HCP, INC.
Form 10-Q
November 02, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010.

OR

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

For the transition period from to

Commission file number 1-08895

HCP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o	Smaller Reporting Company o

(Do not check if a smaller reporting company)

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

As of October 28, 2010, there were 310,532,601 shares of the registrant s $1.00 par value common stock outstanding.

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HCP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Real estate:		
Buildings and improvements	$ 8,117,148	$ 7,774,052
Development costs and construction in progress	143,072	272,542
Land	1,558,947	1,542,393
Accumulated depreciation and amortization	(1,189,998)	(1,036,295)
Net real estate	8,629,169	8,552,692
Net investment in direct financing leases	607,392	600,077
Loans receivable, net	1,852,521	1,672,938
Investments in and advances to unconsolidated joint ventures	197,697	267,978
Accounts receivable, net of allowance of $4,663 and $10,772, respectively	38,414	43,726
Cash and cash equivalents	52,635	112,259
Restricted cash	34,223	33,000
Intangible assets, net	325,859	389,698
Real estate held for sale, net	12,554	32,653
Other assets, net	494,835	504,714
Total assets(1)	$ 12,245,299	$ 12,209,735
LIABILITIES AND EQUITY		
Bank line of credit	$ 318,000	$
Term loan		200,000
Senior unsecured notes	3,324,975	3,521,325
Mortgage and other secured debt	1,682,740	1,834,935
Other debt	93,990	99,883
Intangible liabilities, net	153,522	200,260
Accounts payable and accrued liabilities	338,806	309,596
Deferred revenue	79,482	85,127
Total liabilities(2)	5,991,515	6,251,126
Commitments and contingencies		
Preferred stock, $1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of $25.00 per share	285,173	285,173
Common stock, $1.00 par value: 750,000,000 shares authorized; 310,507,413 and 293,548,162 shares issued and outstanding, respectively	310,507	293,548
Additional paid-in capital	6,237,663	5,719,400
Cumulative dividends in excess of earnings	(761,036)	(515,450)
Accumulated other comprehensive loss	(7,426)	(2,134)
Total stockholders equity	6,064,881	5,780,537
Joint venture partners	14,095	7,529
Non-managing member unitholders	174,808	170,543
Total noncontrolling interests	188,903	178,072
Total equity	6,253,784	5,958,609
Total liabilities and equity	$ 12,245,299	$ 12,209,735

(1) The Company s condensed consolidated total assets at September 30, 2010, include assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs as follows: accounts receivable, net, $7.5 million; cash and cash equivalents, $22.7 million; and other assets, net, $0.5 million. See Note 17 for additional details.

(2) The Company s condensed consolidated total liabilities at September 30, 2010, include liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. as follows: accounts payable and accrued liabilities, $27.3 million; and deferred revenue, $0.7 million. See Note 17 for additional details.

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Rental and related revenues	$ 243,026	$ 216,169	$ 697,802	$ 656,384
Tenant recoveries	23,356	22,464	67,262	67,124
Income from direct financing leases	13,028	13,173	37,238	39,302
Interest income	36,582	33,936	108,004	87,791
Investment management fee income	1,157	1,326	3,755	4,133
Total revenues	317,149	287,068	914,061	854,734
Costs and expenses:				
Depreciation and amortization	78,334	81,177	234,008	240,308
Interest expense	71,600	74,039	220,303	226,053
Operating	60,461	46,159	152,028	139,767
General and administrative	19,590	22,856	65,039	61,619
Litigation provision		101,973		101,973
Impairments (recoveries)		15,123	(11,900)	20,904
Total costs and expenses	229,985	341,327	659,478	790,624
Other income, net	6,657	5,983	7,151	5,107
Income (loss) before income taxes and equity income from and impairments of investments in unconsolidated joint ventures	93,821	(48,276)	261,734	69,217
Income taxes	(867)	325	(1,809)	(1,395)
Equity income from unconsolidated joint ventures	209	1,328	4,078	1,993
Impairments of investments in unconsolidated joint ventures	(71,693)		(71,693)	
Income (loss) from continuing operations	21,470	(46,623)	192,310	69,815
Discontinued operations:				
Income before impairments and gain on sales of real estate, net of income taxes	716	943	2,507	6,620
Impairments				(125)
Gain on sales of real estate, net of income taxes	3,987	2,460	4,052	34,357
Total discontinued operations	4,703	3,403	6,559	40,852
Net income (loss)	26,173	(43,220)	198,869	110,667
Noncontrolling interests share in earnings	(3,518)	(3,466)	(10,077)	(11,011)
Net income (loss) attributable to HCP, Inc.	22,655	(46,686)	188,792	99,656
Preferred stock dividends	(5,282)	(5,282)	(15,848)	(15,848)
Participating securities share in earnings	(378)	(429)	(1,648)	(1,136)
Net income (loss) applicable to common shares	$ 16,995	$ (52,397)	$ 171,296	$ 82,672

Basic earnings (loss) per common share:								
Continuing operations	$	0.04	$	(0.20)	$	0.55	$	0.16
Discontinued operations		0.01		0.02		0.02		0.15
Net income (loss) applicable to common shares	$	0.05	$	(0.18)	$	0.57	$	0.31
Diluted earnings (loss) per common share:								
Continuing operations	$	0.04	$	(0.20)	$	0.55	$	0.16
Discontinued operations		0.01		0.02		0.02		0.15
Net income (loss) applicable to common shares	$	0.05	$	(0.18)	$	0.57	$	0.31
Weighted-average shares used to calculate earnings per common share:								
Basic		309,448		284,812		299,243		267,971
Diluted		311,092		284,812		300,468		268,041
Dividends declared per common share	$	0.465	$	0.46	$	1.395	$	1.38

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In	Cumulative Dividends In Excess	Accumulated Other Comprehensive	Total Stockholders'	Total Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	Of Earnings	Income (Loss)	Equity	Interests	Equity
January 1, 2010	11,820	$ 285,173	293,548	$ 293,548	$ 5,719,400	$ (515,450)	$ (2,134)	$ 5,780,537	$ 178,072	$ 5,958,609
Comprehensive income:										
Net income						188,792		188,792	10,077	198,869
Change in net unrealized gains (losses) on securities:										
Unrealized gains							936	936		936
Less reclassification adjustment realized in net income							(4,680)	(4,680)		(4,680)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(2,368)	(2,368)		(2,368)
Less reclassification adjustment realized in net income							630	630		630
Change in Supplemental Executive Retirement Plan obligation							97	97		97
Foreign currency translation adjustment							93	93		93
Total comprehensive income								183,500	10,077	193,577
Issuance of common stock, net			16,958	16,958	507,698			524,656	(5,072)	519,584
Repurchase of common stock			(149)	(149)	(4,152)			(4,301)		(4,301)
Exercise of stock options			150	150	3,411			3,561		3,561
Amortization of deferred compensation					11,306			11,306		11,306
Preferred dividends						(15,848)		(15,848)		(15,848)
Common dividends ($1.395 per share)						(418,530)		(418,530)		(418,530)
Distributions to noncontrolling interests									(12,545)	(12,545)
Noncontrolling interest in acquired assets									9,267	9,267
Sale of noncontrolling interests									8,395	8,395
Other									709	709

September 30, 2010	11,820	$ 285,173	310,507	$ 310,507	$ 6,237,663	$ (761,036)	$ (7,426)	$ 6,064,881	$ 188,903	$ 6,253,784

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Continued)

(In thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess Of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
January 1, 2009	11,820	$ 285,173	253,601	$ 253,601	$ 4,873,727	$ (130,068)	$ (81,162)	$ 5,201,271	$ 206,569	$ 5,407,840
Comprehensive income:										
Net income						99,656		99,656	11,011	110,667
Change in net unrealized gains (losses) on securities:										
Unrealized gains							75,180	75,180		75,180
Less reclassification adjustment realized in net income							(2,797)	(2,797)		(2,797)
Change in net unrealized gains (losses) on cash flow hedges:										
Unrealized losses							(910)	(910)		(910)
Less reclassification adjustment realized in net income							685	685		685
Change in Supplemental Executive Retirement Plan obligation							66	66		66
Foreign currency translation adjustment							(900)	(900)		(900)
Total comprehensive income								170,980	11,011	181,991
Issuance of common stock, net			39,639	39,639	830,617			870,256	(21,873)	848,383
Repurchase of common stock			(95)	(95)	(2,153)			(2,248)		(2,248)
Amortization of deferred compensation					11,068			11,068		11,068
Preferred dividends						(15,849)		(15,849)		(15,849)
Common dividends ($1.38 per share)						(360,949)		(360,949)		(360,949)
Distributions to noncontrolling interests									(11,662)	(11,662)
Purchase of noncontrolling interests					(4,725)			(4,725)	(4,372)	(9,097)
September 30, 2009	11,820	$ 285,173	293,145	$ 293,145	$ 5,708,534	$ (407,210)	$ (9,838)	$ 5,869,804	$ 179,673	$ 6,049,477

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 198,869	$ 110,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate, in-place lease and other intangibles:		
Continuing operations	234,008	240,308
Discontinued operations	1,382	2,276
Amortization of above and below market lease intangibles, net	(5,337)	(12,657)
Stock-based compensation	11,306	11,068
Amortization of debt premiums, discounts and issuance costs, net	7,238	6,187
Straight-line rents	(32,869)	(38,751)
Interest accretion	(46,997)	(23,813)
Deferred rental revenue	(2,245)	10,507
Equity income from unconsolidated joint ventures	(4,078)	(1,993)
Distributions of earnings from unconsolidated joint ventures	5,441	5,444
Gain on sales of real estate	(4,052)	(34,357)
Marketable securities gains, net	(5,642)	(6,420)
Derivative losses, net	470	922
Impairments, net of recoveries	59,793	21,029
Changes in:		
Accounts receivable	1,987	11,310
Other assets	1,181	(2,991)
Accrued liability for litigation provision		101,973
Accounts payable and other accrued liabilities	10,273	(10,989)
Net cash provided by operating activities	430,728	389,720
Cash flows from investing activities:		
Acquisitions and development of real estate	(228,297)	(71,009)
Leasing costs and tenant and capital improvements	(65,183)	(27,321)
Proceeds from sales of real estate, net	1,963	58,046
Contributions to unconsolidated joint ventures	(6,445)	(48)
Distributions in excess of earnings from unconsolidated joint ventures	2,469	5,775
Proceeds from the sale of securities	72,749	119,665
Principal repayments on loans receivable and direct financing leases	28,494	8,654
Investments in loans receivable	(131,492)	(165,506)
(Increase) decrease in restricted cash	(1,223)	3,090
Net cash used in investing activities	(326,965)	(68,654)
Cash flows from financing activities:		
Net borrowings (repayments) under bank line of credit	318,000	(150,000)
Repayments of bridge and term loans	(200,000)	(320,000)
Repayments of mortgage debt	(162,623)	(206,329)
Issuance of mortgage debt		1,942
Repurchase and repayment of senior unsecured notes	(200,000)	(7,735)
Debt issuance costs		(718)
Net proceeds from the issuance of common stock and exercise of options	518,844	846,135
Dividends paid on common and preferred stock	(434,378)	(376,798)
Sale (purchase) of noncontrolling interest	8,395	(9,097)

Distributions to noncontrolling interests		(11,625)		(11,662)
Net cash used in financing activities		(163,387)		(234,262)
Net increase (decrease) in cash and cash equivalents		(59,624)		86,804
Cash and cash equivalents, beginning of period		112,259		57,562
Cash and cash equivalents, end of period	$	52,635	$	144,366

See accompanying Notes to Condensed Consolidated Financial Statements.

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HCP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Business

HCP, Inc., an S&P 500 company, together with its consolidated entities (collectively, HCP or the Company), invests primarily in real estate serving the healthcare industry in the United States (U.S.). The Company is a self-administered, Maryland real estate investment trust (REIT) organized in 1985. The Company is headquartered in Long Beach, California, with offices in Nashville, Tennessee and San Francisco, California. The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. The Company s portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) skilled nursing and (v) hospital. The Company makes investments within its 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.

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

The condensed consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures or VIEs that it controls through voting rights or other means. All material intercompany transactions and balances have been eliminated upon consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company s financial position, results of operations and cash flows have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The accompanying unaudited interim financial information should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2009 included in the Company s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC).

Certain amounts in the Company s condensed consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held for sale and associated liabilities have been reclassified on the condensed consolidated balance sheets and the related operating results reclassified from continuing to discontinued operations on the condensed consolidated income statements (see

Note 4). All prior period interest income and interest expense have been reclassified to be presented as components of revenues and costs and expenses, respectively, from other income, net on the condensed consolidated income statements as a result of a significant increase in the Company s lending operations.

Accounting Change

Effective January 1, 2010, the Company implemented the requirements of Accounting Standards Update No. 2009-17*, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (Update No. 2009-17). Update No. 2009-17 requires, on a continuous basis, that enterprises perform a qualitative analysis when determining whether or not a VIE will need to be consolidated. This evaluation is based on an enterprise s ability to direct the activities of a variable interest entity that most significantly impact the entity s economic performance. As a result of its implementation analysis, the Company concluded that it had additional variable interests, in certain VIEs. The Company has determined that it is not the primary beneficiary of these additional VIEs because it does not control the activities that most significantly impact the economic performance of the entities (see Note 17).

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The amendments in this update require, among other things, new disclosures and clarifications of existing disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, further disaggregation of fair value measurement disclosures for each class of assets and liabilities, and additional details of valuation techniques and inputs utilized. This update is consistent with the Company s current accounting application for fair value measurements and disclosures and did not have a material impact on its consolidated financial position or results of operations.

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In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASC 2010-20). The amendments in this update require additional disclosure about the credit quality of financing receivables, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how allowances for credit losses are developed and how credit exposure is managed. ASC 2010-20 is effective for interim periods and fiscal years ending after December 15, 2010. The Company does not expect the adoption of ASC 2010-20 on December 31, 2010 to have an impact on its consolidated financial position or results of operations.

(3) Real Estate Property Investments

A summary of acquisitions for the nine months ended September 30, 2010 follows (in thousands):

	Consideration			Assets Acquired	
Acquisitions	**Cash Paid**	**Debt Assumed**	**DownREIT Units(1)**	**Real Estate**	**Net Intangibles**
Senior housing facilities	$ 124,935	$	$	$ 124,565	$ 370
Medical office buildings	12,017	5,352	1,926	15,734	3,561
Life science facilities	21,843		7,341	23,998	5,186
	$ 158,795	$ 5,352	$ 9,267	$ 164,297	$ 9,117

(1) Non-managing member limited liability company units.

During the nine months ended September 30, 2010, the Company funded an aggregate of $97 million for construction, tenant and other capital improvement projects, primarily in its life science segment. During the nine months ended September 30, 2010, four of the Company s life science facilities located in South San Francisco were placed into service representing 354,000 square feet.

During the nine months ended September 30, 2009, the Company purchased the remaining noncontrolling interests in three senior housing joint ventures for $14 million and funded an aggregate of $86 million for construction, tenant and other capital improvement projects, primarily in its life science segment.

(4) Dispositions of Real Estate and Discontinued Operations

Dispositions of Real Estate

During the three months ended September 30, 2010 and 2009, the Company sold three skilled nursing facilities for $10 million and two medical office buildings (MOBs) for $6 million, respectively.

During the nine months ended September 30, 2010, the Company sold four properties for $25.5 million, which were from the following segments: (i) $15 million hospital; (ii) $10 million skilled nursing; and (iii) $0.5 million medical office. During the nine months ended September 30, 2009, the Company sold 11 properties for $58 million, which were from the following segments: (i) $47.2 million hospital; (ii) $10.3 million medical office; and (iii) $0.6 million senior housing.

Results from Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Rental and related revenues	$ 870	$ 2,347	$ 3,776	$ 9,496
Depreciation and amortization expenses	173	1,180	1,382	2,276
Operating expenses	20	239	25	662
Other income, net	(39)	(15)	(138)	(62)
Income before impairments and gain on sales of real estate, net of income taxes	$ 716	$ 943	$ 2,507	$ 6,620
Impairments	$	$	$	$ 125
Gain on sales of real estate, net of income taxes	$ 3,987	$ 2,460	$ 4,052	$ 34,357
Number of properties held for sale	9	16	9	16
Number of properties sold	3	2	4	11
Number of properties included in discontinued operations	12	18	13	27

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(5) Net Investment in Direct Financing Leases

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

	September 30, 2010	December 31, 2009
Minimum lease payments receivable	$ 1,258,119	$ 1,338,634
Estimated residual values	409,270	467,248
Allowance for DFL losses		(54,957)
Less unearned income	(1,059,997)	(1,150,848)
Net investment in direct financing leases	$ 607,392	$ 600,077
Properties subject to direct financing leases	27	30

Lease payments previously due to the Company relating to three land-only DFLs, along with the land, were subordinate to and served as collateral for first mortgage construction loans entered into by Erickson Retirement Communities and its affiliate entities (Erickson) to fund development costs related to the properties. On October 19, 2009, Erickson filed for bankruptcy protection, which included a plan of reorganization.

On December 23, 2009, an auction was concluded with respect to Erickson s assets, and on December 30, 2009, Erickson filed an amended plan of reorganization providing additional detail about the results of the auction and the allocation of auction proceeds. The amended plan proposed that the Company would not be entitled to any of the proceeds with respect to the three DFLs, but would receive a nominal recovery with respect to the Company s participation in the senior construction loan. Additionally, on January 4, 2010, Erickson served the Company with adversary complaints claiming, among other things, that the Company s interest as a landlord under the DFLs should be treated as if it were instead the interest of a lender with a security interest in the properties. Even though Erickson s amended plan of reorganization had not been confirmed in the bankruptcy proceedings, the Company concluded that, as a result of the auction, the subsequent allocation of the auction proceeds and management s evaluation of Erickson s pursuit of remedies consistent with the extinguishment of the Company s DFL interests, it was appropriate to reduce the carrying value of these assets to a nominal amount associated with the expected partial recovery of the participation interest in the senior construction loan.

In February 2010, the Company entered into a settlement agreement with Erickson which was subsequently approved by the bankruptcy court. In April 2010, the reorganization was completed, which resulted in the Company (i) retaining deposits held by the Company with balances of $5 million and (ii) receiving an additional $9.6 million. As a result, during the three months ended March 31, 2010, the Company recognized aggregate income of $11.9 million in impairment recoveries, which represented the reversal of a portion of the allowances established pursuant to the previous impairment charges related to its investments in the three DFLs and participation interest in the senior construction loan. This amount is shown as impairments (recoveries) in the condensed consolidated statement of income.

(6) Loans Receivable

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

	September 30, 2010			December 31, 2009		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	$	$ 1,143,330	$ 1,143,330	$	$ 1,083,197	$ 1,083,197
Other	880,834		880,834	783,798		783,798
Unamortized discounts, fees and costs	(100,528)	(67,460)	(167,988)	(115,422)	(66,196)	(181,618)
Allowance for loan losses		(3,655)	(3,655)	(8,148)	(4,291)	(12,439)
	$ 780,306	$ 1,072,215	$ 1,852,521	$ 660,228	$ 1,012,710	$ 1,672,938

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The Company holds an interest-only, senior secured term loan made to an affiliate of the Cirrus Group, LLC (Cirrus). The loan had a maturity date of December 31, 2008, with a one-year extension period at the option of the borrower, subject to certain terms and conditions, under which amounts were borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships. The loan is collateralized by all of the assets of the borrower (comprised primarily of interests in partnerships operating surgical facilities, some of which are on the premises of properties owned by the Company or HCP Ventures IV, LLC, an unconsolidated joint venture of the Company) and is supported in part by limited guarantees made by certain principals of Cirrus. Recourse under certain of these guarantees is limited to the guarantors respective interests in certain entities owning real estate that are pledged to secure such guarantees. At December 31, 2008, the borrower did not meet the conditions necessary to exercise its extension option and did not repay the loan upon maturity. On April 22, 2009, new terms for extending the maturity date of the loan were agreed to, including the payment of a $1.1 million extension fee, and the maturity date was extended to December 31, 2010. In July 2009, the Company issued a notice of default for the borrower s failure to make interest payments. In December 2009, the Company determined that the loan was impaired and recognized a provision for loan loss of $4.3 million. This provision for loan loss resulted from discussions that began in December 2009 to restructure the loan. The proposed terms of the restructure (effective February 1, 2010) bifurcates the loan into two tranches and modifies the related terms as follows: (i) tranche A is $39 million and accrues interest at a rate of 14%, of which 9.5% is payable quarterly and 4.5% is deferred until maturity in January 2012; and (ii) tranche B is $52 million and accrues interest at a rate of 8.5% (previously 14%); Cirrus may defer its interest payments on this tranche to the maturity of the loan in July 2012 to the extent that it does not generate excess cash flows from the related operations. During the three months ended June 30, 2010, Cirrus informed the Company that it continues to market for sale certain assets included in its collateral pool; Cirrus expects the sales to be completed during the remaining period of 2010 or early 2011. Assuming that Cirrus is successful in selling these assets, the Company estimates a partial repayment of its loan to Cirrus of up to $80 million. At September 30, 2010 and December 31, 2009, the carrying value of this loan, including accrued interest of $7.0 million and $5.2 million, respectively, was $90.8 million and $83.5 million, respectively. During the three and nine months ended September 30, 2010, the Company recognized interest income from this loan of $2.9 million and $8.6 million, respectively, and received cash payments from the borrower of $0.2 million and $1.1 million, respectively.

On December 21, 2007, the Company made an investment in mezzanine loans having an aggregate par value of $1.0 billion 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 par 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. Among other things, these performance conditions require the borrower to: (i) maintain an interest-rate cap agreement(s) with a strike price of 5.25% at an equivalent maturity to that of the underlying loans; and (ii) maintain a trailing-twelve-month Debt Service Coverage Ratio, as defined in the respective agreement, of no less than 1.45 times. At closing, the loans were secured by an indirect pledge of equity ownership in 339 HCR ManorCare facilities located in 30 states and were subordinate to other debt of approximately $3.6 billion. At September 30, 2010 and December 31, 2009, the carrying value of these loans was $948 million and $934 million, respectively.

On August 3, 2009, the Company 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. in December 2007. The mortgage debt matures in January 2013, if the borrower exercises a one-year extension option and meets certain performance conditions, which are similar to those described above. The mortgage debt was secured by a first lien on 331 facilities located in 30 states at closing. At September 30, 2010 and December 31, 2009, the carrying value of the participation in this loan was $630 million and $604 million, respectively.

In September 2010 the Company purchased participations in a senior loan and mezzanine note of Genesis Healthcare (Genesis) with face amounts of $92.5 million and $50.0 million, respectively, each at a discount for $83.3 million and $40.0 million, respectively. On October 8, 2010, the Company purchased an additional participation in Genesis senior loan with a face amount of $185 million, at a discount for $167 million. These investments represent a portion of the $1.67 billion of debt incurred in connection with the $2.0 billion acquisition of Genesis in July 2007.

The Genesis senior loan bears interest on the face amount at LIBOR (subject to a current floor of 1.5% increasing to 2.5% by maturity) plus a spread of 4.75% increasing to 5.75% by maturity. The senior loan is prepayable anytime without penalty, matures in September 2014 and is secured by all of Genesis assets. The mezzanine note bears interest on the face amount at LIBOR plus a spread of 7.50% and matures in September 2014. In addition to the coupon interest payments, the mezzanine note requires payment of a termination fee, of which the Company s share is currently $2 million, increasing to a maximum of $5 million if the debt is repaid in full at maturity. The mezzanine note is subordinate to the senior loan and secured by the indirect pledge of equity ownership in Genesis assets. At September 30, 2010, the coupon rates on the senior loan and mezzanine note were 6.25% and 7.76%, respectively.

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(7) Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities which are accounted for under the equity method at September 30, 2010 (dollars in thousands):

Entity(1)	Properties		Investment(2)	Ownership%
HCP Ventures II (see Note 14)	25 senior housing	$	65,108	35
HCP Ventures III, LLC	13 medical office		10,274	30
HCP Ventures IV, LLC	54 medical office and 4 hospital		38,423	20
HCP Life Science(3)	4 life science		65,162	50-63
Horizon Bay Hyde Park, LLC	1 senior housing development		8,268	75
Suburban Properties, LLC	1 medical office		8,984	67
Advances to unconsolidated joint ventures, net			1,478	
		$	197,697	
Edgewood Assisted Living Center, LLC(4)	1 senior housing	$	(331)	45
Seminole Shores Living Center, LLC(4)	1 senior housing		(922)	50
		$	196,444	

(1) These entities are not consolidated since the Company does not control, through voting rights or other means, the joint ventures. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2009 in the Company s Annual Report on Form 10-K filed with the SEC regarding the Company s policy on consolidation.

(2) Represents the carrying value of the Company s investment in the unconsolidated joint venture. See Note 2 to the Consolidated Financial Statements for the year ended December 31, 2009 in the Company s Annual Report on Form 10-K filed with the SEC regarding the Company s policy for accounting for joint venture interests.

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

(4) As of September 30, 2010, the Company has guaranteed in the aggregate $4 million of a total of $8 million of mortgage debt for these joint ventures. No amounts have been recorded related to these guarantees at September 30, 2010. Negative investment amounts are included in accounts payable and accrued liabilities in the Company s condensed consolidated financial statements.

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

		September 30, 2010		December 31, 2009
Real estate, net	$	1,637,197	$	1,655,754
Other assets, net		141,315		189,841
Total assets	$	1,778,512	$	1,845,595
Mortgage debt	$	1,147,533	$	1,159,589
Accounts payable		41,846		38,255
Other partners capital		419,296		462,243

HCP s capital(1)		169,837		185,508
Total liabilities and partners capital	$	1,778,512	$	1,845,595

(1) The combined basis difference of the Company s investments in these joint ventures of $25 million, as of September 30, 2010, is primarily attributable to real estate and lease related net intangible assets.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total revenues	$ 40,733	$ 46,366	$ 133,530	$ 138,833
Net income (loss)(1)	(56,387)	2	(51,992)	(1,093)
HCP s share in earnings(1)	209	1,328	4,078	1,993
HCP s impairment of its investment in HCP Ventures II(1)	(71,693)		(71,693)	
Fees earned by HCP	1,157	1,326	3,755	4,133
Distributions received by HCP	2,539	4,202	7,910	11,219

(1) Net income (loss) for the periods ended September 30, 2010, includes an impairment of $54.5 million related to straight-line rent assets of HCP Ventures II (the Ventures). Concurrently, during the quarter ended September 30, 2010 HCP recognized a $71.7 million impairment of its investment in the Ventures that was primarily attributable to a reduction in the estimated fair value of the Ventures real estate assets and includes the Company s share of the impact of the Ventures impairment of its straight-line rent assets. Therefore, HCP s share in earnings for the periods ended September 30, 2010 do not include the impact of the Ventures impairment of its straight-line rent assets.

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(8) Intangibles

At September 30, 2010 and December 31, 2009, intangible lease assets, comprised of lease-up intangibles, above market tenant lease intangibles, below market ground lease intangibles and intangible assets related to non-compete agreements, were $532.5 million and $592.1 million, respectively. At September 30, 2010 and December 31, 2009, the accumulated amortization of intangible assets was $206.6 million and $202.4 million, respectively.

At September 30, 2010 and December 31, 2009, below market lease and above market ground lease intangible liabilities were $233.1 million and $284.2 million, respectively. At September 30, 2010 and December 31, 2009, the accumulated amortization of intangible liabilities was $79.6 million and $83.9 million, respectively.

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

(9) Other Assets

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

	September 30, 2010	December 31, 2009
Marketable debt securities	$ 101,390	$ 172,799
Marketable equity securities	4,231	3,521
Straight-line rent assets, net of allowance of $34,159 and $48,681, respectively	192,245	158,674
Leasing costs, net	82,240	41,933
Deferred debt issuance costs, net	13,595	18,607
Goodwill	50,346	50,346
Other	50,788	58,834
Total other assets	$ 494,835	$ 504,714

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

	Cost Basis(1)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
September 30, 2010:				
Debt securities	$ 93,930	$ 101,390	$ 7,460	$
Equity securities	3,630	4,231	645	(44)
Total investments	$ 97,560	$ 105,621	$ 8,105	$ (44)
December 31, 2009:				
Debt securities	$ 160,830	$ 172,799	$ 11,969	$
Equity securities	3,685	3,521	236	(400)
Total investments	$			