HCP, INC.
Form 10-K
February 12, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from to
Commission file number 1-08895

HCP, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**33-0091377** (I.R.S. Employer Identification No.)
3760 Kilroy Airport Way, Suite 300 **Long Beach, California** (Address of principal executive offices)	**90806** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange
7.25% Series E Cumulative Redeemable Preferred Stock	New York Stock Exchange
7.10% Series F Cumulative Redeemable Preferred Stock	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act.) Yes o No ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $5.8 billion.

As of February 1, 2010 there were 293,844,057 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2010 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

Table of Contents

Table of Contents

PART I

All references in this report to "HCP," the "Company," "we," "us" or "our" mean HCP, Inc. together with its consolidated subsidiaries. Unless the context suggests otherwise, references to "HCP, Inc." mean the parent company without its subsidiaries.

ITEM 1. Business

Business Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States. We are a self-administered, Maryland real estate investment trust ("REIT") organized in 1985. We are headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. We acquire, develop, lease, manage and dispose of healthcare real estate, and provide financing to healthcare providers. Our portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital and (v) skilled nursing. We make investments within our healthcare segments using the following five investment products: (i) properties under lease, (ii) debt investments, (iii) developments and redevelopments, (iv) investment management and (v) DownREITs.

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the following:

- Compelling demographics driving the demand for healthcare services;
- Specialized nature of healthcare real estate investing; and
- Ongoing consolidation of the fragmented healthcare real estate sector.

Our website address is *www.hcpi.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the United States ("U.S.") Securities and Exchange Commission ("SEC").

Healthcare Industry

Healthcare is the single largest industry in the U.S. based on Gross Domestic Product ("GDP"). According to the National Health Expenditures report dated January 2010 by the Centers for Medicare and Medicaid Services ("CMS"): (i) national health expenditures are projected to grow 5.7% in 2009; (ii) the average compound annual growth rate for national health expenditures, over the projection period of 2009 through 2019, is anticipated to be 6.1%; and (iii) the healthcare industry is projected to represent 17.3% of U.S. GDP in 2010.

Table of Contents

Senior citizens are the largest consumers of healthcare services. According to CMS, on a per capita basis, the 75-year and older segment of the population spends 76% more on healthcare than the 65 to 74-year-old segment and over 200% more than the population average.

U.S. Population Over 65 Years Old

Source: U.S. Census Bureau, the Statistical Abstract of the United States.

Business Strategy

Our primary goal is to increase shareholder value through profitable growth. Our investment strategy to achieve this goal is based on three principles: (i) opportunistic investing, (ii) portfolio diversification and (iii) conservative financing.

Opportunistic Investing

We make investment decisions that are expected to drive profitable growth and create shareholder value. We attempt to position ourselves to create and take advantage of situations to meet our goals and investment criteria.

Portfolio Diversification

We believe in maintaining a portfolio of healthcare investments diversified by segment, geography, operator, tenant and investment product. Diversification reduces the likelihood that a single event would materially harm our business and allows us to take advantage of opportunities in different markets based on individual market dynamics. While pursuing our strategy of diversification, we monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment product, geographic location, the number of properties which we may lease to a single operator or tenant, or loans we may make to a single borrower. With investments in multiple segments and investment products, we can focus on opportunities with the best risk/reward profile for the portfolio as a whole.

Conservative Financing

We believe a conservative balance sheet is important to our ability to execute our opportunistic investing approach. We strive to maintain a conservative balance sheet by actively managing our debt-to-equity levels and maintaining multiple sources of liquidity, such as our revolving line of credit facility, access to capital markets and secured debt lenders, relationships with current and prospective

Table of Contents

institutional joint venture partners, and our ability to divest of assets. Our debt is primarily fixed rate, which reduces the impact of rising interest rates on our operations.

We may structure transactions as master leases, require operator or tenant insurance and indemnifications, obtain enhancements in the form of guarantees, letters of credit or security deposits, and take other measures to mitigate risk. We finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may utilize our revolving line of credit facility or arrange for other short-term borrowings from banks or other sources. We arrange for longer-term financing through offerings of equity and debt securities, placement of mortgage debt and capital from other institutional lenders and equity investors.

We specifically incorporate by reference into this section the information set forth in Item 7, "2009 Transaction Overview," included elsewhere in this report.

Competition

Investing in real estate is highly competitive. We face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than us. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete is also impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Rental and related income from our facilities is dependent on the ability of our operators and tenants to compete with other operators and tenants on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in the surrounding area, and the financial condition of our tenants and operators. Private, federal and state payment programs and the effect of laws and regulations may also have a significant influence on the profitability of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see "Risk Factors" in Item 1A.

Healthcare Segments

Senior housing. At December 31, 2009, we had interests in 256 senior housing facilities, including 25 facilities owned by our Investment Management Platform[1]. Senior housing facilities include independent living facilities ("ILFs"), assisted living facilities ("ALFs") and continuing care retirement communities ("CCRCs"), which cater to different segments of the elderly population based upon their needs. Services provided by our operators or tenants in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Our senior housing property types are further described below:

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(1) Investment Management Platform represents the following unconsolidated joint ventures: (i) HCP Ventures II, (ii) HCP Ventures III, LLC, (iii) HCP Ventures IV, LLC, and (iv) the HCP Life Science ventures. For a more detailed description of these unconsolidated joint ventures, see Note 8 of the Consolidated Financial Statements in this report.

Independent Living Facilities. ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with activities of daily living ("ADL"), such as bathing, eating and dressing. However, residents have the option to contract for these services. At December 31, 2009, we had interests in 49 ILFs.

Table of Contents

Assisted Living Facilities. ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may offer higher levels of personal assistance for residents with Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. At December 31, 2009, we had interests in 193 ALFs.

Continuing Care Retirement Communities. CCRCs provide housing and health-related services under long-term contracts. This alternative is appealing to residents as it eliminates the need for relocating when health and medical needs change, thus allowing residents to "age in place." Some CCRCs require a substantial entry or buy-in fee and most also charge monthly maintenance fees in exchange for a living unit, meals and some health services. CCRCs typically require the individual to be in relatively good health and independent upon entry. At December 31, 2009, we had interests in 14 CCRCs.

Our senior housing segment accounted for approximately 30%, 30% and 38% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. The following table provides information about our senior housing operator concentration for the year ended December 31, 2009:

Operators	Percentage of Segment Revenues	Percentage of Total Revenues
Sunrise Senior Living, Inc. ("Sunrise")(1)(2)	35%	11%
Brookdale Senior Living Inc. ("Brookdale")	20%	6%

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

(2) On October 1, 2009, we completed the transition of management agreements on 15 communities operated by Sunrise that were previously terminated for Sunrise's failure to achieve certain performance thresholds. The percentage of segment revenues and total revenues for Sunrise excludes revenues from the transitioned properties.

In addition to the operator concentration above, HCP Ventures II, a 35% owned joint venture interest, leases its 25 senior housing facilities to Horizon Bay Retirement Living. During the year ended December 31, 2009, HCP Ventures II's rental and related revenues were $83.5 million.

Life science. At December 31, 2009, we had interests in 98 life science properties, including four facilities owned by our Investment Management Platform. These properties contain laboratory and office space primarily for biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties contain similar characteristics to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating, and air conditioning ("HVAC") systems. The facilities generally have equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology or chemistry research initiatives. Life science properties are primarily configured in business park or campus settings and include multiple facilities and buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion that accommodates the growth of existing tenants in place. Our properties are located in well established geographical markets known for scientific research, including San Francisco, San Diego and Salt Lake City.

Table of Contents

Our life science segment accounted for approximately 22%, 21% and 10% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. The following table provides information about our life science tenant concentration for the year ended December 31, 2009:

Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Genentech, Inc. ("Genentech")	21%	5%
Amgen, Inc.	14%	3%

Medical office. At December 31, 2009, we had interests in 251 medical office buildings ("MOBs"), including 67 facilities owned by our Investment Management Platform. These facilities typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain "vaults" or other specialized construction. Our MOBs are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices) and are primarily located on hospital campuses. Approximately 83% of our MOBs, based on square feet, are located on hospital campuses.

Our medical office segment accounted for approximately 27%, 27% and 34% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. During the year ended December 31, 2009, HCA, Inc. ("HCA"), as our tenant, contributed 6% of our medical office segment revenues.

Hospital. At December 31, 2009, we had interests in 22 hospitals, including four facilities owned by our Investment Management Platform. Services provided by our operators and tenants in these facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations or "HMOs"), or through the Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. Our hospitals are all leased to single tenants or operators under triple-net lease structures.

In addition to our interests in hospitals, our hospital segment also includes mezzanine and mortgage loan investments, which at December 31, 2009 aggregated to $286 million.

Our hospital segment accounted for approximately 11% 11% and 13% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. The following table provides information about our hospital operator/tenant concentration for the year ended December 31, 2009:

Operators/Tenants and Borrowers	Percentage of Segment Revenues	Percentage of Total Revenues
HCA.	37%	6%(1)
Tenet Healthcare Corporation ("Tenet")	23%	2%

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and hospital segments.

Skilled nursing. At December 31, 2009, we had interests in 48 skilled nursing facilities ("SNFs"). SNFs offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy as well as sales of pharmaceutical products and other services. Certain skilled nursing facilities provide some of the foregoing services on an out-patient basis. Skilled nursing services provided by our operators and tenants in these facilities are primarily paid for either by private sources or through the Medicare and Medicaid programs. All of our SNFs are leased to single tenants under triple-net lease structures.

In addition to our interests in SNFs, our skilled nursing segment includes investments in mezzanine and mortgage loans to HCR ManorCare, with a face amount in the aggregate of $1.72 billion at December 31, 2009.

On December 21, 2007, we purchased $1.0 billion of mezzanine loans of HCR ManorCare at a discount of $100 million, which resulted in an acquisition cost of $900 million, as part of the financing for The Carlyle Group's $6.3 billion purchase of Manor Care, Inc. These interest-only loans mature in January 2013 and bear interest on their face values at a floating rate of one-month London Interbank Offered Rate ("LIBOR") plus 4.0%. These loans are mandatorily pre-payable in January 2012 unless the borrower satisfies certain performance conditions. On August 3, 2009, we purchased a $720 million participation in the first mortgage debt of HCR ManorCare at a discount of $130 million, which resulted in an acquisition cost of $590 million. The $720 million participation bears interest at LIBOR plus 1.25% and represents 45% of the $1.6 billion most senior tranche of HCR ManorCare's mortgage debt incurred as part of the above mentioned financing for The Carlyle Group's acquisition of Manor Care, Inc. The mortgage debt matures in January 2013 if the borrower meets certain performance conditions and exercises a one-year extension option.

Our skilled nursing segment accounted for approximately 10%, 11% and 5% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. The following table provides information about our skilled nursing operator operator/tenant concentration for the year ended December 31, 2009:

Operators/Tenants and Borrowers	**Percentage of Segment Revenues**	**Percentage of Total Revenues**
HCR ManorCare	67%	7%
Covenant Care	8%	1%

Investment Products

Properties under lease. At December 31, 2009, our investment in properties leased to third parties aggregated approximately $10 billion representing 575 properties, including 30 properties accounted for as direct financing leases ("DFLs"). We primarily generate revenue by leasing properties under long-term leases. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for a substantial recovery of operating expenses. However, some of our MOBs and life science facility rents are structured under gross or modified gross leases. Accordingly, for such gross or modified gross leases, we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance.

Our ability to grow rental income from properties under lease 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 and (iii) control non-recoverable operating expenses. Most of our leases include annual base rent escalation clauses that are either predetermined fixed increases and/or are a function of an inflation index.

Debt investments. At December 31, 2009, our mezzanine and mortgage loan investments aggregated $1.8 billion. Our mezzanine loans are generally secured by a pledge of ownership interests of an entity or entities, which directly or indirectly own properties, and are subordinate to more senior debt, including mortgages and more senior mezzanine loans. Our mortgages are generally secured by healthcare real estate issued by healthcare providers.

Table of Contents

Developments and Redevelopments. At December 31, 2009, our investment in properties under development, including redevelopment and land held for future development, aggregated $632 million. We generally commit to development projects that are at least 50% pre-leased or when we believe that market conditions will support speculative construction. We work closely with our local real estate service providers, including brokerage, property management, project management and construction management companies to assist us in evaluating development proposals and completing developments. Our development and redevelopment investments are primarily in our life science and medical office segments.

Investment Management. At December 31, 2009, our Investment Management Platform aggregated $2.0 billion in gross investments, representing 100 properties. We co-invest in real estate properties with institutional investors through joint ventures structured as partnerships or limited liability companies. We target institutional investors with long-term investment horizons who seek to benefit from our expertise in healthcare real estate. Predominantly, we retain noncontrolling interests in the joint ventures ranging from 20% to 35% and serve as the managing member. These ventures generally allow us to earn acquisition and asset management fees, and have the potential for promoted interests or incentive distributions based on performance of the joint venture.

Non-managing member LLC ("DownREITs"). Our DownREIT structures enable us to acquire and hold real estate properties in operating DownREIT LLCs. In connection with the formation of certain DownREIT LLCs, many members contribute appreciated real estate to the DownREIT LLC in exchange for DownREIT units that can be exchanged at some future date for shares of our stock or, at our election, redeemed for cash. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the contributing member. However, if the contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specially allocated and taxed to the contributing members. In many of these DownREITs, we entered into indemnification agreements with our members, under which, if any of the appreciated real estate contributed by the members is sold by the DownREIT in a taxable transaction within a specified number of years after the property was contributed, we will reimburse the affected members for the income taxes associated with the pre-contribution gain that is specially allocated to the affected member. Since the formation of our first DownREIT LLC, we have acquired more than $1.0 billion of properties utilizing DownREIT structures.

Portfolio Summary

At December 31, 2009, we managed $13.8 billion of investments in our Owned Portfolio and Investment Management Platform. At December 31, 2009, we also owned $632 million of assets under development, including redevelopment, or land held for future development.

Table of Contents

Owned Portfolio

As of December 31, 2009, our properties under lease and debt investments in our Owned Portfolio consisted of the following (square feet and dollars in thousands):

			Investments			Year Ended December 31, 2009	
Segment	Number of Properties	Capacity(1)	Properties Under Lease(2)	Debt(3)	Total Investment	NOI(4)	Interest Income(5)
Senior housing	231	25,335 Units	$ 4,081,157	$ 7,013	$ 4,088,170	$ 338,373	$ 1,147
Life science	94	6,083 Sq. ft.	2,822,709		2,822,709	207,694	
Medical office	184	12,812 Sq. ft.	2,137,140		2,137,140	176,663	
Hospital	18	2,510 Beds	673,248	286,430	959,678	81,398	40,295
Skilled nursing	48	5,628 Beds	255,084	1,552,294	1,807,378	37,546	82,704
Total	575		$ 9,969,338	$ 1,845,737	$ 11,815,075	$ 841,674	$ 124,146

See Note 14 to the Consolidated Financial Statements in this report for additional information on our business segments.

(1) Senior housing facilities are measured in units (e.g., studio, one or two bedroom units). Life science facilities and medical office buildings are measured in square feet. Hospitals and skilled nursing facilities are measured in licensed bed count.

(2) Investments in properties under lease represents (i) the carrying amount of real estate assets, including intangibles, after adding back accumulated depreciation and amortization, and assets under development and land held for future development, and (ii) the carrying amount of direct financing leases, excluding interest accretion.

(3) Debt investment represents the carrying amount of mezzanine, mortgage and other secured loan investments.

(4) Net Operating Income from Continuing Operations ("NOI") is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate properties. For the reconciliation of NOI to net income for 2009, refer to Note 14 in our Consolidated Financial Statements in this report.

(5) Interest income represents interest earned from our debt investments.

Developments and Redevelopments

At December 31, 2009, in addition to our investments in properties under lease and debt investments, we have an aggregate investment of $632 million in assets under development, including redevelopment, and land held for future development, primarily in our life science and medical office segments.

Investment Management Platform

As of December 31, 2009, our Investment Management Platform consisted of the following properties under lease (square feet and dollars in thousands):

Segment	Number of Properties	Capacity(1)	HCP's Ownership Interest	Joint Venture Investment(2)	Total Revenues	Total Operating Expenses
Senior housing	25	5,616 Units	35%	$ 1,099,376	$ 83,510	$ 7

Medical office	67	3,372 Sq. ft.	20 - 30%	719,760	80,015	31,682
Life science	4	278 Sq. ft.	50 - 63%	81,057	8,524	1,527
Hospital	4	N/A[(3)]	20%	81,382	8,165	1,914
Total	100			$ 1,981,575	$ 180,214	$ 35,130

(1) Senior housing facilities are measured in units (e.g., studio, one or two bedroom units), life science facilities and medical office buildings are measured in square feet and hospitals are measured in licensed bed count.

Table of Contents

(2) Represents the joint ventures' carrying amount of real estate assets, including intangibles, after adding back accumulated depreciation and amortization.

(3) Information not provided by the respective operator or tenant.

Employees of HCP

At December 31, 2009, we had 142 full-time employees, none of whom are subject to a collective bargaining agreement.

Government Regulation, Licensing and Enforcement

Overview

Our tenants and operators are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities. These regulations are wide-ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations and reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under "Risk Factors" in Item 1A.

We seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not primarily dependent on Medicare or Medicaid reimbursement for their revenues. As of December 31, 2009, our investments in our senior housing, life science, medical office, hospital and skilled nursing segments represented approximately 35%, 24%, 18%, 8% and 15% of our portfolio, respectively. For the year ended December 31, 2009, we estimate that approximately 14% and 7% of our tenants' and operators' revenues were derived from Medicare and Medicaid, respectively, based on information provided by our tenants and operators.

The following is a discussion of certain laws and regulations generally applicable to our operators and in certain cases, to us.

Fraud and Abuse Enforcement

There are various extremely complex federal and state laws and regulations governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1997, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry

Table of Contents

civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring *qui tam* or "whistleblower" actions. Many of our operators and tenants are subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws.

Reimbursement

Sources of revenue for many of our tenants and operators include, among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and health maintenance organizations. As federal and state governments focus on healthcare reform initiatives, and as many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators.

Healthcare Licensure and Certificate of Need

Certain healthcare facilities in our portfolio are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants' and operators' abilities to expand or change their businesses.

Life Science Facilities

While certain of our life science tenants include some well-established companies, other such tenants are less established and, in some cases, may not yet have a product approved by the Food and Drug Administration or other regulatory authorities for commercial sale. Creating a new pharmaceutical product requires significant investments of time and money, in part, because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance.

Senior Housing Entrance Fee Communities

Certain of the senior housing facilities mortgaged to or owned by us are operated as entrance fee communities. Generally, an entrance fee is an upfront fee or consideration paid by a resident, a portion of which may be refundable, in exchange for some form of long-term benefit. Some of the entrance fee communities are subject to significant state regulatory oversight, including, for example, oversight of each facility's financial condition, establishment and monitoring of reserve requirements and other financial restrictions, the right of residents to cancel their contracts within a specified period of time, lien rights in favor of the residents, restrictions on change of ownership and similar matters.

Table of Contents

Americans with Disabilities Act (the "ADA")

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our properties and make modifications as appropriate in this respect.

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve myriad regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed or impair the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues. For a description of the risks associated with environmental matters, see "Risk Factors" in Item 1A of this report.

Table of Contents

ITEM 1A. Risk Factors

Before deciding whether to invest in us, you should carefully consider the risks described below as well as the risks described elsewhere in this report, which risks are incorporated by reference into this section. The risks and uncertainties described herein are not the only ones facing us and there may be additional risks that we do not presently know of or that we currently consider not likely to have a significant impact on us. All of these risks could adversely affect our business, results of operations and financial condition.

As the owner of healthcare and other real estate facilities, we are subject to a number of risks and uncertainties. Certain of these risks and uncertainties are generally associated directly with the business of owning and leasing real estate, but others are associated with our specific business model or other attributes of ours. For example, as described elsewhere in this report, most of our properties are operated by and/or leased to third parties. Accordingly, adverse developments with respect to these third parties may materially adversely affect us. In addition, we operate in a manner intended to allow us to qualify as a REIT, which involves the application of highly technical and complex laws and regulations. We believe that the risks facing our company generally fall into the following four categories:

- Risks related to HCP;
- Risks related to our operators and tenants;
- Risks related to tax matters including REIT-related risks; and
- Risks related to our organizational structure.

Risks Related to HCP

The continuation of volatility in the financial markets may impair our ability to raise capital, obtain new financing or refinance existing obligations and fund real estate and development activities, all of which may negatively impact our operating results and financial condition.

The global financial markets have undergone and may continue to experience pervasive and fundamental disruptions. The continuation of this volatility may adversely affect our financial condition and results of operations. Among other things, the capital markets have experienced and may continue to see extreme pricing volatility, dislocations and liquidity disruptions, all of which may contribute further to downward pressure on stock prices, widening credit spreads on prospective debt financing and declines in the market values of U.S. and foreign stock exchanges. While the capital markets have recently shown signs of improvement, the sustainability of an economic recovery is uncertain and additional levels of market disruption and volatility could impact our ability to obtain new financing or refinance our existing obligations as they mature.

Market volatility could also lead to significant uncertainty in the valuation of our investments and those of our joint ventures, that may result in a substantial decrease in the value of our properties and those of our joint ventures. As a result, we may not be able to recover the carrying amount of such investments and the associated goodwill, if any, which may require us to recognize impairment charges in earnings.

We rely on external sources of capital to fund future capital needs and if our access to such capital is limited or on unfavorable terms, we may not be able to meet commitments as they become due or make future investments necessary to grow our business.

In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") and to avoid the nondeductible excise tax, we are generally required, among other things, to distribute to our stockholders each year at least 90% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and net capital gains). Under

Table of Contents

recent Internal Revenue Service guidance, up to 90% of any taxable dividend with respect to calendar years 2008 through 2011, and in some cases dividends declared as late as December 31, 2012, could be payable in HCP, Inc. stock if certain conditions are satisfied. We may not be able to fund, from cash retained from operations, all future capital needs, including capital needs in connection with acquisitions and development activities. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business and to meet our obligations and commitments as they mature. As a result, we rely on external sources of capital, including debt and equity financing, to fulfill our capital requirements. Our access to capital depends upon a number of factors, some of which we have little or no control over, including but not limited to:

- general availability of credit and market conditions, including rising interest rates and increased borrowing cost;
- the market price of the shares of our equity securities and the ratings of our debt and preferred securities;
- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- financial deterioration of our lenders that might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability in the market value of our properties;
- the financial performance of our operators, tenants and borrowers; and
- issues facing the healthcare industry, including healthcare reform and changes in government reimbursement policies.

If our access to capital is limited by these or other factors, it could have an impact on our ability to refinance our debt obligations, fund dividend payments, acquire properties and fund operations and development activities.

There is no assurance that we will make distributions in the future.

We intend to continue to pay quarterly distributions to our stockholders consistent with our historical practice. However, our ability to pay distributions may be adversely affected if any of the risks herein occur. All distributions are made at the discretion of the Board of Directors and our future distributions will depend upon a number of factors, including our earnings, our current and anticipated cash available for distribution, our financial condition, maintenance of our REIT tax status and such other factors as our Board of Directors may from time to time deem relevant. There can be no assurance of our ability to pay distributions in the future and any reduction in distributions to our stockholders may negatively impact our stock price.

Adverse changes in our credit ratings could impair our ability to obtain additional debt and preferred stock financing on favorable terms, if at all, and significantly reduce the market price of our securities, including our common stock.

We currently have a credit rating of Baa3 (stable) from Moody's Investors Service ("Moody's"), BBB (stable) from Standard & Poor's Ratings Service ("S&P") and BBB (positive) from Fitch Ratings ("Fitch") on our senior unsecured debt securities, and Ba1 (stable) from Moody's, BB+ (stable) from S&P and BB+ (positive) from Fitch on our preferred equity securities. The credit ratings of our senior unsecured debt and preferred equity securities are based on our operating performance, liquidity and

Table of Contents

leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analyses of us. Our credit ratings can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. There can be no assurance that we will be able to maintain our current credit ratings and in the event that our current credit ratings deteriorate, we would likely incur higher borrowing costs and it may be more difficult or expensive to obtain additional financing or refinance existing obligations and commitments. Also, a downgrade in our credit ratings would trigger additional costs or other potentially negative consequences under our current and future credit facilities and debt instruments.

Our level of indebtedness could materially adversely affect us in many ways, including reducing funds available for other business purposes and reducing our operational flexibility.

Our indebtedness as of December 31, 2009 was approximately $5.7 billion. We may incur additional indebtedness in the future, including in connection with the development or acquisition of assets, which may be substantial. Any significant additional indebtedness could negatively affect the credit ratings of our debt and preferred equity securities and require a substantial portion of our cash flow to make interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital expenditures and acquisitions, or carry out other aspects of our business strategy. Increased indebtedness can also limit our ability to adjust rapidly to changing market conditions, make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

Covenants in our existing and future credit agreements and other debt instruments limit our operational flexibility, and a covenant breach or a default could materially adversely affect our business, results of operations and financial condition.

The terms of our credit agreements and other indebtedness, including additional credit agreements or amendments we may enter into and other indebtedness we may incur in the future, require or will require us to comply with a number of customary financial and other covenants, such as maintaining certain levels of debt service coverage, leverage ratio and tangible net worth requirements. Our continued ability to incur indebtedness and operate in general is subject to compliance with these financial and other covenants, which limit our operational flexibility. For example, mortgages on our properties contain customary covenants such as those that limit or restrict our ability, without the consent of the lender, to further encumber or sell the applicable properties, or to replace the applicable tenant or operator. Breaches of certain covenants may result in defaults under the mortgages on our properties and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee. In addition, defaults under the leases or operating agreements related to mortgaged properties, including defaults associated with the bankruptcy of the applicable tenant or operator, may result in a default under the underlying mortgage and cross-defaults under certain of our other indebtedness. Covenants that limit our operational flexibility as well as defaults under our debt instruments could materially adversely affect our business, results of operations and financial condition.

An increase in interest rates would increase our interest costs on our existing variable rate debt and could increase interest cost on new debt, and could adversely impact our ability to refinance existing debt, sell assets and limit our acquisition and development activities.

If interest rates increase, so could our interest costs for any new debt. This increased cost could make the financing of any acquisition and development activity more costly. We may incur more

Table of Contents

variable interest rate indebtedness in the future. Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

Unfavorable resolution of pending and future litigation matters and disputes, could have a material adverse effect on our financial condition.

From time to time, we may be directly involved in a number of legal proceedings, lawsuits and other claims. See "Legal Proceedings" in Part I, Item 3 in this report for a discussion of certain legal proceedings in which we are involved. We may also be named as defendants in lawsuits allegedly arising out of actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. See "Risks Related to Our Operators and Tenants *Our operators and tenants are faced with litigation and may experience rising liability and insurance costs that may affect their ability to make their lease or mortgage payments*." An unfavorable resolution of pending or future litigation may have a material adverse effect on our financial condition and operations. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, pending or future litigation. In addition, pending litigation or future litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

A small number of operators and tenants, some of whom are experiencing significant legal, financial and regulatory difficulties, account for a large percentage of our revenues.

During the year ended December 31, 2009, approximately 30% of our total revenues are generated by our leasing or financial arrangements with the following four companies: Sunrise 11%; HCR ManorCare 7%; Brookdale 6%; and HCA 6%. Certain of these companies are experiencing significant legal, financial and regulatory difficulties. Among other things, Sunrise has disclosed that as of September 30, 2009, it has no borrowing availability under its bank credit facility, has significant scheduled debt maturities in 2009 and 2010 and significant long-term debt that is in default. While we periodically evaluate the creditworthiness of our operators, tenants and borrowers, there can be no assurance that our operators, tenants or borrowers will be able to meet their obligations to us. The failure or inability of these operators, tenants or borrowers to meet their obligations to us could materially reduce our cash flow as well as our results of operations, which could in turn reduce the amount of dividends we pay, cause our stock price to decline and have other material adverse effects. See "Risks Related to Our Operators and Tenants *The bankruptcy, insolvency or financial deterioration of one or more of our major operators or tenants may materially adversely affect our business, results of operations and financial condition*" for additional information on the risks we face from a failure of one or more of our operators or tenants.

We have investments in mezzanine loans, which are subject to a greater risk of loss than loans secured by the underlying real estate.

At December 31, 2009, we had mezzanine loan investments with a carrying value of $934 million. Our mezzanine loans generally take the form of subordinated loans secured by a pledge of ownership interests in either the entity owning the property or a pledge of the ownership interests in the entity that owns, directly or through other entities, the interest in the entities owning the properties. These types of investments involve a higher degree of risk than long-term senior mortgage loans secured by income producing real property because the investment may have a lesser likelihood of being repaid in full as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to fully repay our mezzanine loans. If a borrower defaults on our mezzanine loans or debt senior to our loans, or in the event of a borrower bankruptcy, our mezzanine loans will be satisfied only after the senior debt is paid and consistent with bankruptcy rules. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. If our mezzanine loans are not repaid, or are only partially repaid, our business, results of operations and financial condition may be materially adversely affected.

We may be unable to successfully foreclose on the collateral securing our real estate-related loans, and even if we are successful in our foreclosure efforts, we may be unable to successfully operate or occupy the underlying real estate, which may adversely affect our ability to recover our investments.

If an operator or tenant defaults under one of our mortgages or mezzanine loans, we may have to foreclose on the loan or protect our interest by acquiring title to the collateral. In some cases, as noted above, the collateral consists of the equity interests in an entity that directly or indirectly owns the applicable real property and, accordingly, we may not have full recourse to assets of that entity. Operators, tenants or borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Foreclosure-related costs, high loan-to-value ratios or declines in the value of the facility may prevent us from realizing an amount equal to our mortgage or mezzanine loan upon foreclosure. Even if we are able to successfully foreclose on the collateral securing our real estate-related loans, we may inherit properties for which we may be unable to expeditiously seek tenants or operators, if at all, which would adversely affect our ability to fully recover our investment.

Required regulatory approvals can delay or prohibit transfers of our healthcare facilities.

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals, including change of ownership approvals under certificate of need laws and Medicare and Medicaid provider arrangements, that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability or require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, all of which may adversely affect our revenues and operations.

We may not be able to sell properties when we desire because real estate investments are relatively illiquid.

Real estate investments generally cannot be sold quickly. In addition, some of our properties serve as collateral for our secured debt obligations and cannot be readily sold. We may not be able to vary our portfolio promptly in response to changes in the real estate market. A downturn in the real estate market could adversely affect the value of our properties and our ability to sell such properties for a price or on terms acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or portfolio of properties. In addition, there are provisions under the federal income tax laws applicable to REITs that may limit our ability to recognize the full economic benefit from a sale of our assets. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

Real estate is a competitive business and this competition may make it difficult to identify and purchase, or develop, suitable healthcare and other facilities, to grow our operations through these activities or to successfully reinvest proceeds.

We operate in a highly competitive industry. We face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than us. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices, or reinvest proceeds on a timely basis, or if we are unable to finance acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected.

Because of the unique and specific improvements required for healthcare facilities, we may be required to incur substantial development and renovation costs to make certain of our properties suitable for other operators and tenants, which could materially adversely affect our business, results of operations and financial condition.

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific. A new or replacement operator or tenant may require different features in a property, depending on that operator's or tenant's particular operations. If a current operator or tenant is unable to pay rent and vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another operator or tenant. Also, if the property needs to be renovated to accommodate multiple operators or tenants, we may incur substantial expenditures before we are able to re-lease the space. These expenditures or renovations may materially adversely affect our business, results of operations and financial condition.

We face additional risks associated with property development that can render a project less profitable or not profitable at all and, under certain circumstances, prevent completion of development activities once undertaken, all of which could have a material adverse effect on our business, results of operations and financial condition.

Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;
- construction and/or permanent financing may not be available on favorable terms or at all;
- the project may not be completed on schedule, which can result in increases in construction costs and debt service expenses as a result of a variety of factors that are beyond our control, including: natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

Table of Contents

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our use of joint ventures may limit our flexibility with jointly owned investments and could adversely affect our business, results of operations and financial condition.

We intend to develop and/or acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to risks that:

- we could experience an impasse on certain decisions because we do not have sole decision-making authority, which could require us to expend additional resources on resolving such impasses or potential disputes;
- our joint venture partners could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments;
- our joint venture partners might become bankrupt, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner, which may require us to infuse our own capital into the venture on behalf of the partner despite other competing uses for such capital; and
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

From time to time, we acquire other companies and need to integrate them into our existing business. If we are unable to successfully integrate the operations of acquired companies or they fail to perform as expected, our business, results of operations and financial condition may be materially adversely affected.

Acquisitions require the integration of companies that have previously operated independently. Successful integration of the operations of these companies depends primarily on our ability to consolidate operations, systems, procedures, properties and personnel and to eliminate redundancies and costs. We cannot provide assurance that we will be able to integrate the operations of the companies that we have acquired, or may acquire in the future, without encountering difficulties. Potential difficulties associated with acquisitions include the loss of key employees, the disruption of our ongoing business or that of the acquired entity, possible inconsistencies in standards, controls, procedures and policies and the assumption of unexpected liabilities. Estimated cost savings in connection with acquisitions are typically projected to come from various areas that our management identifies through the due diligence and integration planning process; yet, our target companies and their properties may fail to perform as expected. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring properties up to standards established for their intended use. If we have difficulties with any of these areas, or if we later discover additional liabilities or experience unforeseen costs relating to our acquired companies, we might not achieve the economic benefits we expect from our acquisitions, and this may materially adversely affect our business, results of operations and financial condition.

We are subject to significant corporate regulation as a public company and failure to comply with all applicable regulations could subject us to liability and negatively impact our stock price.

We are subject to significant regulation, including the Sarbanes-Oxley Act of 2002. While we have developed corporate governance and compliance initiatives based on what we believe are the current best practices and periodically evaluate such initiatives in response to newly implemented or changing

Table of Contents

regulatory requirements, we cannot provide assurance that we are or will be in compliance with all potentially applicable corporate regulations. For example, we are required to provide a report by management on internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, including management's assessment of the effectiveness of such control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our stock price.

Loss of our key personnel could temporarily disrupt our operations and adversely affect us.

We are dependent on the efforts of our executive officers. Although our chief executive officer has an employment agreement with us, we cannot assure you that he will remain employed with us. The loss or limited availability of the services of our chief executive officer or any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have a material adverse effect on our business and results of operations and be negatively perceived in the capital markets.

We may experience uninsured or underinsured losses, which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expense.

We maintain comprehensive insurance coverage on our properties with terms, conditions, limits and deductibles that we believe are adequate and appropriate given the relative risk and costs of such coverage. However, a large number of our properties are located in areas exposed to earthquake, windstorm and flood and may be subject to other losses. In particular, our life science portfolio is concentrated in areas known to be subject to earthquake activity. While we purchase insurance for earthquake, windstorm and flood that we believe is adequate in light of current industry practice and analysis prepared by outside consultants, there is no assurance that such insurance will fully cover such losses. These losses can decrease our anticipated revenues from a property and result in the loss of all or a portion of the capital we have invested in a property. The insurance market for such exposures can be very volatile and we may be unable to purchase the limits and terms we desire on a commercially reasonable basis in the future. In addition, there are certain exposures where insurance is not purchased as we do not believe it is economically feasible to do so or where there is no viable insurance market.

Environmental compliance costs and liabilities associated with our real estate related investments may materially impair the value of those investments.

Under various federal, state and local laws, ordinances and regulations, as a current or previous owner of real estate, we may be required to investigate and clean up certain hazardous substances released at a property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by the third parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. Although we (i) currently carry environmental insurance on our properties in an amount and subject to deductibles that we believe are commercially reasonable, and (ii) generally require our operators and tenants to

Table of Contents

undertake to indemnify us for environmental liabilities they cause, such liabilities could exceed the amount of our insurance, the financial ability of the tenant or operator to indemnify us or the value of the contaminated property. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral. As the owner of a site, we may also be held liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. We may also experience environmental liabilities arising from conditions not known to us.

Risks Related to Our Operators and Tenants

The bankruptcy, insolvency or financial deterioration of one or more of our major operators or tenants may materially adversely affect our business, results of operations and financial condition.

We lease our properties directly to operators in most cases, and in certain other cases, we lease to third-party tenants who enter into long-term management agreements with operators to manage the properties. Although our leases, financing arrangements and other agreements with our tenants and operators generally provide us the right under specified circumstances to terminate a lease, evict an operator or tenant, or demand immediate repayment of certain obligations to us, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or at the least, delay our ability to pursue such remedies. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing. A debtor has the right to assume, or to assume and assign to a third party, or reject its unexpired contracts in a bankruptcy proceeding. If a debtor were to reject its leases with us, our claim against the debtor for unpaid and future rents would be limited by the statutory cap set forth in the U.S. Bankruptcy Code, which may be substantially less than the remaining rent actually owed under the lease. In addition, the inability of our tenants or operators to make payments or comply with certain other lease obligations may affect our compliance with certain covenants contained in the mortgages on the properties leased or managed by such tenants and operators. Moreover, if certain tenants or operators who lease or manage our mortgaged properties were to file for bankruptcy protection, such action may result in a default under the underlying mortgage and cross-defaults under our other indebtedness. Although we believe that we would be able to secure amendments under the applicable agreements in those circumstances, the bankruptcy of an applicable operator or tenant may potentially result in less favorable borrowing terms than currently available, delays in the availability of funding or other material adverse consequences.

Many of our operating leases also contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption "Other assets, net" on our consolidated balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of the straight-line rent that is expected to be collected in a future period, and, depending on circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. In addition, upon acquisition of a leased property that we account for as an operating lease, we may record lease-related intangible assets. The balance of straight-line rent receivable at December 31, 2009, net of allowances was $159 million. We had approximately $390 million of lease-related intangible assets, net of amortization, and $200 million of lease-related intangible liabilities, net of amortization, associated with our operating leases at December 31, 2009. To the extent any of the operators or tenants for our properties, for the reasons discussed above, become unable to pay amounts due, we may be required to impair the carrying values of the straight-line rents receivable or lease intangibles or may impair the related carrying value of leased properties.

Table of Contents

The current U.S. housing market may adversely affect our operators' and tenants' ability to increase or maintain occupancy levels at, and rental income from, our senior housing facilities.

Our tenants and operators may have relatively flat or declining occupancy levels in the near-term due to falling home prices, declining incomes, stagnant home sales and other economic factors. Seniors may choose to postpone their plans to move into senior housing facilities rather than sell their homes at a loss, or for a profit below their expectations. Moreover, tightening lending standards have made it more difficult for potential buyers to obtain mortgage financing, all of which have contributed to the declining home sales. In addition, the senior housing segment may continue to experience a decline in occupancy associated with private pay residents choosing to move out of the facilities to be cared for at home by relatives due to the weak economy. A material decline in our tenants' and operators' occupancy levels and revenues may make it more difficult for them to meet their financial obligations to us, which could materially adversely affect our business, results of operations and financial condition.

Operators and tenants that fail to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may cease to operate or be unable to meet their financial and contractual obligations to us.

Certain of our operators and tenants are affected by an extremely complex set of federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. See "Item 1 Business Government Regulation, Licensing and Enforcement" above. For example, to the extent that any of our operators or tenants receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such property. In recent years, governmental payors have frozen or reduced payments to healthcare providers due to budgetary pressures. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our operators' and tenants' costs of doing business and on the amount of reimbursement by government and other third-party payors. The failure of any of our operators or tenants to comply with these laws, requirements and regulations could adversely affect their ability to meet their financial and contractual obligations to us.

Certain of our operators and tenants are also generally subject to extensive federal, state and local licensure, certification and inspection laws and regulations. Our operators' or tenants' failure to comply with any of these laws could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility. For example, certain of our properties may require a license and/or certificate of need to operate. Failure of any operator or tenant to obtain a license or certificate of need, or loss of a required license or certificate of need, would prevent a facility from operating in the manner intended by such operator or tenant. Additionally, failure of our operators and tenants to generally comply with applicable laws and regulations may have an adverse effect on facilities owned by or mortgaged to us, and therefore may adversely impact us. See "Item 1 Business Government Regulation, Licensing and Enforcement Healthcare Licensure and Certificate of Need" above.

Legislative proposals are introduced or proposed in Congress and in some state legislatures each year that would affect major changes in the healthcare system, either nationally or at the state level. For example, Congress is currently considering comprehensive legislation that could make significant

Table of Contents

changes to the U.S. healthcare system. We cannot accurately predict whether any proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our operators and tenants and, thus, our business.

Increased competition as well as increased operating costs have resulted in lower net revenues for some of our operators and tenants and may affect their ability to meet their financial and other contractual obligations to us.

The healthcare industry is highly competitive and can become more competitive in the future. The occupancy levels at, and rental income from, our facilities is dependent on the ability of our operators and tenants to compete with entities that have substantial capital resources. These entities compete with other operators and tenants on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, and the size and demographics of the population in the surrounding area. Private, federal and state payment programs and the effect of laws and regulations may also have a significant influence on the profitability of the properties and their tenants. Our operators and tenants also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. Such competition, which has intensified due to overbuilding in some segments in which we invest, has caused the fill-up rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing facilities were able to obtain for their services to decrease. We cannot be certain that the operators and tenants of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our operators and tenants. Thus, our operators and tenants may encounter increased competition in the future that could limit their ability to attract residents or expand their businesses which could materially adversely affect their ability to meet their financial and other contractual obligation to us, potentially decreasing our revenues and increasing our collection and dispute costs.

Our operators and tenants may not procure the necessary insurance to adequately insure against losses.

Our leases generally require our tenants and operators to secure and maintain comprehensive liability and property insurance that covers us, as well as the tenants and operators. Some types of losses may not be adequately insured by our tenants and operators. Should an uninsured loss or a loss in excess of insured limits occur, we could incur liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We continually review the insurance maintained by our tenants and operators. However, we cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Our operators and tenants are faced with litigation and may experience rising liability and insurance costs that may affect their ability to make their lease or mortgage payments.

In some states, advocacy groups have been created to monitor the quality of care at healthcare facilities and these groups have brought litigation against the operators and tenants of such facilities. Also, in several instances, private litigation by patients has succeeded in winning large damage awards for alleged abuses. The effect of this litigation and other potential litigation may materially increase the costs incurred by our operators and tenants for monitoring and reporting quality of care compliance. In addition, their cost of liability and medical malpractice insurance can be significant and may increase so long as the present healthcare litigation environment continues. Cost increases could cause our operators to be unable to make their lease or mortgage payments or fail to purchase the appropriate liability and malpractice insurance, potentially decreasing our revenues and increasing our collection and litigation costs. Moreover, to the extent we are required to take back the affected facilities from our operators and tenants, our revenues from those facilities could be reduced or eliminated for an extended period of time. In addition, as a result of our ownership of healthcare facilities, we may be named as a defendant in lawsuits allegedly arising from the actions of our operators or tenants, which may require unanticipated expenditures on our part.

Our tenants in the life science industry face high levels of regulation, expense and uncertainty that may adversely affect their ability to make payments to us and, consequently, may materially adversely affect our business, results of operations and financial condition.

Life science tenants, particularly those involved in developing and marketing pharmaceutical products, are subject to certain unique risks, as follows:

- some of our tenants require significant outlays of funds for the research, development and clinical testing of their products and technologies. If private investors, the government or other sources of funding are unavailable to support such activities, a tenant's business may be adversely affected or fail.

- the research, development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals. The approval process is typically long, expensive and uncertain. Even if our tenants have sufficient funds to seek approvals, one or all of their products may fail to obtain the required regulatory approvals on a timely basis or at all. Furthermore, some tenants may only have a small number of products under development. If one product fails to receive the required approvals at any stage of development, it could significantly adversely affect our tenant's entire business and its ability to make payments to us.

- even after a life science tenant gains regulatory approval and market acceptance, the product may still present significant regulatory and liability risks. Such risks may include, among others, the possible later discovery of safety concerns, competition from new products, and ultimately the expiration of patent protection for the product. These factors may have an adverse effect on the operations and financial condition of our life science tenants and therefore may adversely impact us.

- our tenants with marketable products may be adversely affected by healthcare reform and the reimbursement policies of government or private healthcare payors.

- our tenants may be unable to adequately protect their intellectual property under patent, copyright or trade secret laws. Failure to do so could jeopardize their ability to profit from their efforts and to protect their products from competition.

We cannot assure you that our life science tenants will be successful in their businesses. If our tenants' businesses are adversely affected, they may have difficulty making payments to us, which could materially adversely affect our business, results of operations and financial condition.

Tax and REIT-Related Risks

Loss of HCP, Inc.'s tax status as a REIT would substantially reduce our available funds and would have material adverse consequences to us.

Commencing with its taxable year ended December 31, 1985, HCP, Inc. has operated in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Code. In addition, as described below, we own the stock of HCP Life Science REIT, Inc. ("HCP Life Science

Table of Contents

REIT") which elected to be treated as a REIT commencing with its initial taxable year ended December 31, 2007.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect the ability of HCP, Inc. and HCP Life Science REIT to qualify as REITs. If HCP Life Science REIT were to fail to qualify as a REIT, HCP, Inc. also would fail to qualify as a REIT unless HCP, Inc. (or HCP Life Science REIT) could make use of certain relief provisions provided under the Code. To qualify as REITs, HCP, Inc. and HCP Life Science REIT must each satisfy a number of organizational, operational, stockholder ownership, dividend distribution, asset, income and other requirements. For example, to qualify as a REIT, at least 95% of HCP, Inc.'s gross income in any year must be derived from qualifying sources, and HCP, Inc. must make distributions to its stockholders aggregating annually at least 90% of its REIT taxable income, excluding net capital gains. In addition, new legislation, treasury regulations, administrative interpretations or court decisions may adversely affect our investors if such future events affected HCP, Inc.'s ability to qualify as a REIT for tax purposes. Although we believe that HCP, Inc. and HCP Life Science REIT have been organized and have operated in such manner, we can give no assurance that HCP, Inc. or HCP Life Science REIT have qualified or will continue to qualify as a REIT for tax purposes.

If HCP, Inc. loses its REIT status, we will face serious tax consequences that will substantially reduce the funds available to make payments of principal and interest on the debt securities we issue and to make distributions to stockholders. If HCP, Inc. fails to qualify as a REIT:

- it would not be allowed an income tax deduction for dividends distributed to stockholders and would be subject to federal and state income tax at regular corporate rates or alternative minimum tax rates;

- it could also be subject to increased local income taxes; and

- unless HCP, Inc. is entitled to relief under statutory provisions, it could not elect to be subject to tax as a REIT for four taxable years following the year for which it was disqualified.

In addition, if HCP, Inc. fails to qualify as a REIT, it would not be required to make distributions to stockholders; however, all distributions to stockholders would be subject to tax as qualifying corporate dividends to the extent of HCP, Inc.'s current and accumulated earnings and profits.

As a result of all these factors, HCP, Inc.'s failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could materially adversely affect the value of our common stock.

Certain property transfers may generate prohibited transaction income, resulting in a penalty tax on gain attributable to the transaction.

From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are properly treated as prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. While we believe that the Internal Revenue Service would not prevail in any such dispute, if the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, each year we must distribute to our stockholders at least 90% of our "real estate investment trust taxable income" (computed without regard to our dividends paid deduction and our net capital gain). If we distribute less than 100% of our REIT taxable income in any year, we will be subject to regular corporate income taxes. In addition, we will be subject to a 4% excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. To maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt principal payments.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We may distribute taxable dividends that are partially payable in cash and partially payable in HCP, Inc. stock. Under recent Internal Revenue Service guidance, up to 90% of any such taxable dividend with respect to calendar years 2008 through 2011, including in some cases dividends declared as late as December 31, 2012, could be payable in HCP, Inc. stock if certain conditions are satisfied. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of HCP, Inc. stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders sell shares of stock in order to pay taxes owed on dividends, such sales may put downward pressure on the trading price of our stock.

As a result of the acquisition of Slough Estates USA, Inc. ("SEUSA"), HCP Life Science REIT may have inherited tax liabilities and attributes from SEUSA.

HCP Life Science REIT is the successor to the tax attributes, including tax basis, and earnings and profits, if any, of SEUSA. If HCP Life Science REIT recognizes gain on the disposition of any properties formerly owned by SEUSA during the ten-year period beginning on the date on which it acquired the SEUSA stock, it will be required to pay tax at the highest regular corporate tax rate on such gain to the extent of the excess of (a) the fair market value of the asset over (b) its adjusted basis in the asset, in each case determined as of the date on which it acquired the SEUSA stock. Any taxes paid by HCP Life Science REIT would reduce the amount available for distribution by HCP Life Science REIT to us.

Table of Contents

As a result of the CNL Retirement Properties, Inc. ("CRP") merger and the CNL Retirement Corp. ("CRC") merger, we may have inherited tax liabilities and attributes from CRP and CRC.

In connection with the CRP merger, CRP's REIT counsel rendered an opinion to us, dated as of the closing date of the merger, substantially to the effect that on the basis of the facts, representations and assumptions set forth or referred to in such opinion, CRP qualified as a REIT under the Code for the taxable years ending December 31, 1999 through the closing date of the merger. If, however, contrary to the opinion of CRP's REIT counsel, CRP failed to qualify as a REIT for any of its taxable years, it would be required to pay federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Because the CRP merger was treated for income tax purposes as if CRP sold all of its assets in a taxable transaction to HCP, Inc., if CRP did not qualify as a REIT for the taxable year of the merger, it would be subject to tax on the excess of the fair market value of its assets over their adjusted tax basis. As a successor in interest to CRP, HCP, Inc. would be required to pay this tax.

As a result of the CRC merger, HCP, Inc. succeeded to the assets and the liabilities of CRC, including any liabilities for unpaid taxes and any tax liabilities created in connection with the CRC merger. At the closing of the CRC merger, we received an opinion of our counsel substantially to the effect that on the basis of the facts, representations and assumptions set forth or referred to in such opinion, for federal income tax purposes the CRC merger qualified as a reorganization within the meaning of Section 368(a) of the Code. If, however, contrary to the opinion of our counsel, the CRC merger did not qualify as a reorganization within the meaning of Section 368(a) of the Code, the CRC merger would have been treated as a sale of CRC's assets to HCP, Inc. in a taxable transaction, and CRC would have recognized taxable gain. In such a case, as CRC's successor-in-interest, HCP, Inc. would be required to pay the tax on any such gain.

As a result of the CRC merger and the acquisition of SEUSA, HCP, Inc. and/or our subsidiary, HCP Life Science REIT, may be required to distribute earnings and profits.

HCP, Inc. succeeded to the tax attributes, including the earnings and profits of CRC (assuming the CRC merger qualified as reorganizations under the Code). Similarly, HCP Life Science REIT succeeded to the tax attributes, including the earnings and profits of SEUSA. To qualify as a REIT, HCP, Inc. and HCP Life Science REIT must have distributed any non-REIT earnings and profits by the close of the taxable year in which each of these transactions occurred. Any adjustments to the income of CRC or SEUSA for taxable years ending on or before the closing date of the applicable transactions, including as a result of an examination of the tax returns of either company by the Internal Revenue Service, could affect the calculation of such company's earnings and profits. If the Internal Revenue Service were to determine that HCP, Inc. or HCP Life Science REIT acquired non-REIT earnings and profits from one or more of these predecessor entities that HCP, Inc. or HCP Life Science REIT failed to distribute prior to the end of the taxable year in which the applicable transaction occurred, HCP, Inc. and HCP Life Science REIT could avoid disqualification as a REIT by paying a "deficiency dividend." Under these procedures, HCP, Inc. or HCP Life Science REIT generally would be required to distribute any such non-REIT earnings and profits to its respective stockholders within 90 days of the determination and pay a statutory interest charge at a specified rate to the Internal Revenue Service. Such a distribution would be in addition to the distribution of REIT taxable income necessary to satisfy the REIT distribution requirement and may require that HCP, Inc. or HCP Life Science REIT, as applicable, borrow funds to make the distribution even if the then-prevailing market conditions are not favorable for borrowings. In addition, payment of the statutory interest charge could materially adversely affect the cash flow of the applicable REIT.

Table of Contents

Risks Related to our Organizational Structure

Our charter contains ownership limits with respect to our common stock and other classes of capital stock.

Our charter, subject to certain exceptions, contains restrictions on the ownership and transfer of our common stock and preferred stock that are intended to assist us in preserving our qualification as a REIT. Under our charter, subject to certain exceptions, no person or entity may own, actually or constructively, more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common or preferred stock.

Additionally, our charter has a 9.9% ownership limitation on the company's voting shares, which may include common stock or other classes of capital stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from either ownership limit. The ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.

Certain provisions of Maryland law, our charter and our bylaws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control, even if these transactions involve a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests. These provisions include the following:

Removal of Directors. Subject to the rights of one or more classes or series of preferred stock to elect one or more directors, our charter provides that a director may only be removed by the affirmative vote or written consent of the holders of at least two-thirds of the outstanding shares or by a unanimous vote of all other members of the Board of Directors.

Stockholder Requested Special Meetings. Our bylaws only permit our stockholders to call a special meeting upon the written request of the stockholders holding, in the aggregate, not less than 50% of the outstanding shares entitled to vote on the business proposed to be transacted at such meeting.

Advance Notice Provisions for Stockholder Nominations and Proposals. Our bylaws do not permit stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders unless we are notified in a timely manner, in writing, prior to the meeting.

Preferred Stock. Under our charter, our Board of Directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without the approval of our stockholders.

Duties of Directors with Respect to Unsolicited Takeovers. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (c) act or fail to act solely because of the effect that the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, an act of a director of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director.

Table of Contents

Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

Unsolicited Takeovers. Under Maryland law, a Maryland corporation with a class of equity securities registered under the Securities Exchange Act of 1934, as amended, and at least three independent directors may elect to be subject to certain statutory provisions relating to unsolicited takeovers which, among other things, would automatically classify the Board of Directors into three classes with staggered terms of three years each and vest in the Board of Directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the Board of Directors, even if the remaining directors do not constitute a quorum. These statutory provisions relating to unsolicited takeovers also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of directors as would otherwise be the case, and until the director's successor is elected and qualified.

An election to be subject to any or all of the foregoing statutory provisions may be made in our charter or bylaws, or by resolution of our Board of Directors without stockholder approval. Any such statutory provision to which we elect to be subject will apply even if other provisions of Maryland law or our charter or bylaws provide to the contrary. Neither our charter nor our bylaws provides that we are subject to any of the foregoing statutory provisions relating to unsolicited takeovers. However, our Board of Directors could adopt a resolution, without stockholder approval, to elect to become subject to some or all of these statutory provisions.

If we made an election to be subject to such statutory provisions and our Board of Directors was divided into three classes with staggered terms of office of three years each, the classification and staggered terms of office of our directors would make it more difficult for a third party to gain control of our Board of Directors since at least two annual meetings of stockholders, instead of one, generally would be required to effect a change in the majority of our Board of Directors.

Maryland Business Combination Act. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions, with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons. In addition to the restrictions on business combinations provided under Maryland law, our charter also contains restrictions on business combinations. Our charter requires that, except in some circumstances, "business combinations" between us and a "related person," including a beneficial holder of 10% or more of our outstanding voting stock, be approved by the affirmative vote of at least 90% of our outstanding voting shares.

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a corporation acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. "Control shares" means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the

Table of Contents

acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholder's meeting, or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Control Share Acquisition Act, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholder's meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our Board of Directors may amend our bylaws in the future to repeal or modify this exemption, in which case any control shares of our company acquired in a control share acquisition will be subject to the Maryland Control Acquisition Act.

Our issuance of additional shares of common or preferred stock, warrants or debt securities may dilute the ownership interests of existing stockholders and reduce the market price for our shares.

As of December 31, 2009, we had 293.5 million shares of common stock issued and outstanding. We cannot predict the effect, if any, that potential future sales of our common or preferred stock, warrants or debt securities, or the availability of our securities for future sale, will have on the market price of our outstanding securities, including our common stock. Sales of substantial amounts of our common or preferred stock, warrants or debt securities convertible into, or exercisable or exchangeable for, common stock in the public market or the perception that such sales might occur could reduce the market price of our common stock. The sales of any such securities could also dilute the interests of existing common stockholders and may cause a decrease in the market price of our common stock. Additionally, we maintain equity incentive plans for our employees. We have historically made grants of stock options, restricted stock and restricted stock units to our employees under such plans, and we expect to continue to do so. As of December 31, 2009, there were options to purchase approximately 6.7 million shares of our common stock outstanding of which 2.5 million shares are exercisable, approximately 509,000 unvested shares of restricted stock issued and outstanding and approximately 980,000 unvested restricted stock units issued and outstanding under our equity incentive plans.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We are organized to invest in income-producing healthcare-related facilities. In evaluating potential investments, we consider a multitude of factors, including:

- Location, construction quality, age, condition and design of the property;
- Geographic area, proximity to other healthcare facilities, type of property and demographic profile;
- Whether the rent provides a competitive market return to our investors;
- Duration, rental rates, operator and tenant quality and other attributes of in-place leases, including master lease structures;
- Current and anticipated cash flow and its adequacy to meet our operational needs;

Table of Contents

Availability of security such as letters of credit, security deposits and guarantees;

Potential for capital appreciation;

Expertise and reputation of the operator or tenant;

Occupancy and demand for similar healthcare facilities in the same or nearby communities;

The mix of revenues generated at healthcare facilities between privately-paid and government reimbursed;

Availability of qualified operators or property managers and whether we can manage the property;

Potential alternative uses of the facilities;

Regulatory and reimbursement environment in which the properties operate;

Tax laws related to REITs;

Prospects for liquidity through financing or refinancing; and

Our access to and cost of capital.

The following summarizes our property investments as of and for the year ended December 31, 2009 (square feet and dollars in thousands).

				2009	
Facility Location	**Number of Facilities**	**Capacity(1)**	**Gross Real Estate(2)**	**Rental Revenues(3)**	**Operating Expenses**
Senior housing:		*(Units)*			
California	27	3,131	$ 574,504	$ 47,531	$ 541
Texas	29	3,256	344,937	34,526	
Florida	27	3,385	441,460	40,369	619
Colorado	5	892	175,060	12,058	
Virginia	10	1,333	271,480	20,815	47
Washington	8	573	127,663	7,839	1
New Jersey	9	771	171,621	14,975	33
Utah	1	158	24,693	1,606	
Maryland	4	317	46,629	4,438	3
Illinois	9	687	137,344	10,628	
Other (24 States)	72	7,691	1,138,936	96,031	2,694
Total senior housing	201	22,194	$ 3,454,327	$ 290,816	$ 3,938
Life science:		*(Sq. Ft.)*			
California	85	5,499	$ 2,521,040	$ 243,727	$ 45,996
Utah	9	584	90,139	11,252	1,289

Total life science	94	6,083	2,611,179	254,979	47,285

Table of Contents

Facility Location	Number of Facilities	Capacity[1]	Gross Real Estate[2]	2009 Rental Revenues[3]	2009 Operating Expenses
Medical office:		*(Sq. Ft.)*			
California	14	780	$ 190,290	$ 27,220	$ 16,128
Texas	45	4,080	599,341	91,610	44,075
Florida	19	1,025	131,398	23,689	10,963
Colorado	16	1,031	174,232	29,324	11,170
Virginia	2	154	37,241	8,213	1,632
Washington	6	651	153,711	27,161	9,824
Utah	22	933	131,437	17,446	4,423
Maryland	3	166	28,493	5,448	1,489
Illinois	1	72	11,644	3,203	613
Other (17 States and Mexico)	56	3,920	556,626	73,950	30,284
Total medical office	184	12,812	2,014,413	307,264	130,601
Hospital:		*(Beds)*			
California	2	176	$ 123,520	$ 15,871	$ 3
Texas	4	291	210,009	26,183	3,629
Florida	1	199	62,450	7,634	
Colorado	1	64	9,029	1,347	
Other (2 States)	10	1,780	254,105	34,236	241
Total hospital	18	2,510	$ 659,113	$ 85,271	$ 3,873
Skilled nursing:		*(Beds)*			
California	3	379	$ 13,557	$ 2,172	$ 11
Texas	1	120	2,548	409	
Colorado	2	229	14,780	1,566	
Virginia	9	934	59,641	6,855	
Utah	1	120	4,935	690	
Other (6 States)	32	3,846	150,439	26,055	190
Total skilled nursing	48	5,628	$ 245,900	$ 37,747	$ 201
Total properties	545		$ 8,984,932	$ 976,077	$ 185,898

(1) Senior housing facilities are apartment-like facilities and are therefore measured in units (studio, one or two bedroom apartments). Life science facilities and medical office buildings are measured in square feet. Hospitals and skilled nursing facilities are measured in licensed bed count.

(2) Gross real estate represents the carrying amount of real estate assets after adding back accumulated depreciation and amortization, excluding intangibles.

(3) Rental revenues represent the combined amount of rental and related revenues and tenant recoveries.

Table of Contents

The following table summarizes key operating and leasing statistics for all of our operating leases as of and for the years ended December 31, (square feet and dollars in thousands):

	2009	2008	2007	2006	2005
Senior housing:					
Average occupancy percentage(1)	86%	89%	90%	94%	95%
Average effective annual rental per unit(1)(2)	$ 12,283	$ 12,841	$ 12,425	$ 10,733	$ 8,691
Units(2)	22,194	22,198	22,076	21,672	8,866
Life science:					
Average occupancy percentage	91%	88%	83%	99%	100%
Average effective annual rental per square foot	$ 39	$ 32	$ 30	$ 20	$ 20
Square feet(2)	6,083	6,072	5,843	847	740
Medical office:					
Average occupancy percentage	91%	90%	91%	95%	94%
Average effective annual rental per square foot	$ 22	$ 22	$ 21	$ 15	$ 11
Square feet(2)	12,812	12,805	12,815	11,731	9,195
Hospital:					
Average occupancy percentage(1)	37%	42%	41%	58%	61%
Average effective annual rental per bed(1)(2)	$ 30,080	$ 33,539	$ 31,205	$ 31,388	$ 31,519
Beds(2)	2,510	2,526	2,484	1,485	1,448
Skilled nursing:					
Average occupancy percentage(1)	85%	86%	86%	86%	85%
Average effective annual rental per bed(1)(2)	$ 6,527	$ 6,300	$ 6,233	$ 5,872	$ 5,639
Beds(2)	5,628	5,658	5,539	5,593	5,593

(1) Represents occupancy and unit/bed amounts as reported by the respective tenants or operators. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

(2) Per unit rental amounts are presented as a ratio of base rents earned by us divided by the capacity of our facilities. Effective annual rental amounts primarily exclude non-cash revenue adjustments (i.e., straight-line rents, amortization of above and below market lease intangibles and deferred revenues) and termination fees. The capacity for senior housing facilities are measured in units (e.g., studio, one or two bedroom units). The capacity for life science facilities and medical office buildings are measured in square feet. The capacity for hospitals and skilled nursing facilities are measured in licensed bed count.

Table of Contents

Development Properties

The following table sets forth the properties owned by us in our life science and medical office segments as of December 31, 2009 that are currently under development or redevelopment. There are no assurances that any of these projects will be completed on schedule or within estimated amounts.

Name of Project	Location	Estimated/ Actual Completion Date[(1)]	Total Investment To Date[(2)]	Estimated Total Investment
			(In thousands)	
Oyster Point II (Building A)	So. San Francisco, CA	4Q 2008	$ 94,317	$ 96,183
Oyster Point II (Building B)	So. San Francisco, CA	4Q 2008	99,474	101,922
Oyster Point II (Building C)	So. San Francisco, CA	4Q 2008	51,085	60,660
500/600 Saginaw[(3)]	Redwood City, CA	1Q 2010	36,787	52,100
Modular Labs IV[(3)]	So. San Francisco, CA	4Q 2010	26,202	55,948
Westridge[(3)]	San Diego, CA	3Q 2011	10,199	22,999
Innovation Drive[(3)]	San Diego, CA	3Q 2010	21,552	34,272
Folsom Blvd[(3)]	Sacramento, CA	3Q 2010	25,386	31,605
Knoxville[(3)]	Knoxville, TN	4Q 2010	5,536	7,969
			$ 370,538	$ 463,658

(1) For development projects, management's estimate of the date the core and shell structure improvements are expected to be or have been completed. For redevelopment projects, management's estimate of the time in which major construction activity in relation to the scope of the project has been substantially completed.

(2) Investment-to-date includes $74 million of land, $73 million of buildings, $13 million of net intangible assets and $211 million in development costs and construction in progress.

(3) Represents redevelopments which are properties that require significant capital expenditures (generally more than 25% of acquired cost or existing basis) to achieve stabilization or to change the use of the properties. Assets are considered stabilized at the earlier of achieving 90% occupancy or one year from the completion of development or redevelopment activities

Table of Contents

Tenant Lease Expiration

The following table shows tenant lease expirations for the next 10 years and thereafter at our leased properties, assuming that none of the tenants exercise any of their renewal options (dollars in thousands):

		Expiration Year										
Segment	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Senior housing:												
Leases	231	4	3	4	6	8	2	24	26	49	12	93
Base rent[(1)]	$ 301,912	$ 664	$ 785	$ 1,075	$ 18,278	$ 12,150	$ 3,174	$ 27,079	$ 31,675	$ 85,895	$ 13,939	$ 107,198
% of total base rent	100				6	4	1	9	11	28	5	36
Life science:												
Leases	147	20	18	12	9	11	9	5	12	10		41
Base rent[(1)]	$ 191,183	$ 7,085	$ 13,254	$ 4,668	$ 11,355	$ 8,504	$ 17,912	$ 7,988	$ 24,273	$ 23,492	$	$ 72,652
% of total base rent	100	4	7	3	6	4	9	4	13	12		38
Medical office:												
Leases	2,683	765	478	394	306	278	131	92	67	66	64	42
Base rent[(1)]	$ 236,851	$ 49,429	$ 31,502	$ 33,796	$ 23,435	$ 29,315	$ 13,525	$ 10,397	$ 11,371	$ 13,418	$ 12,061	$ 8,602
% of total base rent	100	21	13	14	10	12	6	4	5	6	5	4
Hospital:												
Leases	21	1			1	3			2		4	10
Base rent[(1)]	$ 60,096	$ 2,973	$	$	$ 2,424	$ 16,018	$	$	$ 4,480	$	$ 5,911	$ 28,290
% of total base rent	100	5			4	27			7		10	47
Skilled nursing:												
Leases	52		1		10	12	6	5	9	7	1	1
Base rent[(1)]	$ 36,894	$	$ 292	$	$ 7,090	$ 8,118	$ 3,261	$ 4,898	$ 8,072	$ 2,664	$ 1,314	$ 1,185
% of total base rent	100		1		19	22	9	13	22	7	4	3
Total:												
Leases	3,134	790	500	410	332	312	148	126	116	132	81	187
Base rent[(1)]	$ 826,936	$ 60,151	$ 45,833	$ 39,539	$ 62,582	$ 74,105	$ 37,872	$ 50,362	$ 79,871	$ 125,469	$ 33,225	$ 217,927
% of total base rent	100	7	5	5	8	9	5	6	10	15	4	26

(1) The most recent monthly base rent annualized. Base rent does not include tenant recoveries, additional rents and other lease-related adjustments to revenue (i.e., straight-line rents, amortization of above and below market lease intangibles and deferred revenues).

We specifically incorporate by reference into this section the information set forth in Schedule III: Real Estate and Accumulated Depreciation, included in this report.

ITEM 3. Legal Proceedings

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

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

Table of Contents

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange. Set forth below for the fiscal quarters indicated are the reported high and low sales prices per share of our common stock on the New York Stock Exchange.

	2009		2008		2007	
	High	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	$ 27.77	$ 14.93	$ 35.14	$ 26.80	$ 42.11	$ 35.01
Second Quarter	24.50	17.07	38.75	31.14	38.60	28.02
Third Quarter	30.73	19.79	42.16	30.12	34.49	25.11
Fourth Quarter	33.45	26.94	39.83	14.26	35.24	29.30

At February 1, 2010, we had approximately 13,747 stockholders of record and there were approximately 152,554 beneficial holders of our common stock.

It has been our policy to declare quarterly dividends to the common stockholders so as to comply with applicable provisions of the Internal Revenue Code governing REITs. The cash dividends per share paid on common stock are set forth below:

	2009	2008	2007
First Quarter	$ 0.46	$ 0.455	$ 0.445
Second Quarter	0.46	0.455	0.445
Third Quarter	0.46	0.455	0.445
Fourth Quarter	0.46	0.455	0.445
Total	$ 1.84	$ 1.82	$ 1.78

On February 1, 2010, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.465 per share. The common stock dividend will be paid on February 23, 2010 to stockholders of record as of the close of business on February 11, 2010.

On February 1, 2010, we announced that our Board of Directors declared a quarterly cash dividend of $0.45313 per share on our Series E cumulative redeemable preferred stock and $0.44375 per share on our Series F cumulative redeemable preferred stock. These dividends will be paid on March 31, 2010 to stockholders of record as of the close of business on March 15, 2010.

Table of Contents

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during the quarter ended December 31, 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

Period Covered	Total Number Of Shares Purchased[(1)]	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares That May Yet Be Purchased Under The Plans Or Programs
October 1-31, 2009	13,554	$ 29.27		
November 1-30, 2009	698	29.69		
December 1-31, 2009	617	32.32		
Total	14,869	29.41		

(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.

Stock Price Performance Graph

The graph below compares the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), from January 1, 2005 to December 31, 2009. Total return assumes quarterly reinvestment of dividends before consideration of income taxes.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

AMONG S&P 500, EQUITY REITS AND HCP, Inc.

RATE OF RETURN TREND COMPARISON

JANUARY 1, 2005 DECEMBER 31, 2009

(JANUARY 1, 2005 = 100)

Stock Price Performance Graph Total Return

Assumes $100 invested January 1, 2005 in HCP, S&P 500 Index and NAREIT Equity REIT Index.

Table of Contents

ITEM 6. Selected Financial Data

Set forth below is our selected financial data as of and for each of the years in the five year period ended December 31, 2009.

	Year Ended December 31,[1]				
	2009	2008	2007[2]	2006[2]	2005
	(Dollars in thousands, except per share data)				
Income statement data:					
Total revenues	$ 1,157,030	$ 1,153,1887	$ 953,743	$ 480,963	