Invesco Trust for Investment Grade New York Municipals
Form N-CSR
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06537

Invesco Trust for Investment Grade New York Municipals

(Exact name of registrant as specified in charter)

1555 Peachtree Street, N.E., Atlanta, Georgia 30309

(Address of principal executive offices) (Zip code)

Colin Meadows 1555 Peachtree Street, N.E., Atlanta, Georgia 30309

(Name and address of agent for service)

Registrant s telephone number, including area code: (713) 626-1919

Date of fiscal year end: 2/28

Date of reporting period: 2/28/13

Item 1. Report to Stockholders.

Management s Discussion of Trust Performance

Performance summary

The Trust s return can be calculated based on either the market price or the net asset value (NAV) of its shares. NAV per share is determined by dividing the value of the Trust s portfolio securities, cash and other assets, less all liabilities and preferred shares, by the total number of common shares outstanding. Market price reflects the supply and demand for Trust shares. As a result, the two returns can differ, as they did during the reporting period. A main contributor to the Trust s return on an NAV basis was its exposure to the long end of the curve and allocation to leasing bonds.

Performance

Total returns, 2/29/12 to 2/28/13

Trust at NAV	9.05%
Trust at Market Value	9.83
Barclays New York Municipal Index	4.56
Market Price Premium to NAV as of 2/28/13	3.94

Source(s): Barclays via FactSet Research Systems Inc.

The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Investment return, NAV and common share market price will fluctuate so that you may have a gain or loss when you sell shares. Please visit invesco.com/us for the most recent month-end performance. Performance figures reflect Trust expenses, the reinvestment of distributions (if any) and changes NAV for performance based on NAV and changes in market price for performance based on market price.

Since the Trust is a closed-end management investment company, shares of the Trust may trade at a discount or premium from the NAV. This characteristic is separate and distinct from the risk that NAV could decrease as a result of investment activities and may be a greater risk to investors expecting to sell their shares after a short time. The Trust cannot predict whether shares will trade at, above or below NAV. The Trust should not be viewed as a vehicle for trading purposes. It is designed primarily for risk-tolerant long-term investors.

How we invest

We seek to provide investors with a high level of current income exempt from federal income tax, as well as New York State and New York City income taxes, consistent with preservation of capital.

We seek to achieve the Trust s investment objective by investing primarily in New York municipal securities that are rated investment grade by at least one nationally recognized statistical rating organization. Municipal obligations include municipal bonds, municipal notes, municipal commercial paper and lease obligations. The Trust also may invest up to 20% of its net assets in non-investment-grade and unrated securities that we determine to be of comparable quality. From time to time, we may invest in New York municipal securities that pay interest that is subject to the federal alternative minimum tax.

We employ a bottom-up, research-driven approach to identify securities that have attractive risk-reward characteristics for the sectors in which we invest. We also integrate macroeconomic analysis and forecasting into our evaluation and ranking of various sectors and individual securities. Finally, we employ leverage in an effort to enhance the Trust s income and total return.

Sell decisions generally are based on:

- A deterioration or likely deterioration of an individual issuer s capacity to meet its debt obligations on a timely basis.
- A deterioration or likely deterioration of the broader fundamentals of a particular industry or sector.
- Opportunities in the secondary or primary market to exchange into a security with better relative value.

Market conditions and your Trust

For the fiscal year ended February 28, 2013, the municipal market produced yet another year of positive performance. The Barclays Municipal Bond Index returned 5.01%, outperforming other fixed income indexes such as the Barclays U.S. Aggregate Index, which returned 3.12%; the Barclays Asset-Backed Securities Index, which returned 2.64%; the Barclays U.S. Mortgage-Backed Securities Index, which returned 1.92%; and the Barclays U.S. Agency Index, which returned 1.88%.[1]

During the reporting period, municipal issuance, or lack thereof, coupled with strong net inflows into municipal bond funds, resulted in a favorable environment for municipal performance. Municipal bond issuance ended 2012 with $379 billion in gross new issues.[2] While the gross figure reflects a 29% increase from the 2011 level, it also marks the second consecutive year of net negative supply.[2] Concerns regarding tax reform and general economic uncertainty led investors to flock into municipal bond funds, and net inflows for calendar year 2012 were over $50 billion[3], a stark contrast from the $12 billion in net outflows that the category experienced in calendar year 2011.[3]

New York continues to benefit from a well-diversified economy with strong demographic trends, including median household incomes above the national average and a highly educated workforce. The state s challenges center on the economy s cyclical nature and the state s dependence on the New York City-based financial services industry, volatile state finances due to above-average dependence on income taxes, and high recurring expenditures resulting from a generous social services regime. However, we believe that when compared to other states, New York s pension system is well funded.

As we approached the end of the reporting period, we expected political, headline and event risk to remain elevated in 2013 as lawmakers consider various options to close the federal spending gap. We recognize that difficult budget

Portfolio Composition
By credit sector, based on total investments

Revenue Bonds	88.9%
General Obligation Bonds	7.8
Pre-refunded Bonds	2.1
Other	1.2

Total Net Assets	
Applicable to Common Shares	$310.5 million
Total Number of Holdings	206

Top Five Fixed Income Holdings

	Coupon	Maturity	% of Total Net Assets
1. New York Liberty Development Corp.	5.00%	09/15/40	5.3%
2. New York (City of) Transitional Finance Authority	5.00	11/01/33	5.1
3. New York (City of) Municipal Water Finance Authority	5.00	06/15/37	4.2
4. New York (City of)	5.00	04/01/27	3.7

5. New York (City of)	5.00	02/01/26	3.7

The Trust s holdings are subject to change, and there is no assurance that the Trust will continue to hold any particular security.

and policy decisions are needed, and as a result we are avoiding investments that are highly dependent on federal aid.

Trust performance was also driven by BBB-AAA[4] credit quality spread tightening for most of the reporting period, largely a result of continued declining yields, strong demand and low tax-exempt issuance. As a result, BBB-rated and lower credit quality sectors outperformed higher-rated credits and contributed to performance as we held overweight exposure to these market segments. The Trust s non-rated exposure and our allocation within AA-rated issues also contributed to performance.

At a sector level, our allocation in the leasing and the education sectors contributed to Trust returns for the reporting period. Our exposure to transportation bonds detracted from returns.

In terms of yield curve positioning, the Trust s exposure to the intermediate (15- to 20-years) and the long end (20+ years) of the curve contributed to returns as yields declined during most of the reporting period. Some of our yield curve and duration positioning was implemented through the use of structural leverage.

One important factor affecting the return of the Trust relative to the Barclays New York Municipal Index was the Trust s use of structural leverage. The Trust uses leverage because we believe that, over time, leveraging can provide opportunities for additional income and total return for common shareholders. However, the use of leverage also can expose common shareholders to additional volatility. For example, if the prices of securities held by a trust decline, the negative effect of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a trust generally are rising.

During the reporting period, the Trust achieved a leveraged position through the use of inverse floating rate securities and Variable Rate Muni Term Preferred (VMTP) shares. Inverse floating rate securities are instruments that have an inverse relationship to a referenced interest rate. VMTPs are a variable rate form of preferred stock with a mandatory redemption date. Inverse floating rate securities and VMTPs can be a more efficient means by which to manage duration, yield curve exposure and credit exposure and potentially can enhance yield. As of the close of the reporting period, leverage accounted for 36% of the Trust s total assets. During the reporting period, the use of leverage added to returns. For more information

about the Trust s use of leverage, see the Notes to Financial Statements later in this report.

As stated earlier, the Trust trades at a market price that may be at a premium or discount to NAV. Until June, the Trust fluctuated between trading at a premium and trading at a discount. After June, the Trust traded at a premium until the end of the reporting period.

Thank you for investing in Invesco Trust for Investment Grade New York Municipals and for sharing our long-term investment horizon.

1 Source: Barclays
2 Source: Securities Industry and Financial Markets Association
3 Source: Morningstar
4 Standard & Poor s. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. Non-Rated indicates the debtor was not rated, and should not be interpreted as indicating low quality. For more information on Standard & Poor s rating methodology, please visit standardandpoors.com and select Understanding Ratings under Rating Resources on the homepage.

The views and opinions expressed in management s discussion of Trust performance are those of Invesco Advisers, Inc. These views and opinions are subject to change at any time based on factors such as market and economic conditions. These views and opinions may not be relied upon as investment advice or recommendations, or as an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Trust. Statements of fact are from sources considered reliable, but Invesco Advisers, Inc. makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

See important Trust and, if applicable, index disclosures later in this report.

Thomas Byron

Portfolio manager, is manager of Invesco Trust for Investment Grade New York Municipals. He joined Invesco in 2010. Mr. Byron was associated with the Trust s previous investment adviser or its investment advisory affiliates in an investment management capacity from 1981 to 2010 and began managing the Trust in 2011. He earned a BS in finance from Marquette University and an

MBA in finance from DePaul University.

Robert Stryker

Chartered Financial Analyst, portfolio manager, is manager of Invesco Trust for Investment Grade New York Municipals. He joined Invesco in 2010. Mr. Stryker was associated with the Trust s previous investment adviser or its investment advisory affiliates in an investment management capacity from 1994 to 2010 and began managing the Trust in 2007. He earned a BS in finance from the University of Illinois at Chicago.

Julius Williams

Portfolio manager, is manager of Invesco Trust for Investment Grade New York Municipals. He joined Invesco in 2010. Mr. Williams was associated with the Trust s previous investment adviser or its investment advisory affiliates in an investment management capacity from 2000 to 2010 and began managing the Trust in 2009. He earned a BA in economics and sociology and a Master of Education degree in educational psychology from the University of Virginia.

Robert Wimmel

Portfolio manager, is manager of Invesco Trust for Investment Grade New York Municipals. He joined Invesco in 2010. Mr. Wimmel was associated with the Trust s previous investment adviser or its investment advisory affiliates in an investment management capacity from 1996 to 2010 and began managing the Trust in 2011. He earned a BA in anthropology from the University of Cincinnati and an MA in economics from the University of Illinois at Chicago.

Supplemental Information

Invesco Trust for Investment Grade New York Municipals investment objective is to provide common shareholders with a high level of current income exempt from federal as well as from New York State and New York City income taxes, consistent with preservation of capital.

- Unless otherwise stated, information presented in this report is as of February 28, 2013, and is based on total net assets applicable to common shares.
- Unless otherwise noted, all data provided by Invesco.
- To access your Trust s reports, visit invesco.com/fundreports.

About indexes used in this report

- The **Barclays New York Municipal Index** is an unmanaged index considered representative of New York investment-grade municipal bonds.
- The **Barclays Municipal Bond Index** is an unmanaged index considered representative of the tax-exempt bond market.
- The **Barclays U.S. Aggregate Index** is an unmanaged index considered representative of the US investment-grade, fixed-rate bond market.
- The **Barclays Asset-Backed Securities Index** tracks the performance of debt securities backed by assets including credit card, home equity and auto loans that are rated investment grade or higher.
- The **Barclays U.S. Mortgage-Backed Securities Index** represents mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae and Freddie Mac.
- The **Barclays U.S. Agency Index** measures the performance of the agency sector of the US government bond market and is composed of investment-grade US dollar-denominated debentures issued by government and government-related agencies, including FNMA and FHLMC.
- The Trust is not managed to track the performance of any particular index, including the index(es) described here, and consequently, the performance of the Trust may deviate significantly from the performance of the index(es).
- A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of the peer group, if applicable, reflects trust expenses; performance of a market index does not.

Other information

- The returns shown in management s discussion of Trust performance are based on net asset values calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the Trust at period end for financial reporting purposes, and as such, the net asset values for shareholder transactions and the returns based on those net asset values may differ from the net asset values and returns reported in the Financial Highlights.

NYSE Symbol	**VTN**

Dividend Reinvestment Plan

The dividend reinvestment plan (the Plan) offers you a prompt and simple way to reinvest your dividends and capital gains distributions (Distributions) into additional shares of your Trust. Under the Plan, the money you earn from Distributions will be reinvested automatically in more shares of your Trust, allowing you to potentially increase your investment over time.

Plan benefits

- **Add to your account:**
You may increase the amount of shares in your Trust easily and automatically with the Plan.

- **Low transaction costs:**
Shareholders who participate in the Plan are able to buy shares at below-market prices when the Trust is trading at a premium to its net asset value (NAV). In addition, transaction costs are low because when new shares are issued by a Trust, there is no fee, and when shares are bought in blocks on the open market, the per share fee is shared among all Participants.

- **Convenience:**
You will receive a detailed account statement from Computershare Trust Company, N.A. (the Agent) which administers the Plan. The statement shows your total Distributions, date of investment, shares acquired, and price per share, as well as the total number of shares in your reinvestment account. You can also access your account via the Internet. To do this, please go to invesco.com/us.

- **Safekeeping:**
The Agent will hold the shares it has acquired for you in safekeeping.

How to participate in the Plan

If you own shares in your own name, you can participate directly in the Plan. If your shares are held in street name in the name of your brokerage firm, bank, or other financial institution you must instruct that entity to participate on your behalf. If they are unable to participate on your behalf, you may request that they reregister your shares in your own name so that you may enroll in the Plan.

How to enroll

To enroll in the Plan, please read the Terms and Conditions in the Plan Brochure. You can enroll in the Plan by visiting invesco.com/us, calling toll-free 800 341 2929 or notifying us in writing at Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. Please include your Trust name and account number and ensure that all shareholders listed on the account sign these written instructions. Your participation in the Plan will begin with the next Distribution payable after the Agent receives your authorization, as long as they receive it before the record date, which is generally 10 business days before such Distributions are paid. If your authorization arrives after such record date, your participation in the Plan will begin with the following Distributions.

How the Plan works

If you choose to participate in the Plan, your Distributions will be promptly reinvested for you, automatically increasing your reinvestment shares. If the Trust is trading at a share price that is equal to its NAV, you ll pay that amount for your reinvested shares. However, if the Trust is trading above or below NAV, the price is determined by one of two ways:

1. Premium: If the Trust is trading at a premium a market price that is higher than its NAV you ll pay either the NAV or 95 percent of the market price, whichever is greater. When the Trust trades at a premium, you ll pay less for your reinvested shares than an investor purchasing shares on the stock exchange. Keep in mind, a portion of your price reduction may be taxable because you are receiving shares at less than market price.
2. Discount: If the Trust is trading at a discount a market price that is lower than its NAV you ll pay the market price for your reinvested shares.

Costs of the Plan

There is no direct charge to you for reinvesting Distributions because the Plan s fees are paid by your Trust. If your Trust is trading at or above its NAV, your new shares are issued directly by the Trust and there are no brokerage charges or fees. However, if your Trust is trading at a discount, the shares are purchased on the open market, and you will pay your portion of per share fees. These per share fees are typically less than the standard brokerage charges for individual transactions because shares are purchased for all Participants in blocks, resulting in lower fees for each individual Participant. Any service or per share fees are added to the purchase price. Per share fees include any applicable brokerage commissions the Agent is required to pay.

Tax implications

The automatic reinvestment of Distributions does not relieve you of any income tax that may be due on Distributions. You will receive tax information annually to help you prepare your federal income tax return.

Invesco does not offer tax advice. The tax information contained herein is general and is not exhaustive by nature. It was not intended or written to be used, and it cannot be used, by any taxpayer for avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. Federal and state tax laws are complex and constantly changing. Shareholders should always consult a legal or tax adviser for information concerning their individual situation.

How to withdraw from the Plan

You may withdraw from the Plan at any time by calling 800 341 2929, visiting invesco.com/us or by writing to Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. Simply indicate that you would like to withdraw from the Plan, and be sure to include your Trust name and account number. Also, ensure that all shareholders listed on the account have signed these written instructions. If you withdraw, you have three options with regard to the shares held in the Plan:

1. If you opt to continue to hold your non-certificated whole shares (Investment Plan Book Shares), they will be held by the Agent electronically as Direct Registration Book-Shares (Book-Entry Shares) and fractional shares will be sold at the then-current market price. Proceeds will be sent via check to your address of record after deducting applicable fees.
2. If you opt to sell your shares through the Agent, we will sell all full and fractional shares and send the proceeds via check to your address of record after deducting a $2.50 service fee and applicable per share fees. Per share fees include any applicable brokerage commissions the Agent is required to pay.
3. You may sell your shares through your financial adviser through the Direct Registration System (DRS). DRS is a service within the securities industry that allows Trust shares to be held in your name in electronic format. You retain full ownership of your shares, without having to hold a share certificate. You should contact your financial adviser to learn more about any restrictions or fees that may apply.

Note that the Plan may be amended or supplemented by the Trust at any time upon 30 days written notice to Plan participants.

To obtain a complete copy of the current Dividend Reinvestment Plan, please call our Client Services department at 800 341 2929 or visit invesco.com/us.

Schedule of Investments

February 28, 2013

	Interest Rate	Maturity Date	Principal Amount (000)	Value
Municipal Obligations 158.62%				
New York 146.44%				
Albany (City of) Industrial Development Agency (St. Peter s Hospital); Series 2008 D, Civic Facility RB	5.75%	11/15/27	$ 1,000	$ 1,145,310
Albany (County of) Airport Authority; Series 2010 A, Ref. RB (INS-AGM)[(a)]	5.00%	12/15/25	500	573,795
Albany Capital Resource Corp. (St. Peter s Hospital); Series 2011, RB	6.25%	11/15/38	2,360	2,831,481
Battery Park City Authority; Series 2009 B, Sr. RB	5.00%	11/01/34	3,700	4,419,095
Brooklyn Arena Local Development Corp. (Barclays Center);				
Series 2009, PILOT CAB RB[(b)]	0.00%	07/15/34	8,315	3,079,627
Series 2009, PILOT RB	6.25%	07/15/40	1,025	1,231,374
Series 2009, PILOT RB	6.38%	07/15/43	1,025	1,232,224
Build NYC Resource Corp. (YMCA of Greater New York);				
Series 2012, RB	5.00%	08/01/32	650	746,532
Series 2012, RB	5.00%	08/01/42	1,250	1,410,638
Chautauqua (County of) Industrial Development Agency (NRG Energy, Inc. Dunkirk Power LLC); Series 2009, Exempt Facility RB	5.88%	04/01/42	2,990	3,376,009
Dutchess (County of) Industrial Development Agency (Elant at Fishkill, Inc.); Series 2007 A, Civic Facility RB	5.25%	01/01/37	920	876,098
East Rochester (Village of) Housing Authority (Woodland Village, Inc.); Series 2006, Ref. Senior Living RB	5.50%	08/01/33	2,400	2,427,912
Erie (County of) Industrial Development Agency (City of Buffalo School District);				
Series 2011 A, School Facility RB[(c)]	5.25%	05/01/28	2,500	2,919,800
Series 2011 A, School Facility RB[(c)]	5.25%	05/01/30	2,710	3,139,454
Series 2011 A, School Facility RB[(c)]	5.25%	05/01/31	1,000	1,153,000
Essex (County of) Industrial Development Agency (International Paper); Series 2005 A, Ref. Solid Waste Disposal RB[(d)]	5.20%	12/01/23	2,650	2,784,434
Hempstead Town Local Development Corp. (Molloy College); Series 2009, RB	5.75%	07/01/39	3,115	3,545,462
Hudson Yards Infrastructure Corp.; Series 2011 A, RB	5.75%	02/15/47	3,160	3,767,068
Long Island Power Authority;				
Series 2006 E, Electric System General RB	5.00%	12/01/17	1,975	2,263,686
Series 2009 A, Electric System General RB	5.75%	04/01/39	635	759,447
Series 2009 A, Electric System General RB	6.25%	04/01/33	1,860	2,303,145
Madison (County of) Industrial Development Agency (Colgate University); Series 2003 B, RB[(e)(f)]	5.00%	07/01/13	1,000	1,016,680
	5.00%	06/01/28	1,000	1,027,740

Madison (County of) Industrial Development Agency (Morrisville State College Foundation); Series 2005 A, Civic Facility RB (INS-CIFG)[a]				
Madison (County of) Industrial Development Agency (Oneida Health Systems, Inc.); Series 2007, Civic Facility RB	5.50%	02/01/32	1,000	1,030,320
Metropolitan Transportation Authority;				
Series 2005 B, RB (INS-BHAC)[a][c]	5.00%	11/15/31	10,000	11,021,700
Series 2009 B, Dedicated Tax Fund RB	5.25%	11/15/27	1,535	1,830,748
Series 2009 B, Dedicated Tax Fund RB	5.00%	11/15/34	500	566,715
Series 2012 D, Ref. RB	5.00%	11/15/32	315	363,283
Subseries 2011 B-2, Dedicated Tax Fund RB	5.00%	11/15/32	1,360	1,595,035
Monroe County Industrial Development Corp. (Nazareth College of Rochester); Series 2011, RB	5.50%	10/01/41	880	980,223
Monroe County Industrial Development Corp. (Rochester General Hospital); Series 2013 A, Ref. RB	5.00%	12/01/42	1,890	2,103,532
Monroe County Industrial Development Corp. (University of Rochester); Series 2011 A, RB	5.00%	07/01/36	2,030	2,310,708
Montgomery (County of) Industrial Development Agency (Hamilton Fulton Montgomery Board of Cooperative Educational Services); Series 2005 A, Lease RB (INS-SGI)[a]	5.00%	07/01/34	1,000	1,010,600
Nassau (County of) Industrial Development Agency (Amsterdam at Harborside); Series 2007 A, Continuing Care Retirement Community RB	6.70%	01/01/43	560	379,882
Nassau County Local Economic Assistance Corp. (South Nassau Communities); Series 2012, Ref. RB	5.00%	07/01/27	2,070	2,360,649
Nassau County Local Economic Assistance Corp. (Winthrop University Hospital Association); Series 2012, Ref. RB	5.00%	07/01/37	2,250	2,439,360
Nassau County Tobacco Settlement Corp.; Series 2006 A-2, Sr. Asset-Backed RB	5.25%	06/01/26	1,000	977,520

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
New York (continued)				
New York & New Jersey (States of) Port Authority (JFK International Air Terminal LLC);				
Series 1997, Special Obligation RB (INS-NATL)[(a)(d)]	5.75%	12/01/22	$ 2,000	$ 2,000,820
Series 1997 6, Special Obligation RB (INS-NATL)[(a)(d)]	5.75%	12/01/25	2,500	2,500,750
Series 2010, Special Obligation RB	6.00%	12/01/42	1,930	2,292,724
New York & New Jersey (States of) Port Authority;				
One Hundred Fifty-Second Series 2008, Consolidated RB[(c)(d)]	5.00%	11/01/25	10,000	11,351,200
One Hundred Forty-Fourth Series 2006, Consolidated RB[(c)]	5.00%	10/01/35	10,000	11,316,700
New York (City of) Industrial Development Agency (IAC/InterActive Corp.); Series 2005, Liberty RB	5.00%	09/01/35	3,985	4,152,649
New York (City of) Industrial Development Agency (New York Stock Exchange); Series 2009 A, Ref. Special Facility RB	5.00%	05/01/21	2,445	2,867,789
New York (City of) Industrial Development Agency (Polytechnic University); Series 2007, Ref. Civic Facility RB (INS-ACA)[(a)]	5.25%	11/01/37	3,700	3,983,272
New York (City of) Industrial Development Agency (Terminal One Group Association, L.P.);				
Series 2005, Special Facility RB[(d)(g)]	5.50%	01/01/19	3,710	4,119,621
Series 2005, Special Facility RB[(d)(g)]	5.50%	01/01/20	3,000	3,331,230
Series 2005, Special Facility RB[(d)(g)]	5.50%	01/01/21	4,000	4,429,840
Series 2005, Special Facility RB[(d)(g)]	5.50%	01/01/24	2,000	2,207,860
New York (City of) Municipal Water Finance Authority;				
Series 2005 C, Water & Sewer System RB[(c)]	5.00%	06/15/31	10,000	10,873,500
Series 2005 D, Water & Sewer System RB[(c)]	5.00%	06/15/37	12,000	13,019,640
Series 2009 FF-2, Water & Sewer System RB	5.50%	06/15/40	3,000	3,557,190
Series 2010 FF, Second General Resolution Water & Sewer System RB	5.00%	06/15/31	600	697,944
New York (City of) Transitional Finance Authority;				
Series 2004, Future Tax Sec. RB[(e)(f)]	5.00%	02/01/14	500	521,555
Series 2008 S-1, Building Aid RB	5.50%	07/15/38	2,950	3,345,978
Series 2008 S-2, Building Aid RB	6.00%	07/15/33	1,650	1,948,567
Series 2009 A, Future Tax Sec. RB[(c)]	5.00%	05/01/28	625	745,606
Series 2009 A, Future Tax Sec. RB[(c)]	5.00%	05/01/29	500	597,780
Series 2009 A, Future Tax Sec. RB[(c)]	5.00%	05/01/30	500	585,415
Series 2009 S-3, Building Aid RB[(c)]	5.25%	01/15/27	4,500	5,246,325
Series 2009 S-3, Building Aid RB[(c)]	5.25%	01/15/39	2,500	2,798,950
Subseries 2011 D-1, Future Tax Sec. RB[(c)]	5.00%	11/01/33	13,500	15,915,150
Subseries 2011 E, Future Tax Sec. RB	5.00%	11/01/24	1,135	1,375,052
New York (City of) Trust for Cultural Resources (American Museum of Natural History); Series 2004 A, Ref. RB (INS-NATL)[(a)(c)]	5.00%	07/01/44	10,890	11,467,388
New York (City of) Trust for Cultural Resources (Carnegie Hall); Series 2009 A, RB	5.00%	12/01/39	1,880	2,079,900
New York (City of) Trust for Cultural Resources (The Museum of Modern Art);				

Series 2008 1A, Ref. RB(c)	5.00%	04/01/28	2,250	2,651,918
Series 2008 1A, Ref. RB	5.00%	04/01/31	1,550	1,817,654
New York (City of) Trust for Cultural Resources (Wildlife Conservation Society); Series 2004, RB(e)(f)	5.00%	02/01/14	1,000	1,033,350
New York (City of);				
Series 1993 C, VRD Unlimited Tax GO Bonds (LOC-JP Morgan Chase Bank N.A.)(h)(i)	0.11%	10/01/23	2,200	2,200,000
Subseries 1993 A-8, VRD Unlimited Tax GO Bonds (LOC-JPMorgan Chase Bank, N.A.)(h)(i)	0.09%	08/01/17	2,500	2,500,000
Subseries 2008 A-1, Unlimited Tax GO Bonds(c)	5.25%	08/15/27	1,140	1,353,180
Subseries 2008 A-1, Unlimited Tax GO Bonds(c)	5.25%	08/15/28	1,140	1,352,530
Subseries 2008 F-1, Unlimited Tax GO Bonds	5.50%	11/15/28	4,050	4,889,687
Subseries 2008 G-1, Unlimited Tax GO Bonds	6.25%	12/15/35	400	489,388
Subseries 2008 I-1, Unlimited Tax GO Bonds(c)	5.00%	02/01/26	10,000	11,619,400
Subseries 2008 L-1, Unlimited Tax GO Bonds(c)	5.00%	04/01/27	10,000	11,625,700
Subseries 2009 I-1, Unlimited Tax GO Bonds	5.25%	04/01/32	3,500	4,141,095
New York (State of) Dormitory Authority (Brooklyn Law School);				
Series 2003 B, RB(e)(f)	5.38%	07/01/13	2,340	2,381,863
Series 2009, RB	5.75%	07/01/33	540	619,947
Series 2012 A, RB	5.00%	07/01/28	2,000	2,298,200
Series 2012 A, RB	5.00%	07/01/29	1,000	1,146,490

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
New York (continued)				
New York (State of) Dormitory Authority (Catholic Health Services of Long Island St. Francis Hospital); Series 2004, RB	5.00%	07/01/27	$ 2,200	$ 2,250,204
New York (State of) Dormitory Authority (City of New York);				
Series 2005 A, Court Facilities Lease RB (INS-AMBAC)[(a)]	5.50%	05/15/27	700	918,218
Series 2005 A, Court Facilities Lease RB (INS-AMBAC)[(a)]	5.50%	05/15/30	1,750	2,347,467
Series 2005 A, Court Facilities Lease RB (INS-AMBAC)[(a)]	5.50%	05/15/31	445	599,090
New York (State of) Dormitory Authority (Convent of The Sacred Heart); Series 2011, RB (INS-AGM)[(a)]	5.75%	11/01/40	1,255	1,480,072
New York (State of) Dormitory Authority (Cornell University);				
Series 2006 A, RB[(c)]	5.00%	07/01/35	3,990	4,477,458
Series 2010 A, RB	5.00%	07/01/40	1,000	1,154,010
New York (State of) Dormitory Authority (Education); Series 2008 B, State Personal Income Tax RB	5.75%	03/15/36	2,150	2,611,841
New York (State of) Dormitory Authority (Fashion Institute of Technology Student Housing Corp.);				
Series 2007, RB (INS-NATL)[(a)]	5.25%	07/01/28	2,065	2,446,385
New York (State of) Dormitory Authority (Fordham University);				
Series 2008 B, RB (INS-AGC)[(a)]	5.00%	07/01/33	1,415	1,601,936
Series 2011 A, RB	5.13%	07/01/29	500	584,510
New York (State of) Dormitory Authority (General Purpose);				
Series 2010 E, State Personal Income Tax RB	5.00%	02/15/40	500	566,955
Series 2011 A, State Personal Income Tax RB[(c)]	5.00%	03/15/30	3,000	3,520,920
New York (State of) Dormitory Authority (Maimonides Medical Center); Series 2004, Mortgage Hospital RB[(e)(f)]	5.00%	08/01/14	1,950	2,053,974
New York (State of) Dormitory Authority (Manhattan College); Series 2007 A, RB (INS-Radian)[(a)]	5.00%	07/01/41	2,715	2,796,966
New York (State of) Dormitory Authority (Memorial Sloan-Kettering Cancer Center);				
Series 1998, RB (INS-NATL)[(a)]	5.50%	07/01/23	3,750	4,903,125
Series 2003 1, RB[(e)(f)]	5.00%	07/01/13	1,000	1,016,610
New York (State of) Dormitory Authority (Montefiore Medical Center); Series 2004, Hospital RB (INS-NATL)[(a)]	5.00%	08/01/29	1,000	1,063,740
New York (State of) Dormitory Authority (Mount Sinai Hospital Obligated Group); Series 2011 A, RB	5.00%	07/01/31	2,125	2,365,975
New York (State of) Dormitory Authority (Mount Sinai School of Medicine of New York University); Series 2009, RB	5.13%	07/01/39	1,750	1,929,742
New York (State of) Dormitory Authority (New York University Hospitals Center); Series 2011 A, RB	6.00%	07/01/40	500	588,965
New York (State of) Dormitory Authority (New York University);				

Series 2001 1, RB (INS-AMBAC)[(a)]	5.50%	07/01/31	2,500	3,251,350
Series 2001 1, RB (INS-BHAC)[(a)]	5.50%	07/01/31	1,115	1,445,062
New York (State of) Dormitory Authority (North Shore Long Island Jewish Obligated Group);				
Series 2009 A, RB	5.50%	05/01/37	1,250	1,427,550
Series 2011 A, RB	5.00%	05/01/32	500	565,995
Series 2011 A, RB	5.00%	05/01/41	1,000	1,125,850
Subseries 2005 A, RB	5.00%	11/01/26	2,125	2,284,184
New York (State of) Dormitory Authority (Orange Regional Medical Center); Series 2008, RB	6.50%	12/01/21	3,000	3,481,590
New York (State of) Dormitory Authority (Pace University);				
Series 2013 A, RB	5.00%	05/01/28	1,000	1,118,800
Series 2013 A, RB	5.00%	05/01/29	1,000	1,115,180
Series 2013 A, RB	5.00%	05/01/38	500	541,215
New York (State of) Dormitory Authority (Pratt Institution); Series 2009 C, RB (INS-AGC)[(a)]	5.13%	07/01/39	1,000	1,120,320
New York (State of) Dormitory Authority (Rochester Institute of Technology); Series 2010, RB	5.00%	07/01/40	1,750	1,951,547
New York (State of) Dormitory Authority (Rockefeller University); Series 2010 A, RB	5.00%	07/01/41	1,870	2,139,243
New York (State of) Dormitory Authority (School Districts Financing Program);				
Series 2008 D, RB (INS-AGC)[(a)]	5.75%	10/01/24	2,500	3,035,475
Series 2009 C, RB (INS-AGC)[(a)]	5.00%	10/01/24	500	586,025
Series 2011 A, RB	5.00%	10/01/25	1,195	1,415,035
New York (State of) Dormitory Authority (St. John s University); Series 2012 B, RB	5.00%	07/01/30	2,780	3,248,430
New York (State of) Dormitory Authority (St. Joseph s College); Series 2010, RB	5.25%	07/01/35	1,500	1,671,150
New York (State of) Dormitory Authority (State University Dormitory Facilities); Series 2012 A, RB	5.00%	07/01/42	2,000	2,305,200

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
New York (continued)				
New York (State of) Dormitory Authority (State University Educational Facilities);				
Series 1993 A, RB (INS-NATL)[(a)]	5.25%	05/15/15	$ 3,600	$ 3,844,260
Series 1993 B, RB	5.25%	05/15/19	5,010	5,675,428
New York (State of) Dormitory Authority (The New School);				
Series 2010, RB	5.50%	07/01/40	2,755	3,146,238
Series 2011, Ref. RB	5.00%	07/01/31	1,750	1,986,495
New York (State of) Dormitory Authority (Vassar College); Series 2007, RB	5.00%	07/01/46	2,075	2,339,210
New York (State of) Dormitory Authority (Winthrop South Nassau University Health System Obligated Group); Series 2003 B, RB[(e)(f)]	5.50%	07/01/13	750	763,740
New York (State of) Dormitory Authority;				
Series 1993 A, Second General City University System Consolidated RB	5.75%	07/01/13	675	687,582
Series 1995 A, City University System Consolidated RB	5.63%	07/01/16	2,980	3,327,021
Series 2007 A, Mental Health Services Facilities Improvement RB (INS-AGM)[(a)]	5.00%	02/15/27	2,500	2,842,625
Series 2008 C, Mental Health Services Facilities Improvement RB (INS-AGM)[(a)(d)]	5.25%	02/15/28	2,000	2,253,220
New York (State of) Energy Research & Development Authority; Series 1993, Regular Residual Interest RB[(j)]	12.31%	04/01/20	1,500	1,506,720
New York (State of) Mortgage Agency; Series 2007 145, Homeowner Mortgage RB[(d)]	5.05%	10/01/29	1,555	1,627,183
New York (State of) Power Authority; Series 2011 A, RB	5.00%	11/15/38	1,770	2,046,208
New York (State of) Thruway Authority (Transportation); Series 2009 A, Personal Income Tax RB	5.00%	03/15/25	410	491,951
New York (State of) Thruway Authority;				
Series 2008 B, Second General Highway & Bridge Trust Fund RB	5.00%	04/01/27	1,000	1,163,520
Series 2012 I, General RB	5.00%	01/01/42	2,390	2,684,663
New York City Health & Hospital Corp.;				
Series 2003 A, Health System RB (INS-AMBAC)[(a)]	5.25%	02/15/21	2,000	2,007,900
Series 2010 A, Health System RB	5.00%	02/15/30	2,780	3,133,560
New York Liberty Development Corp. (4 World Trade Center); Series 2011, Ref. Liberty RB	5.00%	11/15/31	2,125	2,433,762
New York Liberty Development Corp. (7 World Trade Center);				
Series 2012, Class 1, Ref. Liberty RB[(c)]	5.00%	09/15/40	14,445	16,479,289
Series 2012, Class 2, Ref. Liberty RB	5.00%	09/15/43	1,125	1,248,885
New York Liberty Development Corp. (Bank of America Tower at One Bryant Park); Series 2010, Ref. Second Priority Liberty RB	6.38%	07/15/49	2,785	3,319,497
New York Liberty Development Corp. (Goldman Sachs Headquarters); Series 2005, RB	5.25%	10/01/35	2,400	2,869,392

New York Local Government Assistance Corp.; Series 1993 C, Ref. RB	5.50%	04/01/17	2,000	2,313,460
New York State Environmental Facilities Corp. (2010 Master Financing Program); Series 2010 C, RB	5.00%	10/15/39	1,905	2,176,120
New York State Environmental Facilities Corp. (Municipal Water Finance Authority); Series 2011 B, State Clean Water & Drinking Water Revolving Funds RB	5.00%	06/15/31	1,570	1,860,466
New York State Urban Development Corp.;				
Series 1993 A, Ref. Correctional Facilities RB	5.50%	01/01/14	975	1,018,563
Series 2008 B, Ref. Service Contract RB	5.25%	01/01/24	750	882,368
Series 2008 B, Ref. Service Contract RB	5.25%	01/01/25	2,000	2,340,960
Niagara Falls (City of) Public Water Authority; Series 2005, Water & Sewer System RB (INS-SGI)[(a)]	5.00%	07/15/26	1,000	1,045,920
Niagara Frontier Transportation Authority (Buffalo Niagara International Airport); Series 1999 A, Airport RB (INS-NATL)[(a)(d)]	5.63%	04/01/29	3,570	3,610,270
North Syracuse Central School District; Series 2007, Ref. Unlimited Tax GO Bonds (INS-NATL)[(a)]	5.00%	06/15/23	940	1,157,817
Oneida (County of) Industrial Development Agency (St. Elizabeth Medical Center Facility);				
Series 1999 A, Civic Facility RB	5.88%	12/01/29	475	475,689
Series 1999 B, Civic Facility RB	6.00%	12/01/19	1,050	1,052,447
Onondaga Civic Development Corp. (Le Moyne College); Series 2010, RB	5.38%	07/01/40	2,435	2,687,583
Orange County Funding Corp. (Mount Saint Mary College); Series 2012 A, RB	5.00%	07/01/42	1,000	1,112,280
Rockland (County of) Solid Waste Management Authority; Series 2003 B, RB (INS-AMBAC)[(a)(d)]	5.13%	12/15/28	1,000	1,030,280
Rockland (County of); Series 2012, Limited Tax GO TAN	2.50%	03/06/13	1,060	1,060,297
Sales Tax Asset Receivable Corp.; Series 2004 A, RB (INS-AMBAC)[(a)]	5.00%	10/15/29	1,500	1,607,325
Saratoga (County of) Industrial Development Agency (Saratoga Hospital); Series 2007 B, Civic Facility RB	5.13%	12/01/27	1,000	1,079,480
Seneca (County of) Industrial Development Agency (Seneca Meadows, Inc.); Series 2005, RB[(d)(e)(g)(k)]	6.63%	10/01/13	1,880	1,895,736

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
New York (continued)				
Suffolk (County of) Industrial Development Agency (Eastern Long Island Hospital Association); Series 2007, Civic Facility RB[k]	5.38%	01/01/27	$ 1,860	$ 1,879,437
Suffolk (County of) Industrial Development Agency (Jefferson s Ferry); Series 2006, Ref. First Mortgage Continuing Care Retirement Community RB	5.00%	11/01/28	1,000	1,028,470
Suffolk County Economic Development Corp. (Peconic Landing at Southold, Inc.); Series 2010, Ref. RB	6.00%	12/01/40	1,035	1,153,197
Syracuse (City of); Series 2011 A, Airport Terminal Security & Access Improvement Unlimited Tax GO Bonds[d]	5.00%	11/01/36	500	544,155
Tobacco Settlement Financing Corp.; Series 2003 B-1C, Asset-Backed RB	5.50%	06/01/21	1,000	1,013,660
Tomkins County Development Corp. (Tompkins Cortland Community College Foundation, Inc.);				
Series 2013 A, RB	5.00%	07/01/32	750	802,148
Series 2013 A, RB	5.00%	07/01/38	2,000	2,108,080
Tompkins (County of) Industrial Development Agency (Cornell University); Series 2008 A, Civic Facility RB	5.00%	07/01/37	750	870,930
Triborough Bridge & Tunnel Authority;				
Series 2003 A, Sub. RB[e][f]	5.00%	11/15/13	1,500	1,551,120
Series 2013 A, Ref. Sub. CAB RB [b]	0.00%	11/15/32	2,000	959,260
Troy Capital Resource Corp. (Rensselaer Polytechnic Institute);				
Series 2010 A, RB	5.00%	09/01/30	2,500	2,840,200
Series 2010 A, RB	5.13%	09/01/40	985	1,091,597
TSASC, Inc.;				
Series 2006 1, Tobacco Settlement Asset-Backed RB	5.00%	06/01/34	2,000	1,814,840
Series 2006 1, Tobacco Settlement Asset-Backed RB	5.13%	06/01/42	1,660	1,448,367
United Nations Development Corp.;				
Series 2009 A, Ref. RB	5.00%	07/01/25	1,000	1,133,200
Series 2009 A, Ref. RB	5.00%	07/01/26	815	919,499
Westchester Tobacco Asset Securitization Corp.; Series 2005, Tobacco Settlement Asset-Backed RB	5.13%	06/01/45	2,750	2,370,032
Yonkers Economic Development Corp. (Charter School of Educational Excellence); Series 2010 A, Educational RB	6.25%	10/15/40	1,200	1,269,156
				454,641,205
Puerto Rico 7.89%				
Puerto Rico (Commonwealth of) Electric Power Authority;				
Series 2008 WW, RB	5.50%	07/01/21	1,000	1,082,690
Series 2008 WW, RB	5.00%	07/01/28	1,000	1,012,790
Series 2008 WW, RB	5.25%	07/01/33	2,100	2,121,756
Series 2010 XX, RB	5.75%	07/01/36	1,000	1,043,360
Puerto Rico (Commonwealth of) Industrial Tourist Educational, Medical and Environmental Control Facilities	5.00%	04/01/27	1,000	1,016,760

Financing Authority (Ana G. Mendez University System); Series 2012, Ref. RB				
Puerto Rico (Commonwealth of) Infrastructure Financing Authority; Series 2005 C, Ref. Special Tax RB (INS-AMBAC)[(a)]	5.50%	07/01/27	1,525	1,596,705
Puerto Rico (Commonwealth of) Public Buildings Authority; Series 2004 I, Government Facilities RB[(e)(f)]	5.25%	07/01/14	75	79,972
Puerto Rico Sales Tax Financing Corp.;				
First Subseries 2009 A, RB	5.75%	08/01/37	870	941,401
First Subseries 2009 A, RB	6.38%	08/01/39	1,500	1,694,145
First Subseries 2010, Conv. CAB RB[(n)]	6.25%	08/01/33	415	338,960
First Subseries 2010 A, CAB RB[(b)]	0.00%	08/01/34	1,000	299,010
First Subseries 2010 A, CAB RB[(b)]	0.00%	08/01/35	2,500	699,075
First Subseries 2010 A, RB	5.38%	08/01/39	1,180	1,250,529
First Subseries 2010 C, RB	5.25%	08/01/41	1,325	1,397,782
Series 2011 C, RB[(c)]	5.00%	08/01/40	3,420	3,678,928
Series 2011 C, RB[(c)]	5.25%	08/01/40	5,700	6,232,893
				24,486,756
Guam 3.10%				
Guam (Territory of) (Section 30);				
Series 2009 A, Limited Obligation RB	5.63%	12/01/29	860	960,594
Series 2009 A, Limited Obligation RB	5.75%	12/01/34	500	560,290

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value	
Guam (continued)					
Guam (Territory of) Power Authority;					
Series 2010 A, RB	5.50%	10/01/40	$ 1,020	$ 1,134,883	
Series 2012 A, Ref. RB	5.00%	10/01/34	1,370	1,520,494	
Guam (Territory of) Waterworks Authority; Series 2010, Water & Wastewater System RB	5.63%	07/01/40	3,500	3,707,725	
Guam (Territory of);					
Series 2011 A, Business Privilege Tax RB	5.25%	01/01/36	1,125	1,273,095	
Series 2011 A, Business Privilege Tax RB	5.13%	01/01/42	435	484,312	
				9,641,393	
Virgin Islands 1.19%					
Virgin Islands (Government of) Public Finance Authority (Matching Fund Loan Note Diageo); Series 2009 A, Sub. RB	6.63%	10/01/29	1,880	2,203,774	
Virgin Islands (Government of) Public Finance Authority (Matching Fund Loan Note);					
Series 2010 A, Sr. Lien RB	5.00%	10/01/29	500	549,430	
Series 2012 A, RB[k]	4.00%	10/01/22	920	959,468	
				3,712,672	
TOTAL INVESTMENTS[l] 158.62% (Cost $448,612,984)				492,482,026	
FLOATING RATE NOTE OBLIGATIONS (29.07)%					
Notes with interest rates ranging from 0.10% to 0.16% at 02/28/13, and contractual maturities of collateral ranging from 11/01/25 to 07/01/44 (See Note 1I)[m]				(90,255,000)	
VARIABLE RATE MUNI TERM PREFERRED			870,256	(21,873)	848,383

SHARES (29.08)%										
Repurchase of common stock			(95)	(95)	(2,153)				(2,248)	
Amortization of deferred compensation					11,068				11,068	
Preferred dividends							(15,849)		(15,849)	
Common dividends ($1.38 per share)							(360,949)		(360,949)	
Distributions to noncontrolling interests										
Purchase of noncontrolling interests					(4,725)				(4,725)	
September 30, 2009	11,820	$ 285,173	293,145	$ 293,145	$ 5,708,534	$	(407,210)	$ (9,838)	$ 5,869,804	$

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	$ 164,515	$ 176,320	$ 12,205	$ (400)

(1) Represents the original cost basis of the marketable securities adjusted for discount accretion and other-than-temporary impairments recorded through earnings, if any.

At September 30, 2010, $81 million (par value) of the Company s marketable debt securities accrue interest at 9.625% and mature in November 2016 and $13 million (par value) accrue interest at 9.25% and mature in May 2017.

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During the three months ended September 30, 2010 and 2009, the Company sold marketable debt securities for $73 million and $115 million, respectively, resulting in gains of approximately $6 million in each period. During the nine months ended September 30, 2010 and 2009, the Company sold marketable debt securities for $73 million and $120 million, respectively, resulting in gains of approximately $6 million and $7 million, respectively. Realized gains on marketable debt securities are included in other income, net in the condensed consolidated statements of income.

In October 2010, the Company sold its remaining marketable debt securities for $102 million and recognized gains of $8 million.

(10) Debt

Bank Line of Credit and Term Loan

The Company s revolving line of credit facility with a syndicate of banks provides for an aggregate borrowing capacity of $1.5 billion and matures on August 1, 2011. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon the Company s debt ratings. The Company pays a facility fee on the entire revolving commitment that depends upon its debt ratings. Based on the Company s debt ratings at September 30, 2010, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At September 30, 2010, the Company had $318 million outstanding under this revolving line of credit facility with a weighted-average effective interest rate of 1.29%. At September 30, 2010, $117 million of aggregate letters of credit were also outstanding against the revolving line of credit facility, including a $103 million letter of credit as a result of the Ventas, Inc. (Ventas) litigation. For further information regarding the Ventas litigation, see Note 11.

The Company s revolving line of credit facility contains certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreement (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 65%, (iii) require a Fixed Charge Coverage ratio of 1.75 times, and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of $5.3 billion at September 30, 2010. At September 30, 2010, the Company was in compliance with each of these restrictions and requirements of the revolving line of credit facility.

On March 10, 2010, the Company repaid the total outstanding indebtedness of $200 million under its term loan. The term loan, with an original maturity of August 1, 2011, was repaid primarily with funds available under the Company s revolving line of credit facility. As a result of the early repayment of the term loan, the Company recognized a charge of $1.3 million related to unamortized issuance costs. At the time the term loan was paid off, it accrued interest at a rate per annum equal to LIBOR plus 2.00%.

Senior Unsecured Notes

At September 30, 2010, the Company had senior unsecured notes outstanding with an aggregate principal balance of $3.3 billion. Interest rates on the notes ranged from 1.19% to 7.07%. The weighted-average effective interest rate on the senior unsecured notes at September 30, 2010 was

6.13%. Discounts and premiums are amortized to interest expense over the term of the related notes. The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. At September 30, 2010, the Company believes it was in compliance with these covenants.

In September 2010, the Company repaid $200 million of maturing senior unsecured notes which accrued interest at a weighted-average interest rate of 4.88%.

Mortgage and Other Secured Debt

At September 30, 2010, the Company had $1.7 billion in aggregate principal amount of mortgage and other secured debt outstanding that is secured by 141 healthcare facilities, which had a carrying value of $2.0 billion, as well as a participation in a first mortgage loan with a carrying value of $630 million. Interest rates on the mortgage and other secured debt ranged from 1.27% to 8.30% with a weighted-average effective rate of 4.79% at September 30, 2010.

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

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Other Debt

At September 30, 2010, the Company had $94 million of non-interest bearing life care bonds at two of its continuing care retirement communities and non-interest bearing occupancy fee deposits at another of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds). At September 30, 2010, $38.3 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $55.7 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

Debt Maturities

The following table summarizes the Company s stated debt maturities and scheduled principal repayments at September 30, 2010 (in thousands):

Year	Bank Line of Credit	Senior Unsecured Notes	Mortgage and Other Secured Debt	Total(1)
2010 (Three months)	$	$ 6,421	$ 13,713	$ 20,134
2011	318,000	292,265	79,614	689,879
2012		250,000	63,860	313,860
2013		550,000	675,194	1,225,194
2014		87,000	177,530	264,530
Thereafter		2,150,000	670,652	2,820,652
	318,000	3,335,686	1,680,563	5,334,249
(Discounts) and premiums, net		(10,711)	2,177	(8,534)
	$ 318,000	$ 3,324,975	$ 1,682,740	$ 5,325,715

(1) Excludes $94 million of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at three of the Company s senior housing facilities, which have no scheduled maturities.

(11) Commitments and Contingencies

Legal Proceedings

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

On May 3, 2007, Ventas filed a complaint against the Company in the United States District Court for the Western District of Kentucky asserting claims of tortious interference with contract and tortious interference with prospective business advantage. The complaint alleged, among other things, that the Company interfered with Ventas purchase agreement with Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT); that the Company interfered with Ventas prospective business advantage in connection with the Sunrise REIT transaction; and that the Company s actions caused Ventas to suffer damages. As part of the same litigation, the Company filed counterclaims against Ventas as successor to Sunrise REIT. On March 25, 2009, the District Court issued an order dismissing the Company s counterclaims. On April 8, 2009, the Company filed a motion for leave to file amended counterclaims. On May 26, 2009, the District Court denied the Company s motion.

Ventas sought approximately $300 million in compensatory damages plus punitive damages. On July 16, 2009, the District Court dismissed Ventas claim that HCP interfered with Ventas purchase agreement with Sunrise REIT, dismissed claims for compensatory damages based on alleged financing and other costs, and allowed Ventas claim of interference with prospective advantage to proceed to trial. Ventas claim was tried before a jury between August 18, 2009 and September 4, 2009. During the trial, the District Court dismissed Ventas claim for punitive damages. On September 4, 2009, the jury returned a verdict in favor of Ventas in the amount of approximately $102 million in compensatory damages. The District Court entered a judgment against the Company in that amount on September 8, 2009, which the Company recognized as a provision for litigation expense during the three months ended September 30, 2009.

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On September 22, 2009, the Company filed a motion for judgment as a matter of law or for a new trial. Also on September 22, 2009, Ventas filed a motion seeking approximately $20 million in prejudgment interest and approximately $4 million in additional damages to account for changes in currency exchange rates. The District Court denied both parties post-trial motions on November 17, 2009. The Company filed a notice of appeal in the United States Court of Appeals for the Sixth Circuit on November 17, 2009; Ventas filed a notice of appeal on November 25, 2009. The Company is seeking to have the judgment against it reversed. In the cross-appeal, Ventas is seeking reversal of the district court s exclusion of Ventas claim for punitive damages, additional damages due to currency and stock-price fluctuations, and pre-judgment interest. The appeal and cross-appeal have now been fully briefed; the Court of Appeals has not yet set a date for oral argument.

On June 29, 2009, several of the Company s subsidiaries, together with three of its tenants, filed complaints in the Delaware Court of Chancery against Sunrise Senior Living, Inc. and three of its subsidiaries (Sunrise). A complaint was also filed on behalf of several others of the Company s subsidiaries and one tenant on July 24, 2009 in the United States District Court for the Eastern District of Virginia.

On August 31, 2010, the Company entered into agreements with Sunrise that allowed the Company to terminate management contracts on 27 of the 75 senior housing communities owned by the Company and managed by Sunrise. In exchange, the Company agreed to pay Sunrise $50 million, $40 million of which was paid immediately with the remaining balance to be paid at the time the 27 communities were successfully transitioned to new operators. As part of this arrangement, the Company and Sunrise agreed to dismiss all litigation proceedings between them. Additionally, Sunrise agreed to limit certain fees and charges associated with the remaining in-place management contracts. On October 18, 2010, Emeritus Corporation entered into agreements with the Company to lease the 27 properties under two 15-year triple-net master leases that each includes two ten-year extension options. On November 1, 2010, the lease term commenced, operations were transitioned to Emeritus Corporation, and the Company paid to Sunrise the remaining $10 million payment.

Concentration of Credit Risk

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

At September 30, 2010 and December 31, 2009, the Company had investments in mezzanine and secured loans to HCR ManorCare with an aggregate par value of $1.72 billion at each period end and carrying values of $1.58 billion and $1.54 billion, respectively. At September 30, 2010 and December 31, 2009, the carrying value of these investments represented approximately 81% and 85%, respectively, of the Company s skilled nursing segment assets and 13% and 13%, respectively, of its total assets. For the three months ended September 30, 2010 and 2009, the Company recognized $28.6 million and $19.6 million, respectively, in interest income from these investments, which represented approximately 75% and 59% respectively, of the Company s skilled nursing segment revenues and 9% and 7% respectively, of its total revenues. For the nine months ended September 30, 2010 and 2009, the Company recognized $83.8 million and $50.1 million, respectively, in interest income from these investments, which represented approximately 75% and 60% respectively, of the Company s skilled nursing segment revenues and 9% and 6% respectively, of its total revenues.

At September 30, 2010, Sunrise operated 75 of the Company s senior housing facilities. Sunrise is a publicly traded company and is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and

Form 10-Q with the SEC. Among other things, Sunrise has disclosed that as of June 30, 2010, it has no borrowing availability under its bank credit facility, has significant scheduled debt maturities in 2010 and significant long-term debt that is in default. At September 30, 2010 and December 31, 2009, the aggregate carrying value of the Company s gross assets leased to Sunrise represented approximately 41% and 40%, respectively, of the Company s senior housing segment assets and 14% and 14%, respectively, of its total assets. For the three months ended September 30, 2010 and 2009, the Company recognized $43 million and $30 million, respectively, in revenues from facilities operated by Sunrise, which represented approximately 42% and 36% respectively, of the Company s senior housing segment revenues and 14% and 10% respectively, of its total revenues. For the nine months ended September 30, 2010 and 2009, the Company recognized $103.5 million and $98.5 million, respectively, in revenues from facilities operated by Sunrise, which represented approximately 38% in each period of the Company s senior housing segment revenues and 11% in each period of its total revenues. The three and nine months ended September 30, 2010 include increases of $13.7 million and $12.7 million in revenues and operating expenses, respectively, as a result of reflecting the facility-level results from 27 facilities leased to four VIE tenants operated by Sunrise that were consolidated as a result of the rights the Company acquired from the settlement agreement mentioned above. See Note 17 for additional information regarding VIEs.

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

DownREIT LLCs

In connection with the formation of certain DownREIT limited liability companies (LLCs), members may contribute appreciated real estate to a DownREIT LLC in exchange for DownREIT units. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if a contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specifically allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Internal Revenue Code of 1986, as amended (make-whole payments). These make-whole payments include a tax gross-up provision.

Credit Enhancement Guarantee

Certain of the Company s senior housing facilities serve as collateral for $129 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of $363 million as of September 30, 2010.

(12) Equity

Preferred Stock

At September 30, 2010, the Company had two series of preferred stock outstanding, Series E and Series F preferred stock. The Series E and Series F preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of the Company. Holders of each series of preferred stock generally have no voting rights, except under limited conditions, and all holders are entitled to receive cumulative preferential dividends based upon each series respective liquidation preference. To preserve the Company s status as a REIT, each series of preferred stock is subject to certain restrictions on ownership and transfer. Dividends are payable quarterly in arrears on the last day of March, June, September and December. The Series E and Series F preferred stock are currently redeemable at the Company s option.

The following table lists the Series E and Series F cumulative redeemable preferred stock cash dividends paid and declared by the Company during the nine months ended September 30, 2010:

Declaration Date	Record Date	Dividend Payable Date		Series E Amount Per Share		Series F Amount Per Share
February 1	March 15	March 31	$	0.45313	$	0.44375
April 22	June 15	June 30	$	0.45313	$	0.44375
July 29	September 15	September 30	$	0.45313	$	0.44375

On October 28, 2010, the Company announced that its Board declared a quarterly cash dividend of $0.45313 per share on its Series E cumulative redeemable preferred stock and $0.44375 per share on its Series F cumulative redeemable preferred stock. These dividends will be paid on December 31, 2010 to stockholders of record as of the close of business on December 15, 2010.

Common Stock

On May 8, 2009, the Company completed a $440 million public offering of 20.7 million shares of common stock at a price per share of $21.25. The Company received net proceeds of $422 million, which were used to repay all amounts of indebtedness outstanding under the bridge loan with the remainder used for general corporate purposes.

On August 10, 2009, the Company completed a $441 million public offering of 17.8 million shares of its common stock at a price of $24.75 per share. The Company received net proceeds of $423 million, which were used to repay the total outstanding indebtedness under the Company s revolving line of credit facility, including borrowings for the acquired participation in first mortgage debt of HCR ManorCare, with the remainder used for general corporate purposes.

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In June 2010, the Company initiated a public offering, which resulted in the sale of 15.5 million shares of common stock at a price of $33.00 per share for gross proceeds of $512 million. This offering included: (i) the June 2010 public offering of 13.5 million shares for $445.5 million; and (ii) the July 2010 sale of 2.025 million shares, for $66.8 million, as a result of the underwriters exercising the over-allotment option from the June 2010 public offering. The Company received total net proceeds of $492 million from these sales, which were used to repay the outstanding indebtedness under its revolving line of credit facility, fund acquisitions and capital expenditures, repay mortgage debt and for other general corporate purposes.

The following is a summary of the Company s other common stock issuances:

	Nine Months Ended September 30, 2010	2009
	(shares in thousands)	
Dividend Reinvestment and Stock Purchase Plan (DRIP)	869	106
Conversion of DownREIT units	130	525
Exercise of stock options	150	26
Restricted stock awards(1)	221	305
Vesting of restricted stock units(1)	265	182

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

The following table lists the common stock cash dividends paid and declared by the Company during the nine months ended September 30, 2010:

Declaration Date	Record Date	Dividend Payable Date	Amount Per Share
February 1	February 11	February 23	$ 0.465
April 22	May 3	May 18	$ 0.465
July 29	August 9	August 24	$ 0.465

On October 28, 2010, the Company announced that its Board declared a quarterly cash dividend of $0.465 per share. The common stock cash dividend will be paid on November 23, 2010 to stockholders of record as of the close of business on November 8, 2010.

Accumulated Other Comprehensive Income (Loss) (AOCI)

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

	September 30,	December 31,

	2010	2009
	(in thousands)	
AOCI unrealized gains on available-for-sale securities, net	$ 8,061	$ 11,805
AOCI unrealized losses on cash flow hedges, net	(12,507)	(10,769)
Supplemental Executive Retirement Plan minimum liability	(2,245)	(2,342)
Cumulative foreign currency translation adjustment	(735)	(828)
Total accumulated other comprehensive loss	$ (7,426)	$ (2,134)

Noncontrolling Interests

At September 30, 2010, there were 4.3 million non-managing member units outstanding in five DownREIT LLCs, all of which the Company is the managing member. At September 30, 2010, the carrying and fair values of these DownREIT units were $175 million and $216 million, respectively.

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Total Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income (loss)	$ 26,173	$ (43,220)	$ 198,869	$ 110,667
Other comprehensive income (loss)	(2,874)	8,981	(5,292)	71,324
Total comprehensive income (loss)	$ 23,299	$ (34,239)	$ 193,577	$ 181,991

Substantially all of other comprehensive income for the three and nine months ended September 30, 2009 related to the change in the estimated fair value of the Company s available-for-sale marketable debt securities. See additional information regarding available-for-sale marketable debt securities in Note 9.

(13) Segment Disclosures

The Company evaluates its business and makes resource allocations based on five business segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) skilled nursing and (v) hospital. Under the senior housing, life science, skilled nursing and hospital segments, the Company invests primarily in single operator or tenant properties, through the acquisition and development of real estate or through investments in debt issued by operators in these sectors. Under the medical office segment, the Company invests through the acquisition of MOBs that are primarily leased under gross or modified gross leases, which are generally to multiple tenants and require a greater level of property management. The accounting policies of the segments are the same as those described in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2009 in the Company s Annual Report on Form 10-K filed with the SEC. There were no intersegment sales or transfers during the nine months ended September 30, 2010 and 2009. The Company evaluates performance based upon property net operating income from continuing operations (NOI) and interest income of the combined investments in each segment.

Non-segment assets consist primarily of real estate held for sale and corporate assets including cash, restricted cash, accounts receivable, net and deferred financing costs. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company s performance measure. See Note 11 for other information regarding concentrations of credit risk.

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

For the three months ended September 30, 2010:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Interest Income	Investment Management Fee Income	Total Revenues	NOI(1)
Senior housing	$ 88,151	$	$ 13,028	$ 67	$ 577	$ 101,823	$ 87,857
Life science	59,201	10,459			1	69,661	56,953
Medical office	66,022	12,151			579	78,752	44,837
Skilled nursing	9,274			28,750		38,024	9,198
Hospital	20,378	746		7,765		28,889	20,104
Total	$ 243,026	$ 23,356	$ 13,028	$ 36,582	$ 1,157	$ 317,149	$ 218,949

For the three months ended September 30, 2009:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Interest Income	Investment Management Fee Income	Total Revenues	NOI(1)
Senior housing	$ 67,709	$	$ 13,173	$ 304	$ 703	$ 81,889	$ 81,134
Life science	53,536	9,696				63,232	51,302
Medical office	65,419	12,271			623	78,313	44,117
Skilled nursing	9,494			23,416		32,910	9,469
Hospital	20,011	497		10,216		30,724	19,625
Total	$ 216,169	$ 22,464	$ 13,173	$ 33,936	$ 1,326	$ 287,068	$ 205,647

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For the nine months ended September 30, 2010:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Interest Income	Investment Management Fee Income	Total Revenues	NOI(1)
Senior housing	$ 235,566	$	$ 37,238	$ 352	$ 1,965	$ 275,121	$ 257,794
Life science	176,935	29,706			3	206,644	170,596
Medical office	196,572	35,709			1,787	234,068	135,288
Skilled nursing	27,843			84,636		112,479	27,668
Hospital	60,886	1,847		23,016		85,749	58,928
Total	$ 697,802	$ 67,262	$ 37,238	$ 108,004	$ 3,755	$ 914,061	$ 650,274

For the nine months ended September 30, 2009:

Segments	Rental and Related Revenues	Tenant Recoveries	Income From DFLs	Interest Income	Investment Management Fee Income	Total Revenues	NOI(1)
Senior housing	$ 214,595	$	$ 39,302	$ 880	$ 2,224	$ 257,001	$ 249,960
Life science	159,072	30,311			2	189,385	154,744
Medical office	196,266	35,319			1,907	233,492	133,048
Skilled nursing	27,366			54,751		82,117	27,254
Hospital	59,085	1,494		32,160		92,739	58,037
Total	$ 656,384	$ 67,124	$ 39,302	$ 87,791	$ 4,133	$ 854,734	$ 623,043

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

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net operating income from continuing operations	$ 218,949	$ 205,647	$ 650,274	$ 623,043
Interest income	36,582	33,936	108,004	87,791
Investment management fee income	1,157	1,326	3,755	4,133
Depreciation and amortization	(78,334)	(81,177)	(234,008)	(240,308)
Interest expense	(71,600)	(74,039)	(220,303)	(226,053)

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)
Other income, net	6,657	5,983	7,151	5,107
Impairment of investment in unconsolidated joint venture	(71,693)		(71,693)	
Income taxes	(867)	325	(1,809)	(1,395)
Equity income from unconsolidated joint ventures	209	1,328	4,078	1,993
Total discontinued operations	4,703	3,403	6,559	40,852
Net income (loss)	$ 26,173	$ (43,220)	$ 198,869	$ 110,667

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The Company s total assets by segment were:

Segments		September 30, 2010		December 31, 2009
Senior housing	$	4,344,027	$	4,322,298
Life science		3,674,934		3,593,550
Medical office		2,248,713		2,249,721
Skilled nursing		1,950,226		1,791,294
Hospital		903,291		947,119
Gross segment assets		13,121,191		12,903,982
Accumulated depreciation and amortization		(1,361,317)		(1,209,253)
Net segment assets		11,759,874		11,694,729
Real estate held for sale, net		12,554		32,653
Other non-segment assets		472,871		482,353
Total assets	$	12,245,299	$	12,209,735

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

At September 30, 2010, goodwill was allocated to segment assets as follows: (i) senior housing $30.5 million, (ii) medical office $11.4 million, (iii) skilled nursing $3.3 million, and (iv) hospital $5.1 million. Due to a decrease in the Company s market capitalization during the first quarter of 2009, it performed an interim goodwill impairment assessment. In connection with this review, the Company recognized an impairment charge of $1.4 million, included in other income, net, for the goodwill allocated to its life science segment.

(14) Impairments

During the three months ended September 30, 2009, the Company recognized impairments of $15.1 million related to two of its DFLs (see Note 5). During the nine months ended September 30, 2009, the Company recognized impairments of $21.0 million as a result of (i) the above $15.1 million related to two of its DFLs and (ii) $5.9 million related to intangible assets on 12 of 15 senior housing communities which were determined to be impaired due to the termination of the Sunrise management agreements effective October 1, 2009.

On October 12, 2010, the Company concluded that its 35% interest in HCP Ventures II, which owns 25 senior housing properties leased by Horizon Bay Communities or certain of its affiliates (collectively Horizon Bay), was impaired. The impairment resulted from the recent and projected deterioration of the operating performance of the properties leased by Horizon Bay from HCP Ventures II. During the three months ended September 30, 2010 the Company recognized an impairment of $71.7 million related to its investment in HCP Ventures II, which reduced the carrying value of its investment from $136.8 million to $65.1 million. The impairment was based on a discounted cash flow valuation model that is considered to be a Level III measurement within the fair value hierarchy. Inputs to the valuation model include real estate capitalization rates, discount rates, industry growth rates and operating margins, all of which influence the Company s expectation of future cash flows from HCP Ventures II and, accordingly, the estimated fair value of its investment.

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(15) Earnings Per Common Share

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Numerator				
Income (loss) from continuing operations	$ 21,470	$ (46,623)	$ 192,310	$ 69,815
Noncontrolling interests share in continuing operations	(3,518)	(3,466)	(10,077)	(11,011)
Income (loss) from continuing operations applicable to HCP, Inc.	17,952	(50,089)	182,233	58,804
Preferred stock dividends	(5,282)	(5,282)	(15,848)	(15,848)
Participating securities share in continuing operations	(378)	(429)	(1,648)	(1,136)
Income (loss) from continuing operations applicable to common shares	12,292	(55,800)	164,737	41,820
Discontinued operations	4,703	3,403	6,559	40,852
Net income (loss) applicable to common shares	$ 16,995	$ (52,397)	$ 171,296	$ 82,672
Denominator				
Basic weighted-average common shares	309,448	284,812	299,243	267,971
Dilutive stock options and restricted stock	1,644		1,225	70
Diluted weighted-average common shares	311,092	284,812	300,468	268,041
Basic earnings (loss) per common share				
Income (loss) from 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 stockholders	$ 0.05	$ (0.18)	$ 0.57	$ 0.31
Diluted earnings (loss) per common share				
Income (loss) from 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

Restricted stock and certain of the Company s performance restricted stock units are considered participating securities which require the use of the two-class method when computing basic and diluted earnings per share. For both the three months ended September 30, 2010 and 2009, earnings representing nonforfeitable dividends of $0.4 million each period were allocated to the participating securities. For the nine months ended September 30, 2010 and 2009, earnings representing nonforfeitable dividends of $1.6 million and $1.1 million, respectively, were allocated to the participating securities.

Options to purchase approximately 0.4 million and 7.1 million shares of common stock that had an exercise price in excess of the average market price of the common stock during the three months ended September 30, 2010 and 2009, respectively, were not included in the Company s earnings per share calculations because they are anti-dilutive. Restricted stock and performance restricted stock units representing 30,000 and 1.5 million shares of common stock during the three months ended September 30, 2010 and 2009, respectively, were not included because they are anti-dilutive. Additionally, 6.0 million shares issuable upon conversion of 4.3 million DownREIT units during the three months ended September 30, 2010 were not included since they are anti-dilutive. During the three months ended September 30, 2009, 5.9 million shares issuable upon conversion of 4.3 million DownREIT units were not included since they were anti-dilutive.

(16) Supplemental Cash Flow Information

		Nine Months ended September 30, 2010		2009
		(in thousands)		
Supplemental cash flow information:				
Interest paid, net of capitalized interest	$	232,504	$	236,905
Taxes paid		1,717		2,101
Supplemental schedule of non-cash investing activities:				
Capitalized interest		15,514		18,994
Increase (decrease) in accrued leasing and construction costs		11,779		(3,359)
Loans received upon real estate disposition		21,519		251

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	Nine Months ended September 30, 2010	2009
	(in thousands)	
Supplemental schedule of non-cash financing activities:		
Secured debt obtained in purchase of participation in secured loan receivable		425,042
Restricted stock issued	221	305
Vesting of restricted stock units	265	182
Cancellation of restricted stock	(52)	(34)
Conversion of non-managing member units into common stock	5,072	21,873
Non-managing member units issued in connection with acquisitions	9,267	
Mortgages assumed with acquisitions	5,352	
Unrealized gains (losses) on available-for-sale securities and derivatives designated as cash flow hedges, net	(1,432)	73,436

See discussions of the HCR ManorCare transaction in Note 6.

(17) Variable Interest Entities

At September 30, 2010, the Company leased 75 properties to a total of 11 tenants (VIE tenants) and had a loan to a borrower where each tenant and borrower has been identified as a VIE. In addition, the Company has additional investments in mezzanine loans consisting of an investment in December 2007 of approximately $900 million and an investment in September 2010 of $40 million where each mezzanine borrower has been identified as a VIE.

Consolidated Variable Interest Entities

At September 30, 2010, the Company had leasing relationships with a total of four VIE tenants, related to 27 properties, in which the VIEs operations were consolidated based on the Company s ability to control the activities that most significantly impact the VIEs economic performance. During the time that these properties are in transition to new operators, the Company will consolidate these four VIEs as a result of the rights it acquired through its August 2010 settlement agreement with Sunrise (see Note 11). Prior to August 2010, these four VIEs were not consolidated because the Company did not have the ability to control their activities (i.e., recurring operating activities) that most significantly impact their economic performance. The Company did not realize a gain or loss upon the initial consolidation of these four VIEs.

The assets and liabilities of these four VIEs substantially consist of cash and cash equivalents, accounts receivables, and accounts payable and accrued liabilities generated from their operating activities. The assets generated by the operating activities of these four VIEs may only be used to settle the VIEs contractual obligations, which include lease obligations to the Company. The Company is not entitled to these assets, does not guarantee these liabilities (or contractual obligations) and is not liable to the general creditors of these four VIEs.

Unconsolidated Variable Interest Entities

At September 30, 2010, the Company leased 48 properties to a total of seven VIE tenants and had additional investments in loans to borrowers where each tenant and borrower were identified as a VIE. The Company has determined that it is not the primary beneficiary of these VIEs. The carrying value and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company s involvement with these VIEs are presented below at September 30, 2010 (in thousands):

VIE Type	**Maximum Loss Exposure(1)**	**Asset/Liability Type**	**Carrying Amount**
VIE tenants operating leases	$ 395,569	Lease intangibles, net and straight-line rent receivables	$ 14,371
VIE tenants DFLs	1,189,437	Net investment in DFLs	581,372
Loans senior secured	83,822	Loans receivable, net	83,822
Loans mezzanine	988,394	Loans receivable, net	988,394

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

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As of September 30, 2010 the Company has not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its consolidated or unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls). See Notes 5, 6 and 11 for additional description of the nature, purpose and activities of the Company s VIEs and interests therein.

(18) Fair Value Measurements

The following table illustrates the Company s fair value measurements of its financial assets and liabilities measured at fair value in the Company s condensed consolidated balance sheet. Recognized gains and losses are recorded in other income, net on the Company s condensed consolidated statements of income. During the nine months ended September 30, 2010, there were no transfers of financial assets or liabilities between levels.

The following is a summary of fair value measurements of financial assets and liabilities at September 30, 2010 (in thousands):

Financial Instrument	Fair Value	Level 1	Level 2	Level 3
Marketable debt securities	$ 101,390	$ 87,701	$ 13,689	$
Marketable equity securities	4,231	4,231		
Interest-rate swap assets(1)	5,762		5,762	
Interest-rate swap liabilities(1)	(7,066)		(7,066)	
Warrants(1)	1,608			1,608
	$ 105,925	$ 91,932	$ 12,385	$ 1,608

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

(19) Disclosures About Fair Value of Financial Instruments

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

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Loans receivable, net	$ 1,852,521	$ 1,898,660	$ 1,672,938	$ 1,728,599
Marketable debt securities	101,390	101,390	172,799	172,799

Marketable equity securities	4,231	4,231	3,521	3,521
Warrants	1,608	1,608	1,732	1,732
Bank line of credit	318,000	318,000		
Term loan			200,000	200,000
Senior unsecured notes	3,324,975	3,592,355	3,521,325	3,548,926
Mortgage and other secured debt	1,682,740	1,688,636	1,834,935	1,789,992
Other debt	93,990	93,990	99,883	99,883
Interest-rate swap assets	5,762	5,762	3,523	3,523
Interest-rate swap liabilities	7,066	7,066	3,438	3,438

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(20) Derivative Instruments

The following table summarizes the Company s outstanding interest-rate swap contracts as of September 30, 2010 (dollars in thousands):

Date Entered	Maturity Date	Hedge Designation	Fixed Rate	Floating Rate Index	Notional Amount	Fair Value(1)
July 2005(2)	July 2020	Cash Flow	3.82%	BMA Swap Index	$ 45,600	$ (6,382)
June 2009(3)	September 2011	Fair Value	5.95%	1 Month LIBOR+4.21%	250,000	3,210
July 2009(4)	July 2013	Cash Flow	6.13%	1 Month LIBOR+3.65%	14,300	(684)
August 2009(5)	February 2011	Cash Flow	0.87%	1 Month LIBOR	250,000	546
August 2009(5)	August 2011	Cash Flow	1.24%	1 Month LIBOR	250,000	2,006

(1) Interest-rate swap assets are recorded in other assets, net and interest-rate swap liabilities are recorded in accounts payable and accrued liabilities on the condensed consolidated balance sheets.

(2) Represents three interest-rate swap contracts with an aggregate notional amount of $45.6 million, which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.

(3) Hedges the changes in fair value of the Company s outstanding senior unsecured fixed-rate notes (approximately 86% of the notes maturing in September 2011) due to fluctuations in the underlying benchmark interest rate.

(4) Hedges fluctuations in interest payments on variable-rate secured debt due to fluctuations in the underlying benchmark interest rate.

(5) Hedges fluctuations in interest receipts on a participation interest in a floating-rate secured mortgage note due to fluctuations in the underlying benchmark interest rate.

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

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

Credit risk is the risk that one of the parties to a derivative contract fails to perform or meet their financial obligation. The Company does not obtain collateral associated with its derivative instruments, but monitors the credit standing of its counterparties on a regular basis. Should a counterparty fail to perform, the Company would incur a financial loss to the extent that the associated derivative contract was in an asset position. At September 30, 2010, the Company does not anticipate non-performance by the counterparties to its outstanding derivative contracts.

During October and November 2007, the Company entered into two forward-starting interest-rate swap contracts with an aggregate notional amount of $900 million and settled the contracts during the nine months ended September 30, 2008. The settlement value, less the ineffective portion of the hedging relationships, was recorded to accumulated other comprehensive income to be reclassified into interest expense over the forecasted term of the underlying unsecured fixed-rate debt. The interest-rate swap contracts were designated in qualifying, cash flow hedging relationships, to hedge the Company s exposure to fluctuations in the benchmark interest rate component of interest payments on forecasted, unsecured, fixed-rate debt currently expected to be issued in 2011 and 2012. During 2010, the Company revised its estimated issuance date for the underlying unsecured, fixed-rate debt. As a result, the Company recognized a $1.0 million charge in other income, net, during the nine months ended September 30, 2010, related to the interest payments that are no longer probable of occurring.

At September 30, 2010, the Company expects that the hedged forecasted transactions, for each of the outstanding qualifying cash flow hedging relationships, remain probable of occurring and no additional gains or losses recorded to accumulated other comprehensive income (loss) are expected to be reclassified to earnings as a result.

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

		Effects of Change in Interest Rates			
Date Entered	**Maturity Date**	**+50 Basis Points**	**-50 Basis Points**	**+100 Basis Points**	**-100 Basis Points**
July 2005	July 2020	$ 1,845	$ (2,201)	$ 3,869	$ (4,224)
June 2009	September 2011	(1,213)	1,213	(2,426)	2,426
July 2009	July 2013	192	(193)	385	(386)
August 2009	February 2011	(460)	456	(918)	914
August 2009	August 2011	(1,078)	1,092	(2,163)	2,177

(21) Subsequent Events

On November 1, 2010, the Company sold nine senior housing facilities for $27 million, recognizing gain on sales of real estate of approximately $15 million. Additionally, on November 1, 2010, upon the early repayment of a mortgage loan receivable, the Company received $46 million in proceeds, recognizing additional interest income of $11 million for the prepayment premium included in the proceeds. This loan was secured by a hospital, had an original maturity of January 2016 and carried an interest rate of 8.5%.

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

Cautionary Language Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not historical factual statements are forward-looking statements. We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. Forward-looking statements include, among other things, statements regarding our and our officers intent, belief or expectations as identified by the use of words such as may, will, project, expect, believe, intend, antic forecast, plan, estimate, could, would, should and other comparable and derivative terms or the negatives thereof. In addition, we, througl officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, while forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under Part I, Item 1A. Risk Factors in our Annual report on Form 10-K for the fiscal year ended December 31, 2009, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

(a) Changes in national and local economic conditions, including a prolonged period of weak economic growth;

(b) Continued volatility in the capital markets, including changes in interest rates and the availability and cost of capital;

(c) The ability of the Company to manage its indebtedness level and changes in the terms of such indebtedness;

(d) Changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations of our operators, tenants and borrowers;

(e) The potential impact of existing and future litigation matters, including the possibility of larger than expected litigation costs and related developments;

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

(g) The ability of the Company to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or the Company exercises its right to replace an existing operator or tenant upon default;

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

(i) The ability of our operators, tenants and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us;

(j) The financial weakness of some operators and tenants, including potential bankruptcies and downturns in their businesses, which results in uncertainties regarding our ability to continue to realize the full benefit of such operators and/or tenants leases;

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

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

(m) The risk that we may not be able to achieve the benefits of investments within expected time-frames or at all, or within expected cost projections;

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

(o) Changes in the reimbursement available to our tenants and borrowers by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage.

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Except as required by law, we undertake no, and hereby disclaim any, obligation to update any forward-looking statements, whether as a result of new information, changed circumstances or otherwise.

The information set forth in this Item 2 is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations. We will discuss and provide our analysis in the following order:

- Executive Summary
- 2010 Transaction Overview
- Dividends
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Financial Measure Funds from Operations
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Inflation

- Recent Accounting Pronouncements

Executive Summary

We are a self-administered REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States (U.S.). We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At September 30, 2010, our portfolio of investments, including properties owned by our Investment Management Platform, consisted of interests in 670 facilities and $2.0 billion of mezzanine and other secured loan investments. Our Investment Management Platform represents the following joint ventures: (i) HCP Ventures II, (ii) HCP Ventures III, LLC, (iii) HCP Ventures IV, LLC and (iv) the HCP Life Science ventures.

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

Our strategy sometimes involves structuring transactions that are tax-advantaged. Generally, we prefer larger, more complex, private transactions which leverage our management team s experience and our infrastructure. We follow a disciplined approach to enhancing the value of our existing portfolio, including ongoing evaluation of potential disposition of properties and other investments that no longer fit our strategy. We always seek to mitigate risks in our underwriting process.

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

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

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2010 Transaction Overview

Completed Transition of 27 Sunrise-managed Communities

On August 31, 2010, we entered into agreements with Sunrise that allowed us to terminate management contracts on 27 of the 75 senior housing communities owned by us and managed by Sunrise. In exchange, we agreed to pay Sunrise $50 million, $40 million of which was paid immediately with the remaining balance to be paid at the time the 27 communities were successfully transitioned to new operators. As part of this arrangement, the Company and Sunrise agreed to dismiss all litigation proceedings between them. Additionally, Sunrise agreed to limit certain fees and charges associated with the remaining in-place management contracts. On October 18, 2010, Emeritus Corporation entered into agreements with us to lease the 27 properties under two 15-year triple-net master leases that each includes two ten-year extension options. On November 1, 2010, the lease term commenced, operations were transitioned to Emeritus Corporation, and we paid to Sunrise the remaining $10 million payment.

Investments

During the nine months ended September 30, 2010, we made investments of $413.2 million consisting of: (i) $173.4 million of real estate; (ii) $142.5 million of participations in Genesis HealthCare s (Genesis) senior loan and mezzanine note purchased at a discount for $123.3 million; and (iii) $97.3 million of construction and other capital projects (primarily in our life science segment). Additional details regarding these investments are as follows:

- In September 2010 we purchased participations in a Genesis senior loan and mezzanine note with face amounts of $92.5 million and $50 million, respectively, each at a discount for $83.3 million and $40 million, respectively. Subsequently, on October 8, 2010, we 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 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 our 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.

- On July 26, 2010, we acquired a life science facility and two medical office buildings for approximately $48 million, including DownREIT units valued at $9 million and assumed debt of $5 million. The life science facility represents 85,000 rentable square feet and is occupied by a single tenant under a 15-year triple-net lease. The medical office buildings aggregate 103,000 rentable square feet and were 95% occupied at closing.

- On June 1, 2010, we acquired four senior housing facilities for $102 million. These facilities are leased to Emeritus Corporation under a master lease agreement that has an initial term of 10 years and two 10-year renewal options.

During the nine months ended September 30, 2010, we sold investments of $98 million as follows: (i) $72.5 million of debt investments (including $65.4 million of HCA bonds) and recognized gains of $5.6 million; and (ii) three skilled nursing facilities and a hospital for $25.5 million and recognized gain on sales of real estate of $4 million. Subsequently, in October 2010, we sold our remaining bond investments from HCA and one other issuer for $102 million and recognized additional gains of $8 million.

During the nine months ended September 30, 2010, four life science facilities located in South San Francisco were placed in service representing 354,000 square feet.

Financings

On March 10, 2010, we repaid the total outstanding indebtedness of $200 million under our term loan. The term loan, with an original maturity of August 1, 2011, was repaid primarily with funds available under our revolving line of credit facility. As a result of the early repayment of the term loan, we recognized a charge of $1.3 million related to unamortized issuance costs.

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In June 2010, we initiated a public offering, which resulted in the sale of 15.5 million shares of common stock at a price of $33.00 per share for gross proceeds of $512 million. This offering included: (i) the June 2010 public offering of 13.5 million shares for $445.5 million; and (ii) the July 2010 sale of 2.025 million shares, for $66.8 million, as a result of the underwriters exercising the over-allotment option from the June 2010 public offering. We received total net proceeds of $492 million from these sales, which were used to repay the outstanding indebtedness under our revolving line of credit, fund acquisitions and capital expenditures, repay mortgage debt and for other general corporate purposes.

Other events

On November 1, 2010, we received $46 million in proceeds, including an $11 million prepayment premium, upon the early repayment of a mortgage loan receivable that was secured by a hospital. This loan had an original maturity of January 2016 and carried an interest rate of 8.5%.

On October 12, 2010, we concluded that our 35% interest in HCP Ventures II, an unconsolidated joint venture that owns 25 senior housing properties leased by Horizon Bay Communities or certain of its affiliates (Horizon Bay   ), was impaired. During the quarter ended September 30, 2010, we recorded a non-cash impairment charge related to our investment in HCP Ventures II of $72 million.

In February 2010, we entered into a settlement agreement with Erickson Retirement Communities (Erickson   ), which filed for bankruptcy in October 2009. On April 15, 2010, the bankruptcy court approved the settlement agreement and confirmed Erickson   s final plan of reorganization. The settlement agreement and plan of reorganization provided that we (concurrently with the April 2010 closing of the sale of Erickson   s assets and the transfer to the buyer of all of our interests in the three DFLs and participation in the senior construction loan): (i) retain deposits held by us with balances of $5 million and (ii) receive an additional $9.6 million. As a result, during the three months ended March 31, 2010, we recognized aggregate income of $11.9 million, which represents impairment recoveries of portions of previous impairment charges related to investments in three direct financing leases (DFLs   ) and a participation interest in a senior construction loan related to Erickson.

Dividends

On October 28, 2010, we announced that our Board declared a quarterly common stock cash dividend of $0.465 per share. The common stock dividend will be paid on November 23, 2010 to stockholders of record as of the close of business on November 8, 2010.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP   ) requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our condensed consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2009 in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to such policies for the nine months ended September 30, 2010, except for our policy regarding principles of consolidation, which we have updated to address the new 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). The revised critical accounting policy is as follows:

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HCP, Inc., our wholly owned subsidiaries and joint ventures that we control, through voting rights or other means. We consolidate investments in variable interest entities (VIEs) when we are the primary beneficiary of the VIE at: (i) the creation of the variable interest entity, (ii) as a result of our continuous evaluation of our VIE relationships or (iii) upon the occurrence of a qualifying reconsideration event.

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We make judgments with respect to our level of influence or control of an entity and whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, our ability to direct the activities that most significantly impact the entity s economic performance, our form of ownership interest, our representation on the entity s governing body, the size and seniority of our investment, our ability and the rights of other investors to participate in policy making decisions, replace the manager and/or liquidate the entity, if applicable. Our ability to correctly assess our influence or control over an entity at inception of our involvement or on a continuous basis when determining the primary beneficiary of a VIE affects the presentation of these entities in our condensed consolidated financial statements. If we perform a primary beneficiary analysis at a date other than at creation of the variable interest entity, our assumptions may be different and may result in the identification of a different primary beneficiary.

If we determine that we are the primary beneficiary of a VIE, our condensed consolidated financial statements would include the operating results of the VIE (either tenant or borrower) rather than the results of the variable interest in the VIE. We would depend on the VIE to provide us timely financial information and rely on the internal controls of the VIE to provide accurate financial information. If the VIE has deficiencies in its internal controls over financial reporting, or does not provide us with timely financial information, this may adversely impact our financial reporting and our internal controls over financial reporting.

Results of Operations

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

Our financial results for the three and nine months ended September 30, 2010 and 2009 are summarized as follows:

Comparison of the Three Months Ended September 30, 2010 to the Three Months Ended September 30, 2009

Rental and related revenues

Segments	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Change $	Change %
	(dollars in thousands)			
Senior housing	$ 88,151	$ 67,709	$ 20,442	30%
Life science	59,201	53,536	5,665	11
Medical office	66,022	65,419	603	1
Skilled nursing	9,274	9,494	(220)	(2)
Hospital	20,378	20,011	367	2
Total	$ 243,026	$ 216,169	$ 26,857	12%

- *Senior housing.* The increase in senior housing rental and related revenues for the three months ended September 30, 2010 was primarily related to: (i) a $13.7 million increase as a result of including facility-level revenues for 27 properties due to the consolidation of four variable interest entities on August 31, 2010 (see Notes 11 and 17 to the Condensed Consolidated Financial Statements for additional information regarding these VIEs), (ii) a $4.2 million increased as a result of improvements related to the transition of management agreements on 15 communities previously operated by Sunrise on October 1, 2009, and (iii) a $2.6 million increase due to the additive effect of our acquisitions in 2010.

- *Life science.* The increase in life science rental and related revenues was primarily the result of assets that were placed in service in 2010, which were previously under development.

Interest income

For the three months ended September 30, 2010, interest income increased $2.6 million to $36.6 million. This increase was primarily related to additional interest income of $5.1 million earned from the $720 million participation in the first mortgage debt of HCR ManorCare purchased in August 2009, which was partially offset by a $2.6 million decrease of interest earned from marketable debt securities that were sold in 2009 and 2010. For a more detailed description of our participation in the first mortgage debt of HCR ManorCare, see Note 6 to the Condensed Consolidated Financial Statements. Our exposure to income fluctuations related to our variable rate loans is partially mitigated by our variable rate indebtedness. For a more detailed discussion of our interest rate risk, see *Quantitative and Qualitative Disclosures About Market Risk* in Item 3.

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Depreciation and amortization expense

Depreciation and amortization expense decreased $2.8 million to $78.3 million for the three months ended September 30, 2010. Depreciation and amortization expense for the three months ended September 30, 2009 included $4.7 million of accelerated amortization of intangible assets as a result of the modification of the lease term of a tenant in one of our life science facilities. No similar lease modifications were made during the three months ended September 30, 2010. The decrease in depreciation and amortization expense was partially offset by a $1.9 million increase as a result of life science assets that were placed in service during 2010, which were previously under development.

Interest expense

Interest expense decreased $2.4 million to $71.6 million for the three months ended September 30, 2010. The decrease was primarily due to: (i) a $2.1 million decrease from the net impact of the repayment of mortgage debt related to contractual maturities, offset in part by secured debt financing obtained in connection with our purchase of a $720 million participation in the first mortgage debt of HCR ManorCare and (ii) a $1.4 million decrease as a result of the early repayment of our term loan in March 2010. These decreases in interest expense were partially offset by a decrease of $1.3 million of capitalized interest related to assets under development in our life science segment that were placed in service during 2010.

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

	As of September 30,			
		2010		2009
Balance:				
Fixed rate	$	4,338,501	$	4,722,757
Variable rate		1,089,738		972,504
Total	$	5,428,239	$	5,695,261
Percent of total debt:				
Fixed rate		80%		83%
Variable rate		20		17
Total		100%		100%
Weighted-average interest rate at end of period:				
Fixed rate		6.26%		6.32%
Variable rate		2.07%		2.49%
Total weighted-average rate		5.42%		5.66%

Operating expenses

	Three Months Ended September 30,				Change		
Segments		2010		2009		$	%
			(dollars in thousands)				
Senior housing	$	13,322	$	(252)	$	13,574	NM%(1)
Life science		12,707		11,930		777	7

Medical office		33,336		33,573		(237)	(1)
Skilled nursing		76		25		51	NM(1)
Hospital		1,020		883		137	16
Total	$	60,461	$	46,159	$	14,302	31%

(1) Percentage change not meaningful.

Operating expenses are generally related to MOB and life science properties where we incur the expenses and recover all or a portion of those expenses from the tenants. The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses. The increase in operating expenses during the three months ended September 30, 2010 was primarily the result of including facility-level operating expenses for 27 senior housing properties due to the consolidation of four VIEs on August 31, 2010 (see Notes 11 and 17 to the Condensed Consolidated Financial Statements for additional information regarding these VIEs).

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General and administrative expenses

General and administrative expenses decreased $3.3 million to $19.6 million for the three months ended September 30, 2010. The decrease in general and administrative expenses was primarily due to a decrease in legal fees associated with litigation matters, partially offset by increased costs related to acquisitions pursued in 2010. See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements.

Litigation provision

On September 4, 2009 a jury returned a verdict in favor of Ventas, Inc., in an action brought against us in the United States District Court for the Western District of Kentucky for tortious interference with prospective business advantage in connection with Ventas s 2007 acquisition of Sunrise REIT. The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the quarter ended September 30, 2009 (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Impairments (recoveries)

During the three months ended September 30, 2009, we recognized impairments of $15.1 million related to two of our senior housing DFLs as a result of an anticipated restructure of the underlying leases (see Note 5 to the Condensed Consolidated Financial Statements). No DFLs were determined to be impaired during the three months ended September 30, 2010.

Other income, net

For the three months ended September 30, 2010, other income, net increased $0.7 million to $6.7 million. The increase was primarily due to changes in the fair value of certain derivative instruments (warrants).

Impairments of investments in unconsolidated joint ventures

During the three months ended September 30, 2010, we recognized impairments of $71.7 million related to our 35% interest in HCP Ventures II, an unconsolidated joint venture that owns 25 senior housing properties leased by Horizon Bay as a result of the recent and projected deterioration of the operating performance of the properties leased by Horizon Bay from HCP Ventures II.

Income taxes

For the three months ended September 30, 2010, income tax expense increased $1.2 million to $0.9 million. During the three months ended September 30, 2009, we recognized a tax benefit of $1.6 million as a result of an increase in depreciation expense due to a correction of an immaterial error of one of our real estate investments held in a taxable REIT subsidiary (TRS). No similar corrections were recognized during the three months ended September 30, 2010.

Equity income from unconsolidated joint ventures

For the three months ended September 30, 2010, equity income from unconsolidated joint ventures decreased $1.1 million to $0.2 million. This decrease is primarily due to HCP Ventures II s (an unconsolidated joint venture) conclusion to cease recognizing non-cash rental income (i.e., straight-line rents) from Horizon Bay effective July 1, 2010, which resulted in lower earnings for, and our share of earnings from, HCP Ventures II during the three months ended September 30, 2010.

Discontinued operations

The increase of $1.3 million in income from discontinued operations to $4.7 million for the three months ended September 30, 2010 is primarily due to an increase in gain on real estate dispositions of $1.5 million. During the three months ended September 30, 2010 and 2009, we sold three properties for $10 million and two properties for $5.8 million, respectively.

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Comparison of the Nine Months Ended September 30, 2010 to the Nine Months Ended September 30, 2009

Rental and related revenues

Segments	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change $	Change %
	(dollars in thousands)			
Senior housing	$ 235,566	$ 214,595	$ 20,971	10%
Life science	176,935	159,072	17,863	11
Medical office	196,572	196,266	306	
Skilled nursing	27,843	27,366	477	2
Hospital	60,886	59,085	1,801	3
Total	$ 697,802	$ 656,384	$ 41,418	6%

- *Senior housing*. The increase in senior housing rental and related revenues for the nine months ended September 30, 2010 was primarily related to: (i) a $13.7 million increase as a result of including facility-level revenues for 27 properties due to the consolidation of four VIEs on August 31, 2010 (see Notes 11 and 17 to the Condensed Consolidated Financial Statements for additional information regarding these VIEs), (ii) a $5.8 million increase as a result of improvements related to the transition of management agreements on 15 communities previously operated by Sunrise on October 1, 2009, and (iii) a $3.5 million increase due to the additive effect of our acquisitions in 2010. Senior housing rental and related revenues for the nine months ended September 30, 2009 included $6.4 million as a result of a correction to the purchase price allocation of certain assets acquired in 2006, which were predominately offset by increases from rent escalations and resets during the comparable period in 2010.

- *Life science*. The increase in life science rental and related revenues was primarily the result of assets that were placed in service in 2010, which were previously under development.

Income from direct financing leases

Income from direct financing leases decreased $2.1 million to $37.2 million for the nine months ended September 30, 2010. The decrease was primarily due to three DFLs that were deemed to be substantially impaired during 2009 (see Note 5 to the Condensed Consolidated Financial Statements).

Interest income

For the nine months ended September 30, 2010, interest income increased $20.2 million to $108.0 million. This increase was primarily related to additional interest income of $29.7 million earned from the $720 million participation in the first mortgage debt of HCR ManorCare purchased in August 2009, which was partially offset by a $9.3 million decrease of interest earned from marketable debt securities that were sold in 2009 and 2010. For a more detailed description of our participation in the first mortgage debt of HCR ManorCare, see Note 6 to the Condensed

Consolidated Financial Statements. Our exposure to income fluctuations related to our variable rate loans is partially mitigated by our variable rate indebtedness. For a more detailed discussion of our interest rate risk, see *Quantitative and Qualitative Disclosures About Market Risk* in Item 3.

Depreciation and amortization expense

Depreciation and amortization expense decreased $6.3 million to $234.0 million for the nine months ended September 30, 2010. The decrease in depreciation and amortization expense is primarily the result of lower depreciation of $15.8 million from assets that became fully depreciated in 2009 and 2010, which was partially offset by additional amortization expense from leasing costs and tenant and capital improvements expenditures that were incurred in 2009 and 2010. The nine months ended September 30, 2010 also included the offsetting impact of the following: (i) a decrease of $4.7 million of accelerated amortization of intangible assets as a result of the modification of the lease term of a tenant in one of our life science facilities in 2009, (ii) a decrease of $2.0 million resulting from a 2009 adjustment to the purchase price allocation of certain assets acquired in 2006, (iii) a $5.3 million increase due to our life science development assets placed in service during 2010, which were previously under development, and (iv) a $1.9 million increase due to our 2010 real estate acquisitions.

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Interest expense

Interest expense decreased $5.8 million to $220.3 million for the nine months ended September 30, 2010. The decrease was primarily due to: (i) a decrease of $3.2 million from the net impact of the repayment of mortgage debt related to contractual maturities, offset in part by secured debt financing obtained in connection with our purchase of a $720 million participation in the first mortgage debt of HCR ManorCare, (ii) a $1.8 million decrease in interest expense resulting from the benefit of an interest-rate swap (pay float and receive fixed) that was placed on $250 million of our unsecured senior notes in June 2009, (iii) a $2.0 million decrease as a result of the early repayment of our term loan in March 2010, and (iv) a $2.0 million decrease from the repayment of the outstanding balance under our bridge loan in May 2009. The decrease in interest expense was partially offset by a decrease of $3.5 million of capitalized interest related to assets under development in our life science segment that were placed in service during 2010.

Operating expenses

Segments	Nine Months Ended September 30, 2010	2009	Change $	%
		(dollars in thousands)		
Senior housing	$ 15,010	$ 3,937	$ 11,073	NM%(1)
Life science	36,045	34,639	1,406	4
Medical office	96,993	98,537	(1,544)	(2)
Skilled nursing	175	112	63	56
Hospital	3,805	2,542	1,263	50
Total	$ 152,028	$ 139,767	$ 12,261	9%

(1) Percentage change not meaningful.

Operating expenses are generally related to MOB and life science properties where we incur the expenses and recover all or a portion of those expenses from the tenants. The presentation of expenses as operating or general and administrative is based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses. The increase in operating expenses during the nine months ended September 30, 2010 was primarily the result of including facility-level operating expenses for 27 senior housing properties due to the consolidation of four VIEs on August 31, 2010 (see Notes 11 and 17 to the Condensed Consolidated Financial Statements for additional information regarding these VIEs).

General and administrative expenses

General and administrative expenses increased $3.4 million to $65.0 million for the nine months ended September 30, 2010. The increase in general and administrative expenses was primarily due to increased costs related to acquisitions pursued in 2010, partially offset by a decrease in legal fees associated with litigation matters and lower compensation related expenses and professional fees. See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements.

Litigation provision

On September 4, 2009 a jury returned a verdict in favor of Ventas, Inc., in an action brought against us in the United States District Court for the Western District of Kentucky for tortious interference with prospective business advantage in connection with Ventas s 2007 acquisition of Sunrise REIT. The jury awarded Ventas approximately $102 million in compensatory damages, which we recorded as a litigation provision expense during the quarter ended September 30, 2009 (See the information set forth under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements).

Impairments (recoveries)

The nine months ended September 30, 2010 includes $11.9 million related to the March 2010 reversal of portions of allowanced established by previous impairment charges of investments related to Erickson. Erickson is the tenant at three of our senior housing continuing-care-retirement-communities DFLs and the borrower of a senior construction loan in which we have a participation interest (see Note 5 to the Condensed Consolidated Financial Statements). During the nine months ended September 30, 2009, we recognized impairments of $21 million as a result of (i) $15.1 million related to two of our senior housing DFLs as a result of an anticipated restructure of the underlying leases (see Note 5 to the Condensed Consolidated Financial Statements), and (ii) $5.9 million of intangible assets on 12 of 15 senior housing communities that were determined to be impaired due to the termination of the Sunrise management agreements on 15 senior housing communities effective October 1, 2009.

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Other income, net

For the nine months ended September 30, 2010, other income, net increased $2.0 million to $7.2 million primarily due to a 2009 $1.4 million impairment related to goodwill.

Impairments of investments in unconsolidated joint ventures

During the nine months ended September 30, 2010, we recognized impairments of $71.7 million related to our 35% interest in HCP Ventures II, an unconsolidated joint venture that owns 25 senior housing properties leased by Horizon Bay as a result of the recent and projected deterioration of the operating performance of the properties leased by Horizon Bay from HCP Ventures II.

Equity income from unconsolidated joint ventures

For the nine months ended September 30, 2010, equity income from unconsolidated joint ventures increased $2.1 million to $4.1 million. This increase is primarily due to: (i) the recognition of additional rental revenues during 2010 from a life science tenant in one of our unconsolidated joint ventures that was previously deferred and (ii) a change in the expected useful life of certain intangible assets of one of our unconsolidated joint ventures that resulted in lower equity income due to higher amounts of amortization expense during 2009. These increases were partially offset by HCP Ventures II s conclusion to cease recognizing non-cash rental income (i.e., straight-line rents) from Horizon Bay effective July 1, 2010, which resulted in lower earnings for, and our share of earnings from, HCP Ventures II during the nine months ended September 30, 2010.

Discontinued operations

The decrease of $34.3 million in income from discontinued operations to $6.6 million for the nine months ended September 30, 2010 is primarily due to a decrease in gains on real estate dispositions of $30.3 million and income from discontinued operations of $4.1 million. During the nine months ended September 30, 2010 and 2009, we sold four properties for $25 million and 11 properties for $58 million, respectively. Discontinued operations for the nine months ended September 30, 2010 included 13 properties compared to 27 properties for the nine months ended September 30, 2009.

Liquidity and Capital Resources

Our principal liquidity needs are to: (i) fund normal operating expenses, (ii) meet debt service requirements, (iii) fund capital expenditures, including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make dividend distributions. We believe these needs will be satisfied using cash flows generated by operations and from our various financing activities during the next twelve months. During the nine months ended September 30, 2010, distributions to shareholders and noncontrolling interest holders exceeded cash flows from operations by approximately $15 million. During 2010, we raised aggregate net proceeds of $566 million from issuances of common stock and sales of marketable debt securities and real estate, which proceeds, among other things, are the sources of cash used to fund the excess of distributions to shareholders and noncontrolling interest holders above cash flows from operations during the nine months ended September 30, 2010.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our debt ratings. We also pay a facility fee on the entire revolving commitment that depends upon our debt ratings. As of October 28, 2010, we had a credit rating of Baa3 (positive) from Moody s, BBB (stable) from S&P and BBB (positive) from Fitch on our senior unsecured debt securities, and Ba1 (positive) from Moody s, BB+ (stable) from S&P and BB+ (positive) from Fitch on our preferred equity securities.

Net cash provided by operating activities was $431 million and $390 million for the nine months ended September 30, 2010 and 2009, respectively. The increase in operating cash flows is primarily the result of the following: (i) the additive impact of our investments in 2009 and 2010, (ii) assets placed in service in 2010 and (iii) rent escalations and resets in 2009 and 2010. Our cash flows from operations are dependent upon the occupancy level of multi-tenant buildings, rental rates on leases, our tenants performance on their lease obligations, the level of operating expenses and other factors.

Net cash used in investing activities was $327 million for the nine months ended September 30, 2010 and consisted primarily of fundings of: (i) $228 million for acquisition and development of real estate, (ii) $131 million for investments in loans receivables and DFLs, and (iii) $65 million for leasing costs and tenant and capital improvements. These expenditures were partially offset by our proceeds of $28 million from the repayment of loans receivable and DFLs and $73 million from the sales of marketable debt securities.

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Net cash used in financing activities was $163 million for the nine months ended September 30, 2010 and consisted primarily of: (i) payments of common and preferred dividends aggregating $434 million, (ii) repayment of our term loan of $200 million, (iii) repayment of $200 million of senior unsecured notes and (iv) repayment of our mortgage debt of $163 million. The amount of cash used in financing activities was partially offset by net proceeds of $519 million from the issuances of common stock and $318 million net borrowings from our revolving line of credit facility.

Debt

Bank Line of Credit

Our revolving line of credit facility with a syndicate of banks provides for an aggregate borrowing capacity of $1.5 billion and matures on August 1, 2011. This revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our debt ratings. We pay a facility fee on the entire revolving commitment that depends upon our debt ratings. Based on our debt ratings on September 30, 2010, the margin on the revolving line of credit facility was 0.55% and the facility fee was 0.15%. At September 30, 2010, we had $318 million outstanding under this revolving line of credit facility with a weighted-average interest rate of 1.29%. At September 30, 2010, $117 million of aggregate letters of credit were also outstanding against our revolving line of credit facility, including a $103 million letter of credit as a result of the Ventas litigation. For further information regarding the Ventas litigation, see Note 11 to the Condensed Consolidated Financial Statements.

Our revolving line of credit facility contains certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreement, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 65%, (iii) require a Fixed Charge Coverage ratio of 1.75 times and (iv) require a formula-determined Minimum Consolidated Tangible Net Worth of $5.3 billion at September 30, 2010. At September 30, 2010, we were in compliance with each of these restrictions and requirements of our revolving line of credit facility.

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

Senior Unsecured Notes

At September 30, 2010, we had senior unsecured notes outstanding with an aggregate principal balance of $3.3 billion. Interest rates on the notes ranged from 1.19% to 7.07% with a weighted-average effective interest rate of 6.13% at September 30, 2010. Discounts and premiums are amortized to interest expense over the term of the related notes. The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. At September 30, 2010, we believe we were in compliance with these covenants.

Mortgage and Other Secured Debt

At September 30, 2010, we had $1.7 billion in aggregate principal amount of mortgage and other secured debt outstanding that is secured by 141 healthcare facilities, which had a carrying value of $2.0 billion, as well as a participation in a first mortgage loan with a carrying value of $630 million. Interest rates on the mortgage and other secured debt ranged from 1.27% to 8.30% with a weighted-average effective interest rate of 4.79% at September 30, 2010.

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

Other Debt

At September 30, 2010, we had $94 million of non-interest bearing life care bonds at two of our continuing care retirement communities and non-interest bearing occupancy fee deposits at another of our senior housing facilities, all of which were payable to certain residents of the facilities (collectively, Life Care Bonds). At September 30, 2010, $38.3 million of the Life Care Bonds were refundable to the residents upon the resident moving out or to their estate upon death, and $55.7 million of the Life Care Bonds were refundable after the unit is successfully remarketed to a new resident.

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Debt Maturities

The following table summarizes our stated debt maturities and scheduled principal repayments at September 30, 2010 (in thousands):

Year	**Amount(1)**
2010 (Three Months)	$ 20,134
2011	689,879
2012	313,860
2013	1,225,194
2014	264,530
Thereafter	2,820,652
	5,334,249
(Discounts) and premiums, net	(8,534)
	$ 5,325,715

(1) Excludes $94 million of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at three of our senior housing facilities, which have no scheduled maturities.

Derivative Instruments

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

The following table summarizes our outstanding interest rate swap contracts as of September 30, 2010 (dollars in thousands):

Date Entered	**Maturity Date**	**Hedge Designation**	**Fixed Rate**	**Floating Rate Index**	**Notional Amount**	**Fair Value**
July 2005(1)	July 2020	Cash Flow	3.82%	BMA Swap Index	$ 45,600	$ (6,382)
June 2009	September 2011	Fair Value	5.95%	1 Month LIBOR+4.21%	250,000	3,210
July 2009	July 2013	Cash Flow	6.13%	1 Month LIBOR+3.65%	14,300	(684)
August 2009	February 2011	Cash Flow	0.87%	1 Month LIBOR	250,000	546
August 2009	August 2011	Cash Flow	1.24%	1 Month LIBOR	250,000	2,006

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

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

Equity

At September 30, 2010, we had 4.0 million shares of 7.25% Series E cumulative redeemable preferred stock, 7.8 million shares of 7.10% Series F cumulative redeemable preferred stock and 310.5 million shares of common stock outstanding. At September 30, 2010, equity totaled $6.3 billion and our equity securities had a market value of $11.7 billion.

At September 30, 2010, there were a total of 4.3 million DownREIT units outstanding in five limited liability companies in which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

Shelf Registration

We have a prospectus on file with the SEC as part of a registration statement on Form S-3, using a shelf registration process which expires in September 2012. Under this shelf process, we may sell from time to time any combination of the registered securities in one or more offerings. The securities described in the prospectus include common stock, preferred stock and debt securities. Each time we sell securities under the shelf registration, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered and of the offering. We may offer and sell the securities pursuant to this prospectus from time to time in one or more of the following ways: through underwriters or dealers, through agents, directly to purchasers or through a combination of any of these methods of sales. Proceeds from the sale of these securities may be used for general corporate purposes, which may include repayment of indebtedness, working capital and potential acquisitions.

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Non-GAAP Financial Measure Funds From Operations (FFO)

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

FFO is defined as net income applicable to common shares (computed in accordance with GAAP), excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization, with adjustments for joint ventures. Adjustments for joint ventures are calculated to reflect FFO on the same basis. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income. Our computation of FFO may not be comparable to FFO reported by other real estate investment trusts that do not define the term in accordance with the current National Association of Real Estate Investment Trusts (NAREIT) definition or that have a different interpretation of the current NAREIT definition from us.

In addition, we present FFO, before the impact of impairments, recoveries and litigation provision. Management believes FFO, before the impact of impairments, recoveries and litigation provision, is useful to both the Company and its investors. This measure is a modification of the NAREIT definition of FFO and should not be used as an alternative to net income.

Details of certain items that affect comparability are discussed in the financials results summary of our financial results for the three and nine months ended September 30, 2010 and 2009. The following is a reconciliation from net income applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP, to FFO (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss) applicable to common shares	$ 16,995	$ (52,397)	$ 171,296	$ 82,672
Depreciation and amortization of real estate, in-place lease and other intangibles:				
Continuing operations	78,334	81,177	234,008	240,308
Discontinued operations	173	1,180	1,382	2,276
Gain on sales of real estate	(3,987)	(2,460)	(4,052)	(34,357)
Equity income from unconsolidated joint ventures	(209)	(1,328)	(4,078)	(1,993)
FFO from unconsolidated joint ventures	5,213	6,433	19,709	19,004
Noncontrolling interests and participating securities share in earnings	3,896	3,895	11,725	12,147
Noncontrolling interests and participating securities share in FFO	(4,334)	(4,331)	(13,192)	(13,633)
FFO applicable to common shares	$ 96,081	$ 32,169	$ 416,798	$ 306,424
	$ 71,693	$ 117,096	$ 59,793	$ 123,002

Impact of impairments, recoveries and litigation provision								
Diluted FFO, before giving effect to impairments, recoveries and litigation provision	$	167,774	$	149,265	$	476,591	$	429,426
Basic FFO per common share	$	0.31	$	0.11	$	1.39	$	1.14
Diluted FFO per common share	$	0.31	$	0.11	$	1.39	$	1.14
Per common share impact of impairments, recoveries and litigation provision on diluted FFO	$	0.23	$	0.41	$	0.19	$	0.46
Diluted FFO per common share, before giving effect to impairments, recoveries and litigation provision	$	0.54	$	0.52	$	1.58	$	1.60
Weighted average shares used to calculate diluted FFO per common share		311,092		285,234		300,468		268,183

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Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures, including HCP Ventures II, HCP Ventures III, LLC and HCP Ventures IV LLC, as described under Note 7 to the Condensed Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 11 to the Condensed Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described below under *Contractual Obligations*.

Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at September 30, 2010 (dollars in thousands):

	Total(1)	Less than One Year	2011-2012	2013-2014	More than Five Years
Bank line of credit	$ 318,000	$	$ 318,000	$	$
Senior unsecured notes	3,335,686	6,421	542,265	637,000	2,150,000
Mortgage and other secured debt	1,680,563	13,713	143,474	852,724	670,652
Development commitments(2)	9,606	5,735	3,871		
Ground and other operating leases	199,443	1,254	10,261	9,927	178,001
Interest(3)	1,381,962	79,237	531,642	407,106	363,977
Total	$ 6,925,260	$ 106,360	$ 1,549,513	$ 1,906,757	$ 3,362,630

(1) Excludes $94 million of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at three of our senior housing facilities, which have no scheduled maturities.

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

(3) Interest on variable-rate debt is calculated using rates in effect at September 30, 2010.

Inflation

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

Recent Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements for the impact of recent accounting pronouncements. There were no accounting pronouncements that were issued, but not yet adopted by us, that we believe will materially impact our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. At September 30, 2010, we were exposed to market risks related to fluctuations in interest rates on approximately $1.8 billion of variable-rate loan investments (see Note 6 to the Condensed Consolidated Financial Statements) and $83 million of other investments where the payments fluctuate with changes in LIBOR. Our exposure to income fluctuations related to our variable-rate investments is partially offset by (i) $318 million of variable-rate line of credit borrowings, (ii) $497 million of variable-rate mortgage notes and other secured debt payable, excluding $60 million of variable-rate mortgage notes which have been hedged through interest-rate swap contracts, (iii) $25 million of variable-rate senior unsecured notes and (iv) $750 million of additional variable interest rate exposure achieved through interest-rate swap contracts (pay float and receive fixed).

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt, loans receivable and debt securities unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the estimated fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the estimated fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no change in the outstanding balance as of September 30, 2010, net interest income would improve by approximately $12.6 million, or $0.04 per common share on a diluted basis. Assuming a 50 basis point decrease in interest rates under the above circumstances, taking into consideration that the index underlying many of our arrangements is currently below 50 basis points and is not expected to go below zero, net interest income would decline by $6.3 million, or approximately $0.02 per common share on a diluted basis.

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We use derivative instruments during the normal course of business to manage or hedge interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are recorded on the condensed consolidated balance sheet at their estimated fair value. See Note 20 to the Condensed Consolidated Financial Statements for further information.

To illustrate the effect of movements in the interest rate markets, we performed a market sensitivity analysis on our outstanding hedging instruments. We applied various basis point spreads to the underlying interest rate curves of the derivative portfolio in order to determine the instruments change in estimated fair value. Assuming a one percentage point change in the underlying interest rate curve, the change in estimated fair value of each of the underlying derivative instruments would not exceed $4.2 million. See Note 20 to the Condensed Consolidated Financial Statements for additional analysis details.

Market Risk. We are directly and indirectly affected by changes in the equity and bond markets. We have investments in marketable debt and equity securities classified as available-for-sale. Gains and losses on these securities are recognized in income when realized and losses are recognized when an other-than-temporary decline in value is identified. An initial indicator of other-than-temporary decline in value for marketable equity securities is based on the severity of the decline in estimated fair value below the carrying value for an extended period of time. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our cost basis; the issuer s financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the stock or bond price, if any. At September 30, 2010, the fair value and cost, or the adjusted cost basis for those securities where a recognized loss was recorded, of marketable equity securities was $4.2 million and $3.6 million, respectively, and the fair value and cost basis of marketable debt securities was $101.4 million and $93.9 million, respectively.

Item 4. Controls and Procedures

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

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

As required by Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Based upon that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See the Ventas and Sunrise litigation matters under the heading Legal Proceedings of Note 11 to the Condensed Consolidated Financial Statements in this report for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

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Item 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

(a)

None.

(b)

None.

(c)

The table below sets forth information with respect to purchases of our common stock made by us or on our behalf or by any affiliated purchaser, as such term is defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, during the nine months ended September 30, 2010.

Period Covered	Total Number Of Shares Purchased(1)	Average Price Paid Per Share	Total Number Of Shares (Or Units) Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares (Or Units) That May Yet Be Purchased Under The Plans Or Programs
July 1-31, 2010	1,085	$ 32.66		
August 1-31, 2010	1,745	36.01		
September 1-30, 2010	331	36.52		
Total	3,161	34.92		

(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.

Item 6. Exhibits

3.1	Articles of Restatement of HCP (incorporated by reference herein to Exhibit 3.1 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
3.2	Fourth Amended and Restated Bylaws of HCP (incorporated herein by reference to Exhibit 3.1 to HCP s Current Report on Form 8-K (File No. 1-08895), filed September 25, 2006).
3.2.1	Amendment No. 1 to Fourth Amended and Restated Bylaws of HCP (incorporated by reference herein to Exhibit 3.2.1 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed October 30, 2007).
3.2.2	Amendment No. 2 to Fourth Amended and Restated Bylaws of HCP, filed November 3, 2009 (incorporated by reference herein to Exhibit 3.2.2 to HCP s Quarterly Report on Form 10-Q (File No. 1-08895), filed August 3, 2010).
4.1	Registration Rights Agreement, dated as of July 26, 2010, by and among HCP, Boyer Research Park Associates VIII, L.C., Boyer Research Park Associates IX, L.C., and Tegra Lakeview Associates, L.C.
10.1	Letter Agreement, dated July 7, 2010, by and between HCP and Kendall Young.
31.1	Certification by James F. Flaherty III, HCP s Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification by Thomas M. Herzog, HCP s Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).

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32.1	Certification by James F. Flaherty III, HCP s Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
32.2	Certification by Thomas M. Herzog, HCP s Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Furnished herewith.
Management Contract or Compensatory Plan or Arrangement.

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SIGNATURES

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

Date: November 2, 2010

HCP, Inc.

(Registrant)

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

/s/ THOMAS M. HERZOG
Thomas M. Herzog
Executive Vice President-
Chief Financial Officer
(Principal Financial Officer)

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