan-to-capitalization of 62% for the Four Seasons notes. The £136.8 million for this investment is match funded by an equivalent GBP denominated unsecured term loan discussed below.

During the six months ended June 30, 2012, we made additional other investments of \$110 million as follows: (i) acquisition of a life science facility for \$8 million; (ii) acquisition of a parcel of land adjacent to one of our hospitals for \$3 million; and (iii) funding of development and other capital projects of \$99 million, primarily in our life science, senior housing and medical office segments.

*Financing Activities*

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million four-year unsecured term loan (the Loan ) that accrues interest at a rate of GBP London Interbank Offered Rate ( LIBOR ) plus 1.20%, based on our current debt ratings. Concurrent with the closing of the Loan, we entered into a four-year interest rate swap agreement that fixes the rate of the Loan at 1.81%, subject to adjustments based on our credit ratings. The Loan contains a one-year committed extension option and similar covenants to those in our unsecured revolving line of credit facility.

## Edgar Filing: HCP, INC. - Form 10-Q

On July 23, 2012, we issued \$300 million of 3.15% senior unsecured notes due in 2022. The notes were priced at 98.888% of the principal amount with an effective yield to maturity of 3.28%. Net proceeds from this offering were \$294 million.

In June 2012, we completed a \$376 million offering of 8.97 million shares of common stock at \$41.88 per share with the proceeds used primarily to repay \$250 million of 6.45% senior unsecured notes at maturity on June 25, 2012.

On March 27, 2012, we completed an amendment to our existing \$1.5 billion unsecured revolving line of credit facility. We improved the pricing and extended the maturity of the facility one additional year to March 2016. Based on our current credit ratings, the amended facility bears interest annually at one-month LIBOR plus 1.075% and has a facility fee of 0.175%, which in the aggregate represent a 55 basis point reduction to our funded interest cost.

On March 22, 2012, we announced the redemption of the 4,000,000 shares of 7.25% Series E and 7,820,000 shares of 7.10% Series F preferred stock at a price of \$25.00 per share, or \$295.5 million in aggregate, plus all accrued and unpaid dividends to April 23, 2012 (the redemption date). As a result of the redemption, we incurred a charge of \$10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in our consolidated income statements).

On March 22, 2012, we priced a \$359 million offering of 9.0 million shares of common stock at \$39.93 per share with the proceeds used primarily to redeem all outstanding shares of our preferred stock.

Table of Contents

On January 23, 2012, we issued \$450 million of 3.75% senior unsecured notes due in 2019; net proceeds from the offering were \$444 million.

**Dividends**

On July 26, 2012, we announced that our Board declared a quarterly common stock cash dividend of \$0.50 per share. The common stock dividend will be paid on August 21, 2012 to stockholders of record as of the close of business on August 6, 2012.

**Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ) requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our condensed consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2011 in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ; our critical accounting policies have not changed during 2012.

**Results of Operations**

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

We use net operating income ( NOI ) and adjusted NOI to assess and compare property level performance, including our same property portfolio ( SPP ), and to make decisions about resource allocations. We believe these measures provide investors relevant and useful information because they reflect only income and operating expense items that are incurred at the property level and present them on an unleveraged basis. We believe 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 NOI excludes certain components from net income. Further, NOI may not be comparable to that of other REITs, as they may use different methodologies for calculating NOI. See Note 14 to the Condensed Consolidated Financial Statements for additional segment information and the relevant reconciliations from net income to NOI and adjusted NOI.



## Edgar Filing: HCP, INC. - Form 10-Q

Operating expenses are generally related to MOB and life science leased properties and senior housing properties managed on our behalf ( RIDEA properties ). We generally recover all or a portion of MOB and life science expenses from the tenants (tenant recoveries). The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses.

Our evaluation of results of operations by each business segment includes an analysis of our SPP and our total property portfolio. SPP information allows us to evaluate the performance of our leased property portfolio under a consistent population by eliminating changes in the composition of our portfolio of properties. We identify our SPP as stabilized properties that remained in operations and were consistently reported as leased properties or RIDEA properties for the duration of the year-over-year comparison periods presented. Accordingly, it takes a stabilized property a minimum of 12 months in operations under a consistent reporting structure to be included in our SPP. Newly acquired operating assets are generally considered stabilized at the earlier of lease-up (typically when the tenant(s) controls the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly completed developments, including redevelopments, are considered stabilized at the earlier of lease-up or 24 months from the date the property is placed in service. SPP NOI excludes certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis.

Table of Contents**Comparison of the Three Months Ended June 30, 2012 to the Three Months Ended June 30, 2011**Segment NOI and Adjusted NOI

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 574 properties representing properties acquired or placed in service and stabilized on or prior to April 1, 2011 and that remained in operations under a consistent reporting structure through June 30, 2012. Our consolidated total property portfolio represents 938 and 935 properties at June 30, 2012 and 2011, respectively, and excludes properties classified as discontinued operations.

**Senior Housing**

Results are as of and for the three months ended June 30, 2012 and 2011 (dollars in thousands except per unit data):

	SPP			Total Portfolio		
	2012	2011	Change	2012	2011	Change
Rental revenues(1)	\$ 98,767	\$ 99,454	\$ (687)	\$ 116,445	\$ 128,862	\$ (12,417)
Resident fees and services	1	835	(834)	35,569	835	34,734
Total revenues	\$ 98,768	\$ 100,289	\$ (1,521)	\$ 152,014	\$ 129,697	\$ 22,317
Operating expenses	(42)	(100)	58	(23,444)	(770)	(22,674)
NOI	\$ 98,726	\$ 100,189	\$ (1,463)	\$ 128,570	\$ 128,927	\$ (357)
Straight-line rents	(7,027)	(9,590)	2,563	(7,028)	(9,590)	2,562
DFL accretion	(1,626)	(2,348)	722	(4,436)	(5,077)	641
Amortization of above and below market lease intangibles, net	(631)	(631)		(597)	(596)	(1)
Adjusted NOI	\$ 89,442	\$ 87,620	\$ 1,822	\$ 116,509	\$ 113,664	\$ 2,845
Adjusted NOI % change			2.1%			
Property count(2)	227	227		314	314	
Average capacity (units)(3)	26,186	26,136		35,960	35,607	
Average annual revenue per unit(4)	\$ 13,669	\$ 13,425		\$ 13,036	\$ 12,851	

(1) Represents rental and related revenues and income from DFLs.

(2) From our past presentation of SPP for the three months ended June 30, 2011, we removed three senior housing properties from SPP that were sold or classified as held for sale; the property-level results of these properties are classified in discontinued operations.

(3) Represents average capacity as reported by the respective tenants or operators for three months in arrears from the periods presented.

(4) Average annual revenue per unit for operating properties under a RIDEA structure is based on NOI.

*Senior Housing SPP NOI and Adjusted NOI.* SPP NOI declined primarily as a result of a decrease in resident fees and services revenue, which relates to certain 2011 working capital adjustment benefits from properties that were previously transitioned from Sunrise to another operator. SPP adjusted NOI improved primarily as a result of annual rent escalations, partially offset by the decrease in resident fees and services revenue

## Edgar Filing: HCP, INC. - Form 10-Q

mentioned above; these rent escalations typically do not improve SPP NOI because our leases are generally straight-lined.

*Senior Housing Total Portfolio NOI and Adjusted NOI.* In addition to the impact of our SPP, HCP Ventures II was consolidated on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information), resulting in us recognizing rental and related revenues for the 25 leased properties commencing on that date. On September 1, 2011, for 21 of these 25 properties, we entered into management contracts in a structure permitted by RIDEA (see Note 12 to the Condensed Consolidated Financial Statements for additional information), resulting in the termination of the properties' leases. For these 21 properties that are now in a RIDEA structure, the resident-level revenues and related operating expenses are reported in our condensed consolidated financial statements beginning on that date. Under the provisions of RIDEA, a REIT may lease qualified healthcare properties on an arm's length basis to a taxable REIT subsidiary if the property is operated on behalf of such subsidiary by a person who qualifies as an eligible independent contractor.

Table of Contents**Post-Acute/Skilled Nursing**

Results are as of and for the three months ended June 30, 2012 and 2011 (dollars in thousands, except per bed data):

	2012	SPP 2011	Change	2012	Total Portfolio 2011	Change
Rental revenues(1)	\$ 9,560	\$ 9,507	\$ 53	\$ 134,677	\$ 123,545	\$ 11,132
Operating expenses	(32)	(26)	(6)	(172)	(54)	(118)
NOI	\$ 9,528	\$ 9,481	\$ 47	\$ 134,505	\$ 123,491	\$ 11,014
Straight-line rents	(102)	(262)	160	(102)	(262)	160
DFL accretion				(17,581)	(17,185)	(396)
Amortization of above and below market lease intangibles, net				11	11	
Adjusted NOI	\$ 9,426	\$ 9,219	\$ 207	\$ 116,833	\$ 106,055	\$ 10,778
Adjusted NOI % change			2.2%			
Property count	45	45		313	313	
Average capacity (beds)(2)	5,238	5,223		40,124	37,233	
Average annual revenue per bed	\$ 7,222	\$ 7,080		\$ 11,663	\$ 11,398	

(1) Represents rental and related revenues and income from DFLs.

(2) Represents average capacity as reported by the respective tenants or operators for three months in arrears from the periods reported.

*Post-Acute/Skilled Nursing Total Portfolio NOI and Adjusted NOI.* Total portfolio NOI and adjusted NOI for the three months ended June 30, 2012 primarily increased as a result of 268 post-acute/skilled nursing leased properties classified as DFLs that were acquired on April 7, 2011 from HCR ManorCare, Inc. (see Notes 3 and 6 to the Condensed Consolidated Financial Statements for additional information regarding the HCR ManorCare Acquisition and Net Investments in DFLs, respectively).

**Life Science**

Results are as of and for the three months ended June 30, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	2012	SPP 2011	Change	2012	Total Portfolio 2011	Change
Rental and related revenues	\$ 60,697	\$ 61,266	\$ (569)	\$ 61,393	\$ 61,631	\$ (238)
Tenant recoveries	11,016	9,833	1,183	11,152	9,896	1,256

Edgar Filing: HCP, INC. - Form 10-Q

Total revenues	\$ 71,713	\$ 71,099	\$ 614	\$ 72,545	\$ 71,527	\$ 1,018
Operating expenses	(12,351)	(11,609)	(742)	(13,555)	(12,590)	(965)
NOI	\$ 59,362	\$ 59,490	\$ (128)	\$ 58,990	\$ 58,937	\$ 53
Straight-line rents	(3,081)	(3,765)	684	(3,371)	(3,860)	489
Amortization of above and below market lease intangibles, net	128	(340)	468	116	(352)	468
Lease termination fees		(1,589)	1,589		(1,589)	1,589
Adjusted NOI	\$ 56,409	\$ 53,796	\$ 2,613	\$ 55,735	\$ 53,136	\$ 2,599
Adjusted NOI % change			4.9%			
Property count	101	101		109	104	
Occupancy	91.5%	90.4%		89.6%	89.2%	
Average occupied sq. ft.	6,090	6,035		6,222	6,074	
Average annual revenue per occupied sq. ft.	\$ 45	\$ 43		\$ 45	\$ 43	

*Life Science NOI and Adjusted NOI.* Adjusted NOI increased primarily as a result of annual rent escalations, which typically do not improve NOI because our leases are generally straight-lined, and an increase in tenant recoveries in relation to operating expenses.

During the three months ended June 30, 2012, 190,000 square feet of new and renewal leases (includes 77,000 square feet acquired during the quarter) commenced at an average annual base rent of \$15.13 per square foot compared to 83,000 square feet of expiring and terminated leases with an average annual base rent of \$21.13 per square foot.

Table of Contents**Medical Office**

Results are as of and for the three months ended June 30, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	2012	SPP 2011	Change	2012	Total Portfolio 2011	Change
Rental and related revenues	\$ 68,856	\$ 67,234	\$ 1,622	\$ 69,072	\$ 68,100	\$ 972
Tenant recoveries	11,806	11,869	(63)	11,833	11,937	(104)
Total revenues	\$ 80,662	\$ 79,103	\$ 1,559	\$ 80,905	\$ 80,037	\$ 868
Operating expenses	(30,483)	(30,135)	(348)	(31,979)	(31,979)	
NOI	\$ 50,179	\$ 48,968	\$ 1,211	\$ 48,926	\$ 48,058	\$ 868
Straight-line rents	(1,044)	(1,494)	450	(1,056)	(1,493)	437
Amortization of above and below market lease intangibles, net	83	81	2	63	(32)	95
Lease termination fees	(251)		(251)	(251)		(251)
Adjusted NOI	\$ 48,967	\$ 47,555	\$ 1,412	\$ 47,682	\$ 46,533	\$ 1,149
Adjusted NOI % change			3.0%			
Property count(1)	185	185		185	187	
Occupancy	91.4%	90.9%		91.4%	91.0%	
Average occupied sq. ft.	11,759	11,705		11,759	11,874	
Average annual revenue per occupied sq. ft.	\$ 27	\$ 26		\$ 27	\$ 26	

(1) From our past presentation of SPP for the three months ended June 30, 2011, we removed (i) a MOB that was sold or classified as held for sale; the property-level results of this property are classified in discontinued operations; and (ii) two MOBs that were placed into redevelopment in 2012, which no longer meet our criteria for SPP as of the date they were placed into redevelopment.

*Medical Office NOI and Adjusted NOI.* NOI and adjusted NOI increased year-over-year primarily as a result of rent escalations and an increase in medical office occupancy.

During the three months ended June 30, 2012, 585,000 square feet of new and renewal leases commenced at an average annual base rent of \$21.09 per square foot compared to 539,000 square feet of expiring and terminated leases with an average annual base rent of \$21.63 per square foot (includes 70,000 square feet related to properties that were sold or placed into redevelopment with an average annual base rent of \$17.50 per square foot).

**Hospital**

Results are as of and for the three months ended June 30, 2012 and 2011 (dollars in thousands, except per bed data):

Edgar Filing: HCP, INC. - Form 10-Q

	SPP		Change		Total Portfolio		Change	
	2012	2011		2012	2011		2012	2011
Rental and related revenues	\$ 21,252	\$ 20,917	\$ 335	\$ 22,016	\$ 21,681	\$ 335		
Tenant recoveries	596	607	(11)	596	608	(12)		
Total revenues	\$ 21,848	\$ 21,524	\$ 324	\$ 22,612	\$ 22,289	\$ 323		
Operating expenses	(936)	(1,221)	285	(937)	(1,222)	285		
NOI	\$ 20,912	\$ 20,303	\$ 609	\$ 21,675	\$ 21,067	\$ 608		
Straight-line rents	(162)	(254)	92	(303)	(407)	104		
Amortization of above and below market lease intangibles, net	(192)	(192)		(218)	(218)			
Adjusted NOI	\$ 20,558	\$ 19,857	\$ 701	\$ 21,154	\$ 20,442	\$ 712		
Adjusted NOI % change			3.5%					
Property count	16	16		17	17			
Capacity (beds)(1)	2,379	2,361		2,410	2,361			
Average annual revenue per bed	\$ 36,140	\$ 35,709		\$ 36,666	\$ 36,703			

(1) Represents capacity as reported by the respective tenants or operators for three months in arrears from the date reported. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

Table of Contents

*Hospital NOI and Adjusted NOI.* NOI and adjusted NOI increased for the three months ended June 30, 2012 primarily as a result of additional rents, due to us from certain hospitals which exceeded specified facility-level revenue base amounts or thresholds.

Other Income and Expense Items*Interest income*

Interest income decreased \$59.3 million to \$1.2 million for the three months ended June 30, 2012. The decrease was primarily the result of the following: (i) a decrease of \$34.8 million as a result of the early repayment of our loans to Genesis in 2011 and (ii) a decrease of \$25.1 million as a result of the early settlement of our HCR ManorCare debt investments in 2011.

*Interest expense*

Interest expense decreased \$1.9 million to \$103.2 million for the three months ended June 30, 2012. The decrease was primarily as a result of more favorable borrowing rates on recently issued debt.

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

	As of June 30,(1)	
	2012	2011
<b>Balance:</b>		
Fixed rate	\$ 7,336,232	\$ 7,225,449
Variable rate	255,438	299,085
Total	\$ 7,591,670	\$ 7,524,534
<b>Percent of total debt:</b>		
Fixed rate	97%	96%
Variable rate	3	4
Total	100%	100%
<b>Weighted average interest rate at end of period:</b>		
Fixed rate	5.68%	5.82%
Variable rate	1.98%	4.05%
Total weighted average rate	5.56%	5.75%

(1) Excludes \$84 million and \$89 million of other debt at June 30, 2012 and 2011, respectively, that represent non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities, which have no scheduled maturities.



*Depreciation and amortization expense*

Depreciation and amortization expense decreased \$1.9 million to \$87.9 million for the three months ended June 30, 2012. The decrease was primarily the result of an asset being fully depreciated in 2011.

*General and administrative expenses*

General and administrative expenses decreased \$20.1 million to \$14.8 million for the three months ended June 30, 2012. The decrease was primarily due to an insurance recovery of \$7.2 million during 2012 for previously incurred legal expenses and \$13.0 million of acquisition costs incurred during 2011 related to our HCR ManorCare Acquisition.

*Other income, net*

Other income, net, decreased \$6.5 million to \$1.0 million for the three months ended June 30, 2012. The decrease was primarily the result of \$5.7 million received in connection with a litigation settlement in June 2011 that represents proceeds owed to us from a prior sale of assets. No similar settlement was received during the three months ended June 30, 2012.

Table of Contents*Equity income from unconsolidated joint ventures*

Equity income from unconsolidated joint ventures increased \$0.8 million to \$15.7 million for the three months ended June 30, 2012. The increase was primarily the result of equity income from HCR ManorCare (see Notes 3 and 8 to the Condensed Consolidated Financial Statements for additional information).

*Discontinued operations*

There were no sales of properties during the three months ended June 30, 2012 or 2011.

*Comparison of the Six Months Ended June 30, 2012 to the Six Months Ended June 30, 2011*Segment NOI and Adjusted NOI

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 569 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2011 and that remained in operations under a consistent reporting structure through June 30, 2012. Our consolidated total property portfolio represents 938 and 935 properties at June 30, 2012 and 2011, respectively, and excludes properties classified as discontinued operations.

**Senior Housing**

Results are as of and for the six months ended June 30, 2012 and 2011 (dollars in thousands except per unit data):

	2012	SPP 2011	Change	2012	Total Portfolio 2011	Change
Rental revenues(1)	\$ 193,303	\$ 194,263	\$ (960)	\$ 232,806	\$ 238,372	\$ (5,566)
Resident fees and services	1,049	3,340	(2,291)	71,748	3,340	68,408
Total revenues	\$ 194,352	\$ 197,603	\$ (3,251)	\$ 304,554	\$ 241,712	\$ 62,842
Operating expenses	(279)	(611)	332	(45,074)	(1,755)	(43,319)
NOI	\$ 194,073	\$ 196,992	\$ (2,919)	\$ 259,480	\$ 239,957	\$ 19,523
Straight-line rents	(14,675)	(19,701)	5,026	(15,175)	(19,701)	4,526
DFL accretion	(3,565)	(5,024)	1,459	(9,585)	(7,753)	(1,832)
Amortization of above and below market lease intangibles, net	(1,262)	(1,262)		(1,193)	(1,228)	35

Edgar Filing: HCP, INC. - Form 10-Q

Adjusted NOI	\$	174,571	\$	171,005	\$	3,566	\$	233,527	\$	211,275	\$	22,252
Adjusted NOI % change						2.1%						
Property count(2)		223		223				314		314		
Average capacity (units)(3)		25,635		25,585				35,960		32,973		
Average annual revenue per unit(4)	\$	13,642	\$	13,415			\$	13,076	\$	12,920		

(1) Represents rental and related revenues and income from DFLs.

(2) From our past presentation of SPP for the six months ended June 30, 2011, we removed three senior housing properties from SPP that were sold or classified as held for sale; the property-level results of these properties are classified in discontinued operations.

(3) Represents average capacity as reported by the respective tenants or operators for three months in arrears from the periods presented.

(4) Average annual revenue per unit for operating properties under a RIDEA structure is based on NOI.

*Senior Housing SPP NOI and Adjusted NOI.* SPP NOI declined primarily as a result of a decrease in resident fees and services revenue, which relates to certain working capital adjustments from properties that were previously transitioned from Sunrise to another operator. SPP adjusted NOI improved primarily as a result of annual rent escalations, partially offset by the decrease in resident fees and services revenue mentioned above; these rent escalations typically do not improve SPP NOI because our leases are generally straight-lined.

*Senior Housing Total Portfolio NOI and Adjusted NOI.* Including the impact of our SPP, our total portfolio NOI and adjusted NOI for the six months ended June 30, 2012 primarily increased as a result of 66 senior housing leased properties classified as DFLs that were acquired on April 7, 2011 from HCR ManorCare, Inc. (see Notes 3 and 6 to the Condensed Consolidated Financial Statements for additional information regarding the HCR ManorCare Acquisition and Net Investments in DFLs, respectively).

Table of Contents

Additionally, HCP Ventures II was consolidated on January 14, 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information), resulting in us recognizing rental and related revenues for the 25 leased properties commencing on that date. On September 1, 2011, for 21 of these 25 properties, we entered into management contracts in a structure permitted by RIDEA (see Note 12 to the Condensed Consolidated Financial Statements for additional information), resulting in the termination of the properties' leases. For these 21 properties that are now in a RIDEA structure, the resident-level revenues and related operating expenses are reported in our condensed consolidated financial statements beginning on that date.

**Post-Acute/Skilled Nursing**

Results are as of and for the six months ended June 30, 2012 and 2011 (dollars in thousands, except per bed data):

	2012	SPP 2011	Change	2012	Total Portfolio 2011	Change
Rental revenues(1)	\$ 19,176	\$ 18,947	\$ 229	\$ 268,672	\$ 132,985	\$ 135,687
Operating expenses	(83)	(41)	(42)	(372)	(74)	(298)
NOI	\$ 19,093	\$ 18,906	\$ 187	\$ 268,300	\$ 132,911	\$ 135,389
Straight-line rents	(266)	(585)	319	(266)	(585)	319
DFL accretion				(38,054)	(17,184)	(20,870)
Amortization of above and below market lease intangibles, net				22	11	11
Adjusted NOI	\$ 18,827	\$ 18,321	\$ 506	\$ 230,002	\$ 115,153	\$ 114,849
Adjusted NOI % change			2.8%			
Property count	45	45		313	313	
Average capacity (beds)(2)	5,238	5,223		40,124	21,228	
Average annual revenue per bed	\$ 7,220	\$ 7,031		\$ 11,482	\$ 10,855	

(1) Represents rental and related revenues and income from DFLs.

(2) Represents average capacity as reported by the respective tenants or operators for three months in arrears from the periods reported.

*Post-Acute/Skilled Nursing Total Portfolio NOI and Adjusted NOI.* Total portfolio NOI and adjusted NOI for the six months ended June 30, 2012 primarily increased as a result of 268 post-acute/skilled nursing leased properties classified as DFLs that were acquired on April 7, 2011 from HCR ManorCare, Inc. (see Notes 3 and 6 to the Condensed Consolidated Financial Statements for additional information regarding the HCR ManorCare Acquisition and Net Investments in DFLs, respectively).

**Life Science**

## Edgar Filing: HCP, INC. - Form 10-Q

Results are as of and for the six months ended June 30, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2012	2011	Change	2012	2011	Change
Rental and related revenues	\$ 121,527	\$ 122,321	\$ (794)	\$ 122,803	\$ 123,248	\$ (445)
Tenant recoveries	21,295	20,547	748	21,572	20,704	868
Total revenues	\$ 142,822	\$ 142,868	\$ (46)	\$ 144,375	\$ 143,952	\$ 423
Operating expenses	(24,038)	(23,622)	(416)	(26,439)	(25,428)	(1,011)
NOI	\$ 118,784	\$ 119,246	\$ (462)	\$ 117,936	\$ 118,524	\$ (588)
Straight-line rents	(2,741)	(7,922)	5,181	(3,290)	(8,175)	4,885
Amortization of above and below market lease intangibles, net	217	(381)	598	192	(412)	604
Lease termination fees		(3,178)	3,178		(3,178)	3,178
Adjusted NOI	\$ 116,260	\$ 107,765	\$ 8,495	\$ 114,838	\$ 106,759	\$ 8,079
Adjusted NOI % change			7.9%			
Property count	101	101		109	104	
Occupancy	91.5%	90.4%		89.6%	89.2%	
Average occupied sq. ft.	6,085	6,031		6,184	6,078	
Average annual revenue per occupied sq. ft.	\$ 46	\$ 44		\$ 46	\$ 43	

Table of Contents

*Life Science NOI and Adjusted NOI.* Adjusted NOI increased primarily as a result of a \$4 million rent payment in connection with a February 2012 amendment to a lease, which will be recognized as rental income on a straight-line basis in future periods, and as a result of annual rent escalations, which are generally straight-lined.

During the six months ended June 30, 2012, 479,000 square feet of new and renewal leases (includes 77,000 square feet acquired during the period) commenced at an average annual base rent of \$23.23 per square foot compared to 318,000 square feet of expiring and terminated leases with an average annual base rent of \$29.06 per square foot.

**Medical Office**

Results are as of and for the six months ended June 30, 2012 and 2011 (dollars and square feet in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2012	2011	Change	2012	2011	Change
Rental and related revenues	\$ 135,235	\$ 132,905	\$ 2,330	\$ 137,370	\$ 135,627	\$ 1,743
Tenant recoveries	22,646	23,380	(734)	23,491	23,980	(489)
Total revenues	\$ 157,881	\$ 156,285	\$ 1,596	\$ 160,861	\$ 159,607	\$ 1,254
Operating expenses	(59,667)	(59,893)	226	(63,683)	(64,014)	331
NOI	\$ 98,214	\$ 96,392	\$ 1,822	\$ 97,178	\$ 95,593	\$ 1,585
Straight-line rents	(2,298)	(3,539)	1,241	(2,416)	(3,609)	1,193
Amortization of above and below market lease intangibles, net	162	188	(26)	93	(29)	122
Lease termination fees	(251)		(251)	(251)		(251)
Adjusted NOI	\$ 95,827	\$ 93,041	\$ 2,786	\$ 94,604	\$ 91,955	\$ 2,649
Adjusted NOI % change			3.0%			
Property count(1)	184	184		185	187	
Occupancy	91.3%	90.8%		91.4%	91.0%	
Average occupied sq. ft.	11,614	11,569		11,813	11,847	
Average annual revenue per occupied sq. ft.	\$ 27	\$ 26		\$ 27	\$ 26	

(1) From our past presentation of SPP for the six months ended June 30, 2011, we removed (i) a MOB that was sold or classified as held for sale; the property-level results of this property are classified in discontinued operations; and (ii) two MOBs that were placed into redevelopment in 2012, which no longer meet our criteria for SPP as of the date they were placed into redevelopment.

*Medical Office NOI and Adjusted NOI.* NOI and adjusted NOI increased year-over-year primarily as a result of rent escalations and an increase in medical office occupancy.

## Edgar Filing: HCP, INC. - Form 10-Q

During the six months ended June 30, 2012, 1.0 million square feet of new and renewal leases commenced at an average annual base rent of \$21.76 per square foot compared to 1.2 million square feet of expiring and terminated leases with an average annual base rent of \$21.35 per square foot (includes 213,000 square feet related to properties that were sold or placed into redevelopment with an average annual base rent of \$16.22 per square foot).

Table of Contents**Hospital**

Results are as of and for the six months ended June 30, 2012 and 2011 (dollars in thousands, except per bed data):

	SPP		Change		Total Portfolio		Change	
	2012	2011	2012	2011	2012	2011	2012	2011
Rental and related revenues	\$ 39,294	\$ 38,434	\$ 860	\$ 40,822	\$ 40,063	\$ 759		
Tenant recoveries	1,168	1,201	(33)	1,168	1,201	(33)		
Total revenues	\$ 40,462	\$ 39,635	\$ 827	\$ 41,990	\$ 41,264	\$ 726		
Operating expenses	(1,865)	(2,186)	321	(1,868)	(2,189)	321		
NOI	\$ 38,597	\$ 37,449	\$ 1,148	\$ 40,122	\$ 39,075	\$ 1,047		
Straight-line rents	(345)	(529)	184	(640)	(842)	202		
Amortization of above and below market lease intangibles, net	(385)	(385)		(436)	(435)	(1)		
Adjusted NOI	\$ 37,867	\$ 36,535	\$ 1,332	\$ 39,046	\$ 37,798	\$ 1,248		
Adjusted NOI % change			3.6%					
Property count	16	16		17	17			
Capacity (beds)(1)	2,379	2,361		2,410	2,361			
Average annual revenue per bed	\$ 33,402	\$ 32,801		\$ 33,953	\$ 33,872			

(1) Represents capacity as reported by the respective tenants or operators for three months in arrears from the date reported. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

*Hospital NOI and Adjusted NOI.* NOI and adjusted NOI increased for the six months ended June 30, 2012 primarily as a result of additional rents, due to us from certain hospitals which exceeded specified facility-level revenue base amounts or thresholds.

Other Income and Expense Items*Interest income*

Interest income decreased \$96.6 million to \$2.0 million for the six months ended June 30, 2012. The decrease was primarily the result of the following: (i) a decrease of \$54.3 million as a result of the early settlement of our HCR ManorCare debt investments in 2011 and (ii) a decrease of \$43.0 million as a result of the early repayment of our loans to Genesis in 2011.

*Interest expense*



Interest expense decreased \$5.9 million to \$207.8 million for the six months ended June 30, 2012. The decrease was primarily due to the \$11.3 million write-off of unamortized loan fees related to a terminated bridge loan commitment during the six months ended June 30, 2011, a decrease of \$3.0 million resulting from the payoff of certain mortgage debt during 2011 and more favorable borrowing rates on recently issued debt, partially offset by an increase of \$7.9 million resulting from our senior unsecured notes offerings in January 2011 and January 2012, net of related maturities of certain senior unsecured notes during 2011.

*Depreciation and amortization expense*

Depreciation and amortization expense decreased \$4.8 million to \$176.2 million for the six months ended June 30, 2012. The decrease was primarily the result of an asset being fully depreciated in 2011.

*General and administrative expenses*

General and administrative expenses decreased \$21.9 million to \$34.9 million for the six months ended June 30, 2012. The decrease was primarily due to an insurance recovery of \$7.2 million during 2012 for previously incurred legal expenses and \$15.6 million of acquisition costs incurred during 2011 related to our HCR ManorCare Acquisition.

*Other income, net*

Other income, net, decreased \$16.4 million to \$1.5 million for the six months ended June 30, 2012. The decrease was primarily the result of a gain of \$7.8 million resulting from our acquisition of our partner's 65% interest in and consolidation of HCP Ventures II in January 2011 (see Note 8 to the Condensed Consolidated Financial Statements for additional information) and \$5.7 million received in connection with a litigation settlement in June 2011 that represents proceeds owed to us from a prior sale of assets. No similar gain upon consolidation was recognized or settlements were received during the six months ended June 30, 2012.

Table of Contents

*Equity income from unconsolidated joint ventures*

Equity income from unconsolidated joint ventures increased \$13.7 million to \$29.4 million for the six months ended June 30, 2012. The increase was primarily the result of equity income from HCR ManorCare (see Notes 3 and 8 to the Condensed Consolidated Financial Statements for additional information).

*Discontinued operations*

During the six months ended June 30, 2012, we sold one property for \$7 million, realizing a gain of \$2.9 million. There were no sales of properties during the six months ended June 30, 2011.

*Preferred stock dividends*

On March 22, 2012, we announced the redemption of all outstanding shares of preferred stock. On April 23, 2012, the shares of our preferred stock were redeemed, plus all accrued and unpaid dividends to the redemption date. During the six months ended June 30, 2012, we incurred a redemption charge of \$10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in our consolidated income statements).

**Liquidity and Capital Resources**

Our principal liquidity needs are to: (i) fund recurring operating expenses, (ii) meet debt service requirements including principal payments and maturities in the last six months of 2012, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make dividend distributions. We believe these needs will be satisfied using cash flows generated by operations and from our various financing activities during the next twelve months.

We anticipate making future investments dependent on the availability of cost-effective sources of capital. We intend to use our revolving line of credit facility and the public capital markets as our principal sources of financing. As of July 25, 2012, we had credit ratings of Baa2 (stable) from Moody's, BBB (positive) from S&P and BBB+ (stable) from Fitch on our senior unsecured debt securities.

Net cash provided by operating activities was \$484 million and \$433 million for the six months ended June 30, 2012 and 2011, respectively. The increase in operating cash flows is primarily the result of the following: (i) the additive impact of our investments in 2011, (ii) assets placed in service during 2011 and 2012 and (iii) rent escalations and resets in 2011 and 2012, which increases were partially offset by increased debt interest payments. Our cash flows from operations are dependent upon the occupancy level of multi-tenant buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses and other factors.

Net cash used in investing activities was \$314 million and \$4.3 billion for the six months ended June 30, 2012 and 2011, respectively. The cash used in investing activities for the six months ended June 30, 2012 primarily reflects the net effect of: (i) \$215 million used for the purchase of marketable securities, (ii) \$63 million used for development of real estate, (iii) \$27 million used for leasing costs and tenant and capital improvements and (iv) \$21 million used for investments in loans receivable, which were partially offset by (i) \$7 million of proceeds from the sale of real estate and (ii) \$5 million received from the repayments from our investments in loans receivable.

Net cash used in financing activities was \$34 million for the six months ended June 30, 2012, and net cash provided by financing activities was \$3.1 billion for the six months ended June 30, 2011. The cash used in financing activities for the six months ended June 30, 2012 consisted primarily of: (i) payments of common and preferred dividends aggregating \$423 million, (ii) redemption of our preferred stock for \$296 million, (iii) repayment of senior unsecured notes of \$250 million, (iv) net repayments under our revolving line of credit facility of \$239 million, (v) repayment of mortgage debt of \$43 million and (vi) debt issuance and origination costs (deferred financing costs) of \$10 million. The amount of cash used in financing activities was partially offset by: (i) net proceeds of \$783 million from the issuances of common stock and exercise of stock options and (ii) the issuance of \$450 million of senior unsecured notes.

Table of Contents

*Debt*

*Bank Line of Credit*

On March 27, 2012, we executed an amendment to our existing \$1.5 billion unsecured revolving line of credit facility (the Facility). This amendment reduces the cost to us of the Facility (lower borrowing rate and facility fee) and extends the Facility's maturity by one additional year to March 2016. The Facility contains a one-year extension option. Borrowings under this Facility accrue interest at LIBOR plus a margin that depends upon our debt ratings. We pay a facility fee on the entire revolving commitment that depends on our debt ratings. Based on our debt ratings at July 25, 2012, the margin on the Facility was 1.075%, and the facility fee was 0.175%. We have the right to increase the commitments under the Facility by an aggregate amount of up to \$500 million, subject to customary conditions. At June 30, 2012, we had 137 million (\$215 million) outstanding under this Facility with a weighted average effective interest rate of 2.07%, which was repaid in full on July 30, 2012 with proceeds from our unsecured term loan discussed below.

Our Facility contains certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreement (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60%, (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times and (v) require a formula-determined Minimum Consolidated Tangible Net Worth of \$8.3 billion at June 30, 2012. At June 30, 2012, we were in compliance with each of these restrictions and requirements of the Facility.

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

*Term Loan*

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million four-year unsecured term loan (the Loan) that accrues interest at a rate of GBP LIBOR plus 1.20%, based on our current debt ratings. Concurrent with the closing of the Loan, we entered into a four-year interest rate swap agreement that fixes the rate of the Loan at 1.81%, subject to adjustments based on our credit ratings. The Loan contains a one-year committed extension option and similar covenants to those in the Facility.

*Senior Unsecured Notes*

At June 30, 2012, we had senior unsecured notes outstanding with an aggregate principal balance of \$5.6 billion. Interest rates on the notes ranged from 1.37% to 7.07% with a weighted average effective interest rate of 5.51% and a weighted average maturity of 6.17 years at June 30,

2012. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. We believe we were in compliance with these covenants at June 30, 2012.

*Mortgage Debt*

At June 30, 2012, we had \$1.7 billion in aggregate principal amount of mortgage debt outstanding that is secured by 135 healthcare facilities (including redevelopment properties) with a carrying value of \$2.2 billion. Interest rates on the mortgage debt ranged from 1.54% to 8.72% with a weighted average effective interest rate of 6.14% and a weighted average maturity of 3.93 years at June 30, 2012.

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

Table of Contents*Other Debt*

At June 30, 2012, we had \$84 million of non-interest bearing life care bonds at two of our continuing care retirement communities and non-interest bearing occupancy fee deposits at two of our senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds ). At June 30, 2012, \$28 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and \$56 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

*Debt Maturities*

The following table summarizes our stated debt maturities and scheduled principal repayments at June 30, 2012 (in thousands):

Year	Amount(1)
2012 (Six months)	\$ 28,148
2013	917,374
2014	670,758
2015	702,102
2016	1,400,601
Thereafter	3,872,687
	7,591,670
(Discounts) and premiums, net	(33,732)
	\$ 7,557,938

(1) Excludes \$84 million of other debt that represents Life Care Bonds that have no scheduled maturities.

*Derivative Instruments*

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

The following table summarizes our outstanding interest rate swap contracts as of June 30, 2012 (dollars in thousands):

Date Entered	Maturity Date	Hedge Designation	Fixed Rate	Floating Rate Index	Notional Amount	Fair Value
July 2005(1)	July 2020	Cash Flow	3.82%	BMA Swap Index	\$ 45,600	\$ (8,445)

## Edgar Filing: HCP, INC. - Form 10-Q

November 2008	October 2016	Cash Flow	5.95% 1 Month LIBOR+1.50%	27,300	(4,159)
July 2009	July 2013	Cash Flow	6.13% 1 Month LIBOR+3.65%	13,800	(299)

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

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

### *Equity*

At June 30, 2012, we had 429.4 million shares of common stock outstanding. At June 30, 2012, equity totaled \$9.7 billion, and our equity securities had a market value of \$19.2 billion.

At June 30, 2012, there were a total of 4.1 million DownREIT units outstanding in five limited liability companies in which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

### *Shelf Registration*

We have a prospectus that we filed with the U.S. Securities and Exchange Commission ( SEC ) as part of a registration statement on Form S-3ASR, using a shelf registration process which expires in July 2015. Under the shelf process, we may sell any combination of the securities in one or more offerings. The securities described in the prospectus include common stock, preferred stock, depositary shares, debt securities and warrants.

The prospectus only provides a general description of the securities we may offer. The prospectus may not be used to sell securities unless accompanied by a prospectus supplement or a free writing prospectus. Each time we sell securities under the shelf registration, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered and of the offering. The prospectus supplement may also add, update or change information contained in the prospectus.

We may offer and sell the securities pursuant to the prospectus through underwriters, dealers or agents or directly to purchasers, on a continuous or delayed basis. The securities may also be resold by selling security holders. The prospectus supplement for each offering will describe in detail the plan of distribution for that offering and will set forth the names of any underwriters, dealers or agents involved in the offering and any applicable fees, commissions or discount arrangements. We intend to use the net proceeds from the sales of the securities as set forth in the applicable prospectus supplement, and unless otherwise set forth in a therein, we will not receive any proceeds if the securities are sold by a selling security holder.

Table of Contents**Funds From Operations ( FFO )**

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

FFO is defined as net income applicable to common shares (computed in accordance with GAAP), excluding gains or losses from acquisition and dispositions of depreciable real estate or related interests, impairments of, or related to, depreciable real estate, plus real estate and DFL depreciation and amortization, with adjustments for joint ventures. Adjustments for joint ventures are calculated to reflect FFO on the same basis. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income. We compute FFO in accordance with the current National Association of Real Estate Investment Trusts ( NAREIT ) definition; however, other REITs may report FFO differently or have a different interpretation of the current NAREIT definition from us. In addition, we present FFO before the impact of litigation settlement charges, preferred stock redemption charges, impairments (recoveries) of non-depreciable assets and merger-related items (defined below) ( FFO as adjusted ). Management believes FFO as adjusted is a useful alternative measurement. This measure is a modification of the NAREIT definition of FFO and should not be used as an alternative to net income (determined in accordance with GAAP).

Details of certain items that affect comparability are discussed under *Results of Operations* above. The following is a reconciliation from net income applicable to common shares, the most direct comparable financial measure calculated and presented in accordance with GAAP, to FFO and FFO as adjusted (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income applicable to common shares	\$ 201,467	\$ 222,993	\$ 376,724	\$ 286,939
Depreciation and amortization of real estate, in-place lease and other intangibles:				
Continuing operations	87,924	89,814	176,165	180,996
Discontinued operations		238	35	476
DFL depreciation	3,142	2,633	6,192	3,005
Gain on sales of real estate			(2,856)	
Gain upon consolidation of joint venture		270		(7,769)
Equity income from unconsolidated joint ventures	(15,732)	(14,950)	(29,407)	(15,748)
FFO from unconsolidated joint ventures	18,275	17,519	34,452	20,834
Noncontrolling interests and participating securities share in earnings	3,508	5,976	7,809	10,731
Noncontrolling interests and participating securities share in FFO	(4,963)	(6,582)	(10,691)	(11,806)
FFO applicable to common shares	293,621	317,911	558,423	467,658
Distributions on dilutive convertible units	3,127	2,964	6,249	6,018
Diluted FFO applicable to common shares	\$ 296,748	\$ 320,875	\$ 564,672	\$ 473,676
Diluted FFO per common share	\$ 0.69	\$ 0.78	\$ 1.34	\$ 1.19



Edgar Filing: HCP, INC. - Form 10-Q

Weighted average shares used to calculate diluted FFO per common share	427,496	413,996	422,507	397,060
Impact of adjustments to FFO:				
Preferred stock redemption charge(1)	\$	\$	\$ 10,432	\$
Merger-related items(2)		(5,712)		26,596
	\$	\$ (5,712)	\$ 10,432	\$ 26,596

## Edgar Filing: HCP, INC. - Form 10-Q

### Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
FFO as adjusted applicable to common shares	\$ 293,621	\$ 312,199	\$ 568,855	\$ 494,254
Distributions on dilutive convertible units and other	3,127	2,975	6,218	5,915
Diluted FFO as adjusted	\$ 296,748	\$ 315,174	\$ 575,073	\$ 500,169
Diluted FFO as adjusted per common share	\$ 0.69	\$ 0.77	\$ 1.36	\$ 1.35
Weighted average shares used to calculate diluted FFO as adjusted per common share(3)	427,496	408,985	422,507	371,004

(1) In connection with the redemption of our preferred stock, during the six months ended June 30, 2012, we incurred a redemption charge of \$10.4 million related to the original issuance costs.

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

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

### **Off-Balance Sheet Arrangements**

We own interests in certain unconsolidated joint ventures as described under Note 8 to the Condensed Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 12 to the Condensed Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described below under *Contractual Obligations*.

### **Contractual Obligations**

The following table summarizes our material contractual payment obligations and commitments at June 30, 2012 (in thousands):

Edgar Filing: HCP, INC. - Form 10-Q

	Total(1)	Less than One Year	2013-2014	2015-2016	More than Five Years
Bank line of credit(2)	\$ 215,015	\$	\$	\$ 215,015	\$
Senior unsecured notes	5,637,000		1,037,000	1,300,000	3,300,000
Mortgage debt	1,739,655	28,148	551,132	587,688	572,687
Construction loan commitments(3)	87,957	44,707	43,250		
Development commitments(4)	28,492	18,980	9,512		
Ground and other operating leases	200,211	2,797	10,585	8,399	178,430
Interest(5)	2,499,998	205,669	740,291	576,265	977,773
Total	\$ 10,408,328	\$ 300,301	\$ 2,391,770	\$ 2,687,367	\$ 5,028,890

(1) Excludes \$84 million of other debt that represents Life Care Bonds that have no scheduled maturities.

(2) Represents £137 million obligation under the Facility translated into U.S. dollars as of June 30, 2012. This amount was repaid in full on July 30, 2012 with proceeds from our unsecured term loan.

(3) Represents commitments to finance development projects and related working capital financings.

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

(5) Interest on variable-rate debt is calculated using rates in effect at June 30, 2012.

Table of Contents

**Inflation**

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

**Recent Accounting Pronouncements**

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

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

*Interest Rate Risk.* At June 30, 2012, we were exposed to market risks related to fluctuations in interest rates on properties with a gross value of \$83 million that are subject to leases where the payments fluctuate with changes in LIBOR. Our exposure to income fluctuations related to our variable-rate investments is partially offset by: (i) \$215 million of variable-rate line of credit borrowings, (ii) \$25 million of variable-rate senior unsecured notes and (iii) \$15 million of variable-rate mortgage debt payable (excludes \$87 million of variable-rate mortgage notes that have been hedged through interest-rate swap contracts).

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and assets unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no other changes in the outstanding balance as of June 30, 2012, interest expense would increase by approximately \$1.7 million, or less than \$0.01 per common share on a diluted basis.

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

To illustrate the effect of movements in the interest rate markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves of the derivative portfolio in order to determine the instruments' change in fair value. Assuming a one percentage point change in the underlying interest rate curve, the estimated change in fair value of each of the

underlying derivative instruments would not exceed \$3.6 million. See Note 20 to the Condensed Consolidated Financial Statements for additional analysis details.

*Market Risk.* We have investments in marketable equity securities classified as available-for-sale. Gains and losses on these securities are recognized in income when realized, and losses are recognized when an other-than-temporary decline in value is identified. An initial indicator of an other-than-temporary decline in value for marketable equity securities is based on the severity of the decline in market value below the cost basis for an extended period of time. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current cost basis; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the market value, if any. At June 30, 2012, the fair value and current cost basis of marketable equity securities were \$17.4 million and \$17.1 million, respectively.

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

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

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

Table of Contents

As required by Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. Based upon that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

There are no material changes to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

(a)

None.

(b)

None.

(c)

## Edgar Filing: HCP, INC. - Form 10-Q

The table below sets forth information with respect to purchases of our common stock made by us or on our behalf or by any affiliated purchaser, as such term is defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, during the three months ended June 30, 2012.

Period Covered	Total Number Of Shares Purchased(1)	Average Price Paid Per Share	Total Number Of Shares (Or Units) Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares (Or Units) That May Yet Be Purchased Under The Plans Or Programs
April 1-30, 2012	1,865	\$ 39.38		
May 1-31, 2012	19,973	40.58		
June 1-30, 2012				
<b>Total</b>	<b>21,838</b>	<b>40.48</b>		

---

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

Table of Contents

**Item 6. Exhibits**

- 3.1 Articles of Restatement of HCP (incorporated by reference to Exhibit 3.1 to HCP's Registration Statement on Form S-3 (Registration No. 333-182824), filed on July 24, 2012).
- 10.1 Fifth Amendment to Master Lease and Security Agreement of HCR III Healthcare, LLC, dated as of May 4, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC. \*
- 10.2 Sixth Amendment to Master Lease and Security Agreement of HCR III Healthcare, LLC, dated as of May 30, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC. \*
- 31.1 Certification by James F. Flaherty III, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a). \*
- 31.2 Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a)\*
- 32.1 Certification by James F. Flaherty III, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.\*\*
- 32.2 Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.\*\*
- 101.INS XBRL Instance Document.\*
- 101.SCH XBRL Taxonomy Extension Schema Document.\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.\*
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document.\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.\*

---

\* Filed herewith.

\*\* Furnished herewith.



Table of Contents

**SIGNATURES**

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

Date: July 31, 2012

HCP, Inc.

(Registrant)

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

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

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