

HEALTHCARE REALTY TRUST INC

Form 10-Q

August 10, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

**For the quarterly period ended: June 30, 2009
OR**

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

**For the transition period from _____ to _____
Commission File Number: 001-11852**

HEALTHCARE REALTY TRUST INCORPORATED
(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

62 1507028
(I.R.S. Employer
Identification No.)

**3310 West End Avenue
Suite 700
Nashville, Tennessee 37203**
(Address of principal executive offices)
(615) 269-8175

(Registrant's telephone number, including area code)

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

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

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

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

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

As of July 31, 2009, 59,355,658 shares of the Registrant's Common Stock were outstanding.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
June 30, 2009
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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

Healthcare Realty Trust Incorporated
Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share data)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Real estate properties:		
Land	\$ 113,003	\$ 107,555
Buildings, improvements and lease intangibles	1,853,887	1,792,402
Personal property	17,242	16,985
Construction in progress	126,429	84,782
	2,110,561	2,001,724
Less accumulated depreciation	(407,297)	(367,360)
Total real estate properties, net	1,703,264	1,634,364
Cash and cash equivalents	4,707	4,138
Mortgage notes receivable	57,022	59,001
Assets held for sale and discontinued operations, net	1,377	90,233
Other assets, net	78,215	77,044
Total assets	\$ 1,844,585	\$ 1,864,780
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	\$ 962,934	\$ 940,186
Accounts payable and accrued liabilities	44,421	45,937
Liabilities held for sale and discontinued operations	17	32,821
Other liabilities	45,859	49,589
Total liabilities	1,053,231	1,068,533
Commitments and contingencies		
Equity:		
Preferred stock, \$.01 par value; 50,000,000 shares authorized; none issued and outstanding		
Common stock, \$.01 par value; 150,000,000 shares authorized; 59,354,883 and 59,246,284 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	594	592
Additional paid-in capital	1,493,182	1,490,535
Accumulated other comprehensive loss	(6,461)	(6,461)

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Cumulative net income	774,491	736,874
Cumulative dividends	(1,472,398)	(1,426,720)
Total stockholders' equity	789,408	794,820
Noncontrolling interests	1,946	1,427
Total equity	791,354	796,247
Total liabilities and equity	\$ 1,844,585	\$ 1,864,780

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For The Three Months Ended June 30, 2009 and 2008
(Dollars in thousands, except per share data)
(Unaudited)

	2009	2008
REVENUES		
Master lease rent	\$ 14,953	\$ 15,014
Property operating	45,866	32,899
Straight-line rent	328	(126)
Mortgage interest	978	542
Other operating	3,007	4,312
	65,132	52,641
EXPENSES		
General and administrative	5,329	5,863
Property operating	23,587	19,279
Bad debts, net of recoveries	127	115
Depreciation	15,575	11,665
Amortization	1,346	566
	45,964	37,488
OTHER INCOME (EXPENSE)		
Gain on Extinguishment of Debt		9
Interest expense	(10,043)	(10,886)
Interest and other income, net	228	486
	(9,815)	(10,391)
INCOME FROM CONTINUING OPERATIONS	9,353	4,762
DISCONTINUED OPERATIONS		
Income from discontinued operations	18	1,289
Gain on sales of real estate properties	7,443	7,715
INCOME FROM DISCONTINUED OPERATIONS	7,461	9,004
NET INCOME	16,814	13,766
Less: Net income attributable to noncontrolling interests	(62)	
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 16,752	\$ 13,766

Basic Earnings Per Common Share

Income from continuing operations	\$	0.16	\$	0.10
Discontinued operations		0.13		0.18
Net income attributable to common stockholders	\$	0.29	\$	0.28

Diluted Earnings Per Common Share

Income from continuing operations	\$	0.16	\$	0.09
Discontinued operations		0.12		0.18
Net income attributable to common stockholders	\$	0.28	\$	0.27

Weighted Average Common Shares Outstanding	Basic	58,128,489	49,431,724
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Weighted Average Common Shares Outstanding	Diluted	58,899,618	50,474,762
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Dividends Declared, per Common Share, During the Period	\$	0.385	\$	0.385
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The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For The Six Months Ended June 30, 2009 and 2008
(Dollars in thousands, except per share data)
(Unaudited)

	2009	2008
REVENUES		
Master lease rent	\$ 30,604	\$ 30,703
Property operating	88,776	65,014
Straight-line rent	688	(182)
Mortgage interest	1,468	1,067
Other operating	6,514	8,164
	128,050	104,766
EXPENSES		
General and administrative	12,296	11,908
Property operating	46,950	37,524
Bad debts, net of recoveries	562	260
Depreciation	31,300	23,127
Amortization	2,827	1,150
	93,935	73,969
OTHER INCOME (EXPENSE)		
Gain on Extinguishment of Debt		9
Re-measurement gain of equity interest upon acquisition	2,701	
Interest expense	(20,116)	(21,764)
Interest and other income, net	383	622
	(17,032)	(21,133)
INCOME FROM CONTINUING OPERATIONS	17,083	9,664
DISCONTINUED OPERATIONS		
Income from discontinued operations	582	2,582
Impairments	(22)	(29)
Gain on sales of real estate properties	20,051	8,352
INCOME FROM DISCONTINUED OPERATIONS	20,611	10,905
NET INCOME	37,694	20,569
Less: Net income attributable to noncontrolling interests	(77)	(3)

NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$	37,617	\$	20,566
Basic Earnings Per Common Share				
Income from continuing operations	\$	0.29	\$	0.20
Discontinued operations		0.36		0.22
Net income attributable to common stockholders	\$	0.65	\$	0.42
Diluted Earnings Per Common Share				
Income from continuing operations	\$	0.29	\$	0.19
Discontinued operations		0.35		0.22
Net income attributable to common stockholders	\$	0.64	\$	0.41
Weighted Average Common Shares Outstanding	Basic	58,153,637		49,422,391
Weighted Average Common Shares Outstanding	Diluted	58,897,895		50,442,808
Dividends Declared, per Common Share, During the Period	\$	0.77	\$	0.77

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, are an integral part of these financial statements.

Table of Contents**Healthcare Realty Trust Incorporated****Condensed Consolidated Statements of Cash Flows
For The Six Months Ended June 30, 2009 and 2008**

(Dollars in thousands)

(Unaudited)

	2009	2008
Operating Activities		
Net income	\$ 37,694	\$ 20,569
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	35,218	26,480
Stock-based compensation	2,301	2,403
Straight-line rent receivable	(672)	199
Straight-line rent liability	224	86
Gain on sales of real estate properties	(20,051)	(8,352)
Gain on repurchase of notes payable		(9)
Re-measurement gain of equity interest upon acquisition	(2,701)	
Impairments	22	29
Equity in losses from unconsolidated joint ventures	2	148
Provision for bad debts, net of recoveries	566	331
State income taxes paid, net of refunds	(569)	(621)
Payment of partial pension settlement	(2,300)	
Changes in operating assets and liabilities:		
Other assets	132	5,866
Accounts payable and accrued liabilities	(3,200)	(3,686)
Other liabilities	(872)	(717)
Net cash provided by operating activities	45,794	42,726
Investing Activities		
Acquisition and development of real estate properties	(61,791)	(37,694)
Funding of mortgages and notes receivable	(8,816)	(7,181)
Investment in unconsolidated joint venture	(149)	
Distributions received from unconsolidated joint ventures		867
Proceeds from sales of real estate	82,878	22,040
Proceeds from mortgages and notes receivable repayments	98	79
Net cash provided by (used in) investing activities	12,220	(21,889)
Financing Activities		
Net borrowings on unsecured credit facility	9,000	22,000
Repayments on notes and bonds payable	(21,569)	(1,825)
Repurchase of notes payable		(5,332)
Quarterly dividends paid	(45,678)	(39,067)
Proceeds from issuance of common stock	348	361
Common stock redemption		(282)
Credit facility amendment fee		(326)
Capital contributions received from noncontrolling interests	529	

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Distributions to noncontrolling interests	(75)	(3)
Net cash used in financing activities	(57,445)	(24,474)
Increase (decrease) in cash and cash equivalents	569	(3,637)
Cash and cash equivalents, beginning of period	4,138	8,519
Cash and cash equivalents, end of period	\$ 4,707	\$ 4,882

Supplemental Cash Flow Information

Interest paid	\$ 24,221	\$ 25,201
Capitalized interest	\$ 4,613	\$ 3,110
Capital expenditures accrued	\$ 13,892	\$ 7,370
Mortgage note payable assumed upon acquisition of joint venture interest (adjusted to fair value)	\$ 11,716	\$
Mortgage note payable disposed of upon sale of joint venture interest	\$ 5,425	\$

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on

Form 10-K for the year ended December 31, 2008, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Notes to Condensed Consolidated Financial Statements
June 30, 2009
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the Company) is a real estate investment trust (REIT) that owns, acquires, manages, finances, and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately \$2.2 billion in 203 real estate properties and mortgages as of June 30, 2009, excluding assets classified as held for sale and including an investment in an unconsolidated joint venture. The Company's 198 owned real estate properties, excluding assets classified as held for sale, are comprised of six facility types, located in 28 states, totaling approximately 12.1 million square feet. As of June 30, 2009, the Company provided property management services to approximately 8.8 million square feet nationwide.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, and certain other affiliated entities with respect to which the Company controlled or controls the operating activities and receives substantially all of the economic benefits.

The Company accounts for its joint venture investments in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 94, Consolidation of all Majority-Owned Subsidiaries, Accounting Principles Board Standard No. 18, The Equity Method of Accounting for Investments in Common Stock, and the American Institute of Certified Public Accountants Statement of Position 78-9, Accounting for Investments in Real Estate Ventures, which provide guidance on whether an entity should consolidate an investment or account for it under the equity or cost methods. The Company's investments in its unconsolidated joint ventures are included in other assets and the related equity income is recognized in other income (expense) on the Company's Condensed Consolidated Financial Statements. On January 1, 2009, the Company adopted SFAS No. 160, Non-Controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements and eliminates the diversity that existed in accounting for transactions between an entity and noncontrolling interests by requiring that they be treated as equity transactions. In addition, net income attributable to the noncontrolling interests is included in consolidated net income on the face of the income statement. SFAS No. 160 requires prospective treatment, except for the presentation and disclosure requirements, which require retrospective treatment. The adoption of SFAS No. 160 did not have a significant impact on the Company's consolidated financial position or net income per share.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Management believes, however, that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in the Condensed Consolidated Financial Statements. The Company evaluated subsequent events for recognition or disclosure through August 10, 2009, which is the date the Condensed Consolidated Financial Statements were issued.

This interim financial information should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2009 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of trends.

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Use of Estimates in the Condensed Consolidated Financial Statements

Preparation of the Condensed Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Segment Reporting

The Company owns, acquires, manages, finances, and develops outpatient, healthcare-related properties. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision-making. Therefore, the Company discloses its operating results in a single segment.

Reclassifications

Discontinued operations

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 related liabilities, have been reclassified on the Company's Condensed Consolidated Balance Sheets, and the operating results of those assets have been reclassified from continuing to discontinued operations for all periods presented. Likewise, certain assets and liabilities that were previously classified as held for sale and included in discontinued operations have been reclassified to held for use and included in continuing operations.

Noncontrolling interests

All prior period noncontrolling interests on the Company's Condensed Consolidated Balance Sheets have been reclassified from liabilities to equity, and all prior period noncontrolling interests' net income on the Company's Condensed Consolidated Statements of Income have been reclassified to specifically identify net income attributable to the noncontrolling interests.

Revenue Recognition

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition (SAB No. 104). SAB No. 104 includes four criteria that must be met before revenue is realized or realizable and earned. The Company begins recognizing revenue when all four criteria have been met, such as persuasive evidence of an arrangement exists, the tenant has taken possession of and controls the physical use of the leased asset, and collectibility is reasonably assured.

The Company derives most of its revenues from its real estate and mortgage notes receivable portfolio. The Company's rental and mortgage interest income is recognized based on contractual arrangements with its tenants, sponsors or borrowers. These contractual arrangements generally fall into three categories: leases, mortgage notes receivable, and property operating agreements as described in the following paragraphs. The Company may accrue late fees based on the contractual terms of a lease or note. Such fees, if accrued, are included in master lease rent, property operating income, or mortgage interest income on the Company's Condensed Consolidated Statements of Income, based on the type of contractual agreement.

Rental Income

Rental income related to non-cancelable operating leases is recognized as earned over the life of the lease agreements on a straight-line basis. The Company's lease agreements generally include provisions for stated annual increases or increases based on a Consumer Price Index (CPI). Rental income from properties under master lease arrangements with tenants is included in master lease rent, and rental income from properties with multiple tenant lease arrangements is included in property operating income on the Company's Condensed Consolidated Statements of Income.

Interest Income

Mortgage interest income and notes receivable interest income are recognized based on the interest rates and maturity date or amortization period specific to each note.

Property operating income

As of June 30, 2009, the Company had eight real estate properties subject to property operating agreements that obligate the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in return for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the sponsor is responsible to the Company

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for the shortfall under the terms of these agreements. The Company recognizes the shortfall income in other operating income on the Company's Condensed Consolidated Statements of Income.

Accumulated Other Comprehensive Loss

Foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains or losses on available-for-sale securities, as well as other items, are included in comprehensive income (loss). Included in accumulated other comprehensive loss is the cumulative adjustment related to the adoption and subsequent application of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS No. 87, 88, 106 and 132(R), which is generally recognized in the fourth quarter of each year. As such, total comprehensive income for the three and six months ended June 30, 2009 and 2008 was the same as net income.

Income Taxes

No provision has been made for federal income taxes. The Company intends at all times to qualify as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The Company must distribute at least 90% per annum of its real estate investment trust taxable income to its stockholders and meet other requirements to continue to qualify as a real estate investment trust.

The Company must pay certain state income taxes which are generally included in general and administrative expense on the Company's Condensed Consolidated Statements of Income.

The Company classifies interest and penalties related to uncertain tax positions, if any, in its Condensed Consolidated Financial Statements as a component of general and administrative expense.

Incentive Plans

The Company follows the provisions of SFAS No. 123(R), Share-Based Payment, for accounting for its stock-based awards. As of June 30, 2009, the Company had issued and outstanding various employee and non-employee stock-based awards. These awards included restricted stock issued to employees pursuant to the Company's employee stock incentive plans, restricted stock issued to its Board of Directors under its non-employee director incentive plan, and options issued to employees pursuant to its employee stock purchase plan.

Accounting for Defined Benefit Pension Plans

The Company accounts for its pension plans in accordance with SFAS No. 158. The Company has pension plans under which the Company's Board of Directors and certain designated employees may receive retirement benefits upon retirement and the completion of five years of service with the Company. The plans are unfunded and benefits will be paid from earnings of the Company.

Operating Leases

As described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, the Company is obligated under operating lease agreements consisting primarily of its corporate office lease and various ground leases related to the Company's real estate investments where the Company is the lessee.

Discontinued Operations and Assets Held for Sale

The Company sells properties from time to time due to a variety of factors, including among other things, market conditions or the exercise of purchase options by tenants. The operating results of properties that have been sold or are held for sale are reported as discontinued operations in the Company's Condensed Consolidated Statements of Income in accordance with the criteria established in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). Pursuant to SFAS No. 144, a company must report discontinued operations when a component of an entity has either been disposed of or is deemed to be held for sale if (i) both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Long-lived assets classified as held for sale on the Company's Condensed Consolidated Balance Sheet are reported at the lower of their carrying amount or their fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Losses resulting from the sale of such properties are characterized as impairment losses relating to discontinued operations in the Condensed Consolidated Statements of Income. As of June 30, 2009, the Company had two real estate properties classified as held for sale.

Land Held for Development

Land held for development, which is included in construction in progress on the Company's Condensed Consolidated Balance Sheets, includes parcels of land owned by the Company, upon which the Company intends to

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develop and own medical office and outpatient healthcare properties. See Note 6 for a detail of the Company's land held for development.

Fair Value Measurements

The Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157) for its financial assets and liabilities on January 1, 2008 and for its non-financial assets and liabilities on January 1, 2009. The adoption of SFAS No. 157 has not had a significant impact on the Company's financial position or results of operations. SFAS No. 157 defines fair value, expands disclosure requirements about fair value measurements, and establishes specific requirements as well as guidelines for a consistent framework to measure fair value. SFAS No. 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. SFAS No. 157 requires a company to maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements.

SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 quoted prices for identical instruments in active markets;

Level 2 quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Real Estate Properties

Real estate properties are recorded at fair value at the acquisition date. The fair value of real estate properties acquired is allocated between land, buildings, tenant improvements, lease and other intangibles, and personal property based upon estimated fair values at the time of acquisition in accordance with SFAS No. 141(R), Business Combinations, as revised (SFAS No. 141(R)) which the Company adopted on January 1, 2009. SFAS No. 141(R) requires an acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. Prior to the adoption of SFAS No. 141(R), the Company applied SFAS No. 141, Business Combinations.

New Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, (SFAS No. 165). This statement provides authoritative accounting literature relating to subsequent events that was previously addressed only in auditing literature. The guidance is virtually the same as guidance included in the auditing literature with some exceptions. First, the two types of subsequent events have been renamed as either recognized or non-recognized rather than Type I and Type II as previously referred to in the auditing literature. Second, the definition of a subsequent event was modified to refer to events or transactions that occur after the balance sheet date, but before the issuance of the financial statements. Lastly, companies are required to disclose the date through which it has evaluated subsequent events and the basis for that date. The adoption of SFAS No. 165, which was effective for the Company for the interim period ended June 30, 2009, has not had a material impact on the Company's financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, (SFAS No. 168 or the Codification) as the single source of authoritative nongovernmental GAAP. All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the Securities and Exchange Commission (SEC), will be superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become

nonauthoritative. The Codification is not intended to change GAAP, but instead introduces a new structure that will combine all authoritative standards into a comprehensive, topically organized online database.

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The Codification will be effective for interim or annual periods ending after September 15, 2009, and will impact the Company's financial statement disclosures beginning with the quarter ending September 30, 2009 as all future references to authoritative accounting literature will be referenced in accordance with the Codification. There will be no changes to the content of the Company's financial statements or other disclosures as a result of implementing the Codification.

Note 2. Real Estate and Mortgage Notes Receivable Investments

The Company had investments of approximately \$2.2 billion in 203 real estate properties and mortgage notes receivable as of June 30, 2009, excluding assets classified as held for sale and including an investment in an unconsolidated joint venture. The Company's 198 owned real estate properties, excluding assets classified as held for sale, are located in 28 states and comprise approximately 12.1 million total square feet. The table below details the Company's investments.

<i>(Dollars and Square Feet in thousands)</i>	Number of Investments	Gross Investment Amount	%	Square Feet Footage	%
Owned properties					
<i>Master leases</i>					
Medical office	18	\$ 131,142	6.0%	867	7.2%
Physician clinics	18	130,802	6.0%	736	6.1%
Ambulatory care/surgery	5	33,351	1.5%	133	1.1%
Specialty outpatient	5	13,486	0.6%	59	0.5%
Specialty inpatient	12	218,611	10.2%	864	7.2%
Other	10	45,181	2.1%	498	4.1%
	68	572,573	26.4%	3,157	26.2%
<i>Financial support agreements</i>					
Medical office	8	83,194	3.8%	621	5.1%
	8	83,194	3.8%	621	5.1%
<i>Multi-tenanted with occupancy leases</i>					
Medical office	102	1,296,656	59.7%	7,625	63.2%
Physician clinics	13	43,185	2.0%	283	2.4%
Ambulatory care/surgery	5	66,732	3.1%	303	2.5%
Specialty outpatient	2	16,370	0.8%	68	0.6%
	122	1,422,943	65.6%	8,279	68.7%
<i>Land held for development</i>					
		17,301	0.8%		
<i>Corporate property</i>					
		14,550	0.7%		
		31,851	1.5%		
Total owned properties	198	2,110,561	97.3%	12,057	100.0%
Mortgage notes receivable					
Medical office	1	29,243	1.3%		

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Physician clinics	2	16,834	0.8%		
Ambulatory care/surgery	1	10,945	0.5%		
	4	57,022	2.6%		
Unconsolidated joint ventures, net					
Other	1	1,231	0.1%		
	1	1,231	0.1%		
Total real estate investments	203	\$ 2,168,814	100.0%	12,057	100.0%

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Table of Contents**Note 3. Acquisitions and Dispositions***Asset Acquisitions*

In January 2009, the Company acquired the remaining 50% equity interest in a joint venture (Unico 2006 MOB) which owns a 62,246 square foot on-campus medical office building in Oregon, for approximately \$4.4 million in cash consideration. The building is approximately 97% occupied with lease maturities ranging from 2009 through 2025. In connection with the acquisition, the Company assumed an outstanding mortgage note payable held by the joint venture totaling approximately \$12.8 million which bears an effective rate of 6.51% (including the \$1.1 million fair value adjustment) and matures in 2021. Prior to the acquisition, the Company had a 50% equity investment in the joint venture totaling approximately \$1.7 million which it accounted for under the equity method. In connection with the acquisition, the Company re-measured its previously held equity interest at the acquisition-date fair value and recognized a gain on the re-measurement of approximately \$2.7 million which was recognized as income in the first quarter of 2009.

In February 2009, a joint venture (HR Ladco Holdings, LLC), in which the Company has an 80% controlling interest, acquired a 33,974 square foot medical office building in Iowa for \$10.7 million. The property is 100% leased and occupied by two tenants with lease expirations in 2018. The building was constructed by the Company's joint venture partner, and the construction was funded by the Company through a construction loan. Upon acquisition by the joint venture, \$8.0 million of the Company's construction financing was converted to a permanent mortgage note payable to the Company and \$1.1 million to the Company's equity investment in the joint venture.

In July 2009, HR Ladco Holdings, LLC acquired a 22,572 square foot medical office building in Iowa for \$3.6 million. The property is 100% occupied by one tenant whose lease expires in 2021. In July 2009, HR Ladco Holdings, LLC also acquired a medical office/wellness facility in Iowa for \$21.0 million. This 63,224 square foot building is 100% occupied by one tenant whose lease expires in 2029. The building was constructed by the Company's joint venture partner, and the construction was funded by the Company through a construction loan. Upon acquisition of the building by the joint venture, \$15.8 million of the Company's construction financing was converted to a permanent mortgage note payable to the Company and \$3.0 million to the Company's equity investment in the joint venture.

Asset Dispositions

In February 2009, the Company disposed of the following:

an 11,538 square foot medical office building in Florida in which the Company had an aggregate investment of approximately \$1.4 million (\$1.0 million, net). The Company received approximately \$1.4 million in net proceeds and recognized a gain on sale of approximately \$0.4 million.

a 139,467 square foot medical office building in Wyoming to the sponsor for \$21.4 million. In December 2008, the Company received a \$2.4 million deposit from the sponsor on the sale and received a \$7.2 million termination fee from the sponsor for the termination of its financial support agreement with the Company. In February 2009, the Company received the remaining consideration of approximately \$19.0 million (plus \$0.2 million of interest). The Company had an aggregate investment of approximately \$20.0 million (\$15.8 million, net) in the medical office building and recognized a gain on sale of approximately \$5.6 million.

the Company's membership interests in an entity which owned an 86,942 square foot medical office building in Washington. The Company acquired the entity in December 2008 and had an aggregate and net investment of approximately \$10.7 million. The Company received approximately \$5.3 million in net proceeds, and the purchaser assumed the mortgage note secured by the property of approximately \$5.4 million. The Company recognized a \$22,000 impairment charge on the disposition related to closing costs.

In March 2009, the Company disposed of a 198,064 square foot medical office building in Nevada in which the Company had an aggregate investment of approximately \$46.8 million (\$32.7 million, net). The Company received approximately \$38.0 million in net proceeds and concurrently paid off a \$19.5 million mortgage note secured by the property. The Company recognized a gain on sale of approximately \$6.6 million, net of liabilities of \$1.3 million.

In April 2009, pursuant to an agreement entered into with the tenant in August 2008, the Company disposed of a 113,555 square foot specialty inpatient facility in Michigan in which the Company had an aggregate investment of

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approximately \$13.9 million (\$10.8 million, net). The Company received approximately \$18.5 million in net proceeds and recognized a gain on sale of approximately \$7.5 million, net of liabilities of \$0.1 million.

In June 2009, the Company disposed of a 10,255 square foot ambulatory surgery center in Florida in which the Company had an aggregate investment of approximately \$3.4 million (\$2.0 million, net). The Company received approximately \$0.5 million in net cash proceeds and title to a land parcel adjoining a medical office building owned by the Company valued at \$1.5 million. The Company recognized no gain on the transaction.

In July 2009, the Company disposed of an 8,243 square foot physician clinic in Virginia. The Company's aggregate investment in the building was approximately \$0.7 million (\$0.5 million, net) at June 30, 2009 which was classified in assets held for sale and included in discontinued operations. The Company received approximately \$0.6 million in net proceeds and expects to recognize a gain on sale of approximately \$0.1 million.

Discontinued Operations and Assets Held for Sale

The tables below detail the assets, liabilities, and results of operations included in discontinued operations on the Company's Condensed Consolidated Statements of Income and included in assets and liabilities held for sale and discontinued operations on the Company's Condensed Consolidated Balance Sheets. At June 30, 2009 and December 31, 2008, the Company had two and 12 properties, respectively, classified as held for sale. Five of the properties held for sale at December 31, 2008 were sold during 2009, two of the properties remain in held for sale at June 30, 2009, and five of the properties were reclassified to held for use during the first quarter of 2009 as the sale of those properties became improbable. In the first quarter of 2009, the Company recorded a depreciation adjustment totaling approximately \$0.5 million to reduce the Company's carrying amounts of the five properties reclassified to held for use to their respective adjusted net book values.

<i>(Dollars in thousands)</i>	June 30, 2009	December 31, 2008
Balance Sheet data (as of the period ended):		
Land	\$ 588	\$ 9,503
Buildings, improvements and lease intangibles	1,733	109,596
Personal property		30
	2,321	119,129
Accumulated depreciation	(948)	(29,905)
Assets held for sale, net	1,373	89,224
Other assets, net (including receivables)	4	1,009
Assets of discontinued operations, net	4	1,009
Assets held for sale and discontinued operations, net	\$ 1,377	\$ 90,233
Notes and bonds payable	\$	\$ 5,452
Liabilities held for sale		5,452
Notes and bonds payable		23,281
Accounts payable and accrued liabilities	17	409

Other liabilities			3,679
Liabilities of discontinued operations		17	27,369
Liabilities held for sale and discontinued operations		\$ 17	\$ 32,821

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>(Dollars in thousands, except per share data)</i>				
Statements of Income data (for the period ended):				
Revenues (1)				
Master lease rent	\$ 223	\$ 1,161	\$ 874	\$ 2,401
Property operating	2	2,002	823	3,926
Straight-line rent	(9)	(8)	(16)	(17)
Other operating		182	216	433
	216	3,337	1,897	6,743
Expenses (2)				
General and administrative		(25)		(25)
Property operating	64	938	687	1,832
Bad debt expense, net of recoveries	2		4	71
Depreciation	132	719	159	1,450
Amortization		10		19
	198	1,642	850	3,347
Other Income (Expense) (1)				
Interest expense		(406)	(464)	(814)
Interest and other income, net			(1)	
		(406)	(465)	(814)
Income from Discontinued Operations	18	1,289	582	2,582
Impairments			(22)	(29)
Gain on sales of real estate properties	7,443	7,715	20,051	8,352
Income from Discontinued Operations	\$ 7,461	\$ 9,004	\$ 20,611	\$ 10,905
Income from Discontinued Operations per basic common share	\$ 0.13	\$ 0.18	\$ 0.36	\$ 0.22
Income from Discontinued Operations per diluted common share	\$ 0.12	\$ 0.18	\$ 0.35	\$ 0.22

(1) Amounts for the three and six months ended June 30, 2009 and 2008 relate to properties

previously sold.

- (2) Amounts for the three and six months ended June 30, 2009 and 2008 primarily relate to properties previously sold.

Note 4. Notes and Bonds Payable

The Company's Condensed Consolidated Balance Sheet as of December 31, 2008 included four mortgage notes totaling \$28.7 million in liabilities held for sale and discontinued operations. Included in notes and bonds payable on the Company's Condensed Consolidated Balance Sheet as of June 30, 2009, are mortgage notes relating to five properties that the Company reclassified from held for sale to held for use during the first quarter of 2009. Those mortgage notes, totaling \$3.7 million, which were classified as held for sale at December 31, 2008 are included in the December 31, 2008 column in the table below to conform to the June 30, 2009 presentation.

<i>(In thousands)</i>	June 30, 2009	Dec. 31, 2008	Maturity Dates	Contractual Interest Rates	Principal Payments	Interest Payments
Unsecured Credit Facility	\$ 338,000	\$ 329,000	1/10	LIBOR + 0.90%	At maturity	Quarterly
Senior Notes due 2011, including premium	286,779	286,898	5/11	8.125%	At maturity	Semi-Annual
Senior Notes due 2014, net of discount	264,025	263,961	4/14	5.125%	At maturity	Semi-Annual
Mortgage notes payable, net of discounts	74,130	64,060	5/11-10/32	5.00%-7.625%	Monthly	Monthly
	\$ 962,934	\$ 943,919				

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At June 30, 2009, the Company was in compliance with its financial covenant provisions under its various debt instruments.

Unsecured Credit Facility

In January 2006, the Company entered into a \$400.0 million credit facility (the Unsecured Credit Facility) with a syndicate of 10 banks, which is due in January 2010. Loans outstanding under the Unsecured Credit Facility bear interest at a rate equal to (x) LIBOR or the base rate (defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.50%) plus (y) a margin ranging from 0.60% to 1.20% (currently 0.90%), based upon the

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Company's unsecured debt ratings. Additionally, the Company pays a facility fee per annum on the aggregate amount of commitments. The facility fee may range from 0.15% to 0.30% per annum (currently 0.20%), based on the Company's unsecured debt ratings. At June 30, 2009, the Company had \$338.0 million outstanding under the facility with a weighted average interest rate of approximately 1.21% and had borrowing capacity remaining, under its financial covenants, of approximately \$62.0 million.

Senior Notes due 2011

In 2001, the Company publicly issued \$300.0 million of unsecured senior notes due 2011 (the Senior Notes due 2011). The Senior Notes due 2011 bear interest at 8.125%, payable semi-annually on May 1 and November 1, and are due on May 1, 2011, unless redeemed earlier by the Company. The notes were originally issued at a discount of approximately \$1.5 million, which yielded an 8.20% interest rate per annum upon issuance. The Company entered into interest rate swap agreements between 2001 and 2006 for notional amounts totaling \$125.0 million to offset changes in the fair value of the notes but terminated the interest rate swaps in 2006. The net premium resulting from the interest rate swaps, net of the original discount, is combined with the principal balance of the Senior Notes due 2011 on the Company's Condensed Consolidated Balance Sheets and is being amortized against interest expense over the remaining term of the notes yielding an effective interest rate on the notes of 7.896%. The following table reconciles the balance of the Senior Notes due 2011 on the Company's Condensed Consolidated Balance Sheets.

<i>(In thousands)</i>	June 30, 2009	December 31, 2008
Senior Notes due 2011 face value	\$286,300	\$286,300
Unamortized net gain (net of discount)	479	598
Senior Notes due 2011 carrying amount	\$286,779	\$286,898

Senior Notes due 2014

In 2004, the Company publicly issued \$300.0 million of unsecured senior notes due 2014 (the Senior Notes due 2014). The Senior Notes due 2014 bear interest at 5.125%, payable semi-annually on April 1 and October 1, and are due on April 1, 2014, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$1.5 million, yielding an effective interest rate of 5.19% per annum. The following table reconciles the balance of the Senior Notes due 2014 on the Company's Condensed Consolidated Balance Sheets.

<i>(In thousands)</i>	June 30, 2009	December 31, 2008
Senior Notes due 2014 face value	\$264,737	\$264,737
Unaccreted discount	(712)	(776)
Senior Notes due 2014 carrying amount	\$264,025	\$263,961

Mortgage Notes Payable

The following table details the Company's mortgage notes payable, with related collateral, at June 30, 2009. The December 31, 2008 column has been adjusted to include \$3.7 million in mortgage notes that were included in held for sale at December 31, 2008 but were subsequently reclassified to held for use during the first quarter of 2009.

Original	Effective Interest	Maturity	Number	Investment in Collateral	Contractual Balance at Dec. 31,
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<i>(Dollars in millions)</i>	Balance	Rate (10)	Date	of Notes Payable	Collateral (11)	at June 30, 2009	June 30, 2009	2008
Life Insurance Co. (1)	\$ 4.7	7.765%	1/17	1	MOB 4	\$ 11.3	\$ 2.6	\$ 2.7
Commercial Bank (2)	23.4	7.220%	5/11	5	ASC MOBs/1	54.4	6.1	7.5
Commercial Bank (3)	1.8	5.550%	10/32	1	OTH	7.7	1.7	1.8
Life Insurance Co. (4)	15.1	5.490%	1/16	1	ASC	32.5	14.1	14.2
Commercial Bank (5)	17.4	6.480%	6/15	1	MOB 2	19.9	14.3	14.3
Commercial Bank (6)	12.0	6.110%	8/20	1	MOBs	19.4	9.6	9.6
Commercial Bank (7)	15.2	7.650%	7/15	1	MOB	19.7	12.8	12.8
Life Insurance Co. (8)	1.5	6.810%	7/16	1	SOP	2.2	1.2	1.2
Commercial Bank (9)	12.8	6.510%	2/21	1	ASC	20.5	11.7	
				13		\$187.6	\$74.1	\$64.1

(1) Payable in monthly installments of principal and interest based on a 20-year amortization with the final payment due at maturity.

(2) Payable in fully amortizing monthly installments of principal and interest due at maturity.

(3) Payable in monthly installments of principal and interest based on a 27-year amortization with the final payment due at maturity.

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- (4) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity.
- (5) Payable in monthly installments of principal and interest based on a 9-year amortization with the final payment due at maturity. The balance reflects a fair value adjustment (discount) of \$2.5 million and \$2.7 million as of June 30, 2009 and December 31, 2008, respectively.
- (6) Payable in monthly installments of principal and interest based on a 9-year amortization with the final payment due at maturity. The balance reflects a fair value adjustment (discount) of \$2.0 million and \$2.1 million as of June 30, 2009 and December 31, 2008, respectively.

- (7) Payable in monthly installments of interest only for 24 months and then installments of principal and interest based on a 11-year amortization with the final payment due at maturity. The balance reflects a fair value adjustment (discount) of \$2.4 million and \$2.4 million as of June 30, 2009 and December 31, 2008, respectively.
- (8) Payable in monthly installments of principal and interest based on a 9-year amortization with the final payment due at maturity. The balance reflects a fair value adjustment (discount) of \$0.2 million and \$0.2 million as of June 30, 2009 and December 31, 2008, respectively.
- (9) Payable in monthly installments of principal and interest based on a 12-year amortization with

the final payment due at maturity. The Company acquired this mortgage note during 2009 and the balance reflects a discount of \$1.0 million as of June 30, 2009.

(10) The contractual interest rates ranged from 5.00% to 7.625% at June 30, 2009.

(11) MOB-Medical office building; ASC-Ambulatory Care/Surgery; SOP-Specialty Outpatient; OTH-Other.

Long-Term Debt Maturities

Future maturities of the Company's notes and bonds payable as of June 30, 2009 were as follows:

<i>(Dollars in thousands)</i>	Principal Maturities	Discount/ Premium Amortization	Total Notes and Bonds Payable	%
2009	\$ 2,234	\$ (365)	\$ 1,869	0.2%
2010 (1)	342,687	(783)	341,904	35.5%
2011	289,603	(1,015)	288,588	30.0%
2012	1,838	(1,170)	668	0.1%
2013	1,950	(1,240)	710	0.1%
2014 and thereafter	332,944	(3,749)	329,195	34.1%
	\$971,256	\$(8,322)	\$962,934	100.0%

(1) Includes \$338.0 million outstanding on the Unsecured Credit Facility.

Note 5. Other Assets

Other assets consist primarily of receivables, straight-line rent receivables, and intangible assets. Items included in other assets on the Company's Condensed Consolidated Balance Sheets are detailed in the table below.

<i>(In millions)</i>	June 30, 2009	December 31, 2008
Straight-line rent receivables	\$24.5	\$ 23.2
Equity investments in joint ventures	1.2	2.8
Prepaid assets	20.1	21.0
Accounts receivable, net	7.2	7.0
Above-market intangible assets, net	11.3	11.7
Deferred financing costs, net	2.2	3.1
Goodwill	3.5	3.5
Customer relationship intangible assets, net	1.2	1.2
Notes receivable, net	2.0	0.5
Other	5.0	3.0
	\$78.2	\$ 77.0

Equity investments in unconsolidated joint ventures

At June 30, 2009 and December 31, 2008, the Company had investments in one and two unconsolidated joint ventures, respectively, which had investments in real estate properties. In January 2009, the Company acquired the remaining membership interest in one joint venture previously accounted for under the equity method. The Company accounts for its remaining joint venture investment under the cost method. The Company's net investments in the joint venture are included in other assets on the Company's Condensed Consolidated Balance Sheet, and the related income or loss is included in interest and other income, net on the Company's Condensed Consolidated Statements of Income. The Company recognized income of approximately \$72,000 and \$270,000 for the three months ended June 30, 2009 and 2008, respectively, and \$146,000 and \$539,000 for the six months ended June 30, 2009 and 2008, respectively, related to the joint venture accounted for under the cost method. The Company's income (loss) recognized and distributions received for each period related to its joint ventures, accounted for under the equity method are shown in the table below. The equity in losses for the six months ended June 30, 2008 included \$0.3 million relating to a depreciation adjustment for the prior year recognized in the first quarter of 2008.

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During 2008, the Company acquired the remaining membership interest in one of the joint ventures previously accounted for under the equity method. Also, during 2008, a portion of the Company's preferred equity investment in the joint venture accounted for under the cost method, in which the Company owns a 10% equity interest, was redeemed.

<i>(Dollars in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net joint venture investments, beginning of period	\$ 1,082	\$ 17,669	\$ 2,784	\$ 18,356
Equity in income (losses) recognized during the period		116	(2)	(148)
Acquisition of remaining equity interest in a joint venture			(1,700)	
Additional investment in a joint venture	149		149	
Distributions received during the period		(444)		(867)
Net joint venture investments, end of period	\$ 1,231	\$ 17,341	\$ 1,231	\$ 17,341

In June 2009, the Company entered into a credit agreement pursuant to which it provides a \$2.9 million revolving line of credit to a borrower which has a non-controlling interest in the Company's consolidated joint venture. The credit facility is secured by the borrower's ownership interest in the joint venture and the personal guarantee of its principal equity holder. At June 30, 2009, approximately \$1.6 million was outstanding under the agreement. The Company receives a fixed interest rate of 10.5% on the amounts outstanding under the agreement.

Note 6. Commitments and Contingencies*Construction in Progress*

As of June 30, 2009, the Company had four medical office buildings under construction with estimated completion dates ranging from the third quarter of 2009 through the second quarter of 2010. The Company also had land held for development at June 30, 2009 of approximately \$17.3 million on which the Company expects to develop and own medical office and outpatient-related facilities. The table below details the Company's construction in progress and land held for development as of June 30, 2009. The information included in the table below represents management's estimates and expectations at June 30, 2009, which are subject to change. The Company's disclosures regarding certain projections or estimates of completion dates may not reflect actual results.

State	Estimated Completion Date	Property Type (1)	Properties	Approximate Square Feet	CIP at June 30, 2009	Estimated Remaining Funding	Estimated Total Investment
<i>(Dollars in thousands)</i>							
<i>Under construction:</i>							
Texas	3Q 2009	MOB	1	135,000	\$ 27,991	\$ 5,009	\$ 33,000
Illinois	4Q 2009	MOB	1	100,000	15,418	10,982	26,400
Texas	4Q 2009	MOB	1	120,000	19,223	9,377	28,600
Hawaii	2Q 2010	MOB	1	133,000	46,496	39,504	86,000
<i>Land held for development:</i>							
Texas					9,184		
Texas					8,117		
			4	488,000	\$ 126,429	\$ 64,872	\$ 174,000

- (1) MOB-Medical
office building.

Other Construction

The Company also had various remaining first-generation tenant improvements budgeted as of June 30, 2009 totaling approximately \$20.9 million related to properties that were developed by the Company and a tenant improvement obligation totaling approximately \$2.6 million. The Company also had remaining commitments totaling approximately \$4.8 million at June 30, 2009 related to two construction loans which the Company anticipates funding in 2009.

Legal Proceedings

The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's financial condition or results of operations.

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During 2009, the Company's Board of Directors declared common stock cash dividends as shown in the table below:

Dividend	Per Share Amount	Date of Declaration	Date of Record	Date Paid (* Payable)
4 th Quarter 2008	\$0.385	February 3, 2009	February 20, 2009	March 5, 2009
1 st Quarter 2009	\$0.385	May 5, 2009	May 22, 2009	June 5, 2009
2 nd Quarter 2009	\$0.385	August 4, 2009	August 21, 2009	* September 4, 2009

Earnings per share

The table below sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008.

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted average shares				
Weighted average shares outstanding	59,311,222	50,745,354	59,327,266	50,738,733
Unvested restricted stock	(1,182,733)	(1,313,630)	(1,173,629)	(1,316,342)
Weighted average shares Basic	58,128,489	49,431,724	58,153,637	49,422,391
Weighted average shares Basic	58,128,489	49,431,724	58,153,637	49,422,391
Dilutive effect of restricted stock	714,667	1,000,560	681,373	971,782
Dilutive effect of employee stock purchase plan	56,462	42,478	62,885	48,635
Weighted average shares Diluted	58,899,618	50,474,762	58,897,895	50,442,808
Net income				
Income from continuing operations	\$ 9,353	\$ 4,762	\$ 17,083	\$ 9,664
Noncontrolling interests share in earnings	(62)		(77)	(3)
Income from continuing operations attributable to common stockholders	9,291	4,762	17,006	9,661
Discontinued operations	7,461	9,004	20,611	10,905
Net income attributable to common stockholders	\$ 16,752	\$ 13,766	\$ 37,617	\$ 20,566
Basic earnings per common share				
Income from continuing operations	\$ 0.16	\$ 0.10	\$ 0.29	\$ 0.20
Discontinued operations	0.13	0.18	0.36	0.22
Net income attributable to common stockholders	\$ 0.29	\$ 0.28	\$ 0.65	\$ 0.42

Diluted earnings per common share

Income from continuing operations	\$	0.16	\$	0.09	\$	0.29	\$	0.19
Discontinued operations		0.12		0.18		0.35		0.22
Net income attributable to common stockholders	\$	0.28	\$	0.27	\$	0.64	\$	0.41

Incentive Plans

The Company has issued and outstanding various stock-based awards. These awards include restricted stock issued to employees pursuant to the Company's employee stock incentive plans, restricted stock issued to its Board of Directors under its non-employee director incentive plan, and options issued to employees pursuant to its employee stock purchase plan.

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A summary of the activity under the incentive plans for the three and six months ended June 30, 2009 and 2008 is included in the table below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Stock-based awards, beginning of period	1,158,321	1,302,682	1,111,728	1,289,646
Granted	36,688	16,096	85,090	65,800
Vested	(16,000)	(8,000)	(17,809)	(41,388)
Forfeited				(3,280)
Stock-based awards, end of period	1,179,009	1,310,778	1,179,009	1,310,778

Under the Company's employee stock purchase plan, in January of each year each eligible employee is able to purchase up to \$25,000 of Common Stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option. The number of shares subject to each year's option becomes fixed on the date of grant. Options granted under the employee stock purchase plan expire if not exercised 27 months after each such option's date of grant. The Company recorded approximately \$280,000 to general and administrative expenses during the first quarter of 2009 relating to the annual grant of options to its employees under the employee stock purchase plan.

A summary of the activity under the employee stock purchase plan for the three and six months ended June 30, 2009 and 2008 is included in the table below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Outstanding and exercisable, beginning of period	461,033	360,564	250,868	179,603
Granted			219,184	194,832
Exercised	(1,539)	(846)	(5,387)	(2,950)
Forfeited	(6,131)	(9,064)	(11,302)	(20,831)
Expired	(82,609)	(74,294)	(82,609)	(74,294)
Outstanding and exercisable, end of period	370,754	276,360	370,754	276,360

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to the Company, and equity attributable to the noncontrolling interests:

	Accumulated					Total	Non-controlling	Total	
	Preferred Stock	Common Stock	Paid-In Capital	Other Comprehensive Loss	Cumulative Net Income				Stockholders' Equity
(Dollars in thousands, except per share data)									
Balance at December 31, 2008	\$ 592	\$ 1,490,535		\$(6,461)	\$ 736,874	\$(1,426,720)	\$ 794,820	\$ 1,427	\$ 796,247
Issuance of stock	2	346					348		348

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Stock-based compensation		2,301			2,301		2,301		
Net income			37,617		37,617	77	37,694		
Other comprehensive income									
Comprehensive income							37,694		
Common dividends (\$0.385 per share)			(45,678)	(45,678)			(45,678)		
Distributions to noncontrolling interests						(87)	(87)		
Proceeds from noncontrolling interests						529	529		
Balance at June 30, 2009	\$	\$ 594	\$ 1,493,182	\$ (6,461)	\$ 774,491	\$ (1,472,398)	\$ 789,408	\$ 1,946	\$ 791,354

Table of Contents**Note 8. Defined Benefit Pension Plans**

The Company has pension plans under which the Company's Board of Directors and three designated employees may receive certain benefits upon retirement and the completion of five years of service with the Company. The plans are unfunded, and benefits will be paid from earnings of the Company. During the fourth quarter of 2008, the Company froze the maximum annual benefits payable under the employee plan at \$896,000. This revision resulted in a curtailment of benefits for the Company's chief executive officer. In consideration of the curtailment and as partial settlement of benefits, the Company made a one-time cash payment of \$2.3 million to its chief executive officer in January 2009, resulting in additional benefit expense of \$1.0 million recognized during the first quarter of 2009. Net periodic benefit cost recorded related to the Company's pension plans for the three and six months ended June 30, 2009 and 2008 is detailed in the following table.

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service costs	\$ 77	\$ 287	\$ 154	\$ 605
Interest costs	234	311	467	615
Effect of partial pension settlement			1,017	
Amortization of net gain/loss	171	228	343	450
Total recognized in net periodic benefit cost and other comprehensive loss	\$ 482	\$ 826	\$ 1,981	\$ 1,670

Note 9. Other Operating Income

Other operating income on the Company's Condensed Consolidated Statements of Income generally includes shortfall income recognized under its property operating agreements, interest income on notes receivable, and other items as detailed in the table below.

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Property lease guaranty revenue	\$ 2,156	\$ 3,534	\$ 4,810	\$ 6,599
Interest income on notes receivable	122	63	247	133
Management fee income	37	44	82	89
Replacement rent	641	621	1,266	1,238
Other	51	50	109	105
	\$ 3,007	\$ 4,312	\$ 6,514	\$ 8,164

Note 10. Taxable Income*Taxable Income*

The Company has elected to be taxed as a REIT, as defined under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its annual taxable income to its stockholders.

As a REIT, the Company generally will not be subject to federal income tax on taxable income it distributes currently to its stockholders. Accordingly, no provision for federal income taxes has been made in the accompanying Condensed Consolidated Financial Statements. If the Company fails to qualify as a REIT for any taxable year, then it will be subject to federal income taxes at regular corporate rates, including any applicable alternative minimum tax, and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies as a REIT,

it may be subject to certain state and local taxes on its income and property and to federal income and excise tax on its undistributed taxable income.

Earnings and profits, the current and accumulated amounts of which determine the taxability of distributions to stockholders, vary from net income because of different depreciation recovery periods and methods, and other items.

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The following table reconciles the Company's consolidated net income to taxable income for the three and six months ended June 30, 2009 and 2008:

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income attributable to common stockholders	\$ 16,752	\$ 13,766	\$ 37,617	\$ 20,566
Reconciling Items to Taxable Income:				
Depreciation and amortization	5,143	3,077	9,502	5,955
Gain or loss on disposition of depreciable assets	3,494	301	9,083	(3,407)
Straight-line rent	(208)	177	(448)	284
Receivable allowances	195	385	684	739
Stock-based compensation	2,282	2,079	5,662	3,681
Other	(3,043)	(396)	(3,378)	(840)
Taxable income ⁽¹⁾	\$ 24,615	\$ 19,389	\$ 58,722	\$ 26,978
Dividends paid	\$ 22,849	\$ 19,534	\$ 45,678	\$ 39,067

⁽¹⁾ Before REIT dividend paid deduction.

State Income Taxes

State income tax expense and state income tax payments for the three and six months ended June 30, 2009 and 2008 are detailed in the table below.

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
State income tax expense:				
Texas gross margins tax	\$ 112	\$ 95	\$ 221	\$ 193
Other	29	34	70	68
Total state income tax expense	\$ 141	\$ 129	\$ 291	\$ 261
State income tax payments, net of refunds	\$ 503	\$ 621	\$ 569	\$ 621

Note 11. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables and payables are reasonable estimates of their fair value as of June 30, 2009 and December 31, 2008 due to their short-term nature. The fair value of notes and bonds payable is estimated using cash flow analyses, based on the Company's current interest rates for similar types of borrowing arrangements. The fair value of mortgage notes receivable is estimated either based on cash flow analyses at an assumed market rate of interest or at a rate consistent with the rates on mortgage notes acquired by the Company

recently. The fair value of the notes receivable is estimated using cash flow analyses based on assumed market rates of interest consistent with rates on notes receivable entered into by the Company recently. The table below details the fair value and carrying values for notes and bonds payable, mortgage notes receivable and notes receivable at June 30, 2009 and December 31, 2008.

<i>(In millions)</i>	June 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Notes and bonds payable	\$ 962.9	\$ 1,014.9	\$ 968.9	\$ 1,041.9
Mortgage notes receivable	\$ 57.0	\$ 56.8	\$ 59.0	\$ 58.8
Notes receivable, net of allowances	\$ 2.0	\$ 1.8	\$ 0.5	\$ 0.5

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Note 12. Subsequent Events

On July 28, 2009, the Company entered into loan application and commitment agreements with Teachers Insurance and Annuity Association of America for an aggregate of approximately \$207.3 million in mortgage financing. The loans will bear interest at a fixed rate of 7.25% per annum, and will mature seven years from the date of closing, but may be renewed at the Company's option for two one-year renewal periods, subject to a 50 basis point renewal fee and other customary conditions. Closing of the loans is expected to occur by September 30, 2009, subject to normal and customary conditions. The Company intends to apply the net proceeds of the loans to the outstanding balance under its Unsecured Credit Facility due 2010.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Disclosure Regarding Forward-Looking Statements**

This report and other materials Healthcare Realty Trust Incorporated (the Company) has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures that are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as may, will, expect, believe, anticipate, target, intend, plan, estimate, project, continue, should, could and other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties, including the risk, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and in this report that could significantly affect the Company's current plans and expectations and future financial condition and results.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders and investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in the Company's filings and reports, including, without limitation, estimates and projections regarding the performance of development projects the Company is pursuing.

For a detailed discussion of the Company's risk factors, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2008 and in Item 1A of Part II of this quarterly report on Form 10-Q.

Business Overview

The Company is a self-managed and self-administered REIT that owns, acquires, manages, finances and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. Management believes that by providing a complete spectrum of real estate services, the Company can differentiate its competitive market position, expand its asset base and increase revenues over time.

The Company's revenues are generally derived from rentals on its healthcare real estate properties. The Company incurs operating and administrative expenses, including compensation, office rent and other related occupancy costs, as well as various expenses incurred in connection with managing its existing portfolio and acquiring additional properties. The Company also incurs interest expense on its various debt instruments and depreciation and amortization expense on its real estate portfolio.

Executive Overview

The Company's real estate portfolio, diversified by facility type, geography, tenant and payor mix, helps mitigate its exposure to fluctuating economic conditions, tenant and sponsor credit risks, and changes in clinical practice patterns. Overall portfolio occupancy for the second quarter remained stable, while rental rates on renewing leases showed strong increases consistent with previous quarters.

At June 30, 2009, the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 44.9%, with 64.3% of its debt portfolio maturing after 2010. The Company had borrowings outstanding under its Unsecured Credit Facility totaling \$338.0 million at June 30, 2009, with a capacity remaining under its financial covenants of \$62.0 million. While access to capital markets has improved since late 2008 and the first quarter of 2009, the cost to raise additional capital remains higher than levels seen in 2007 and 2008, which will likely impact future operations and investment activity.

The Company entered into loan application and commitment agreements on July 28, 2009 with Teachers Insurance and Annuity Association of America for an aggregate of approximately \$207.3 million in mortgage financing. The loans will bear interest at a fixed rate of 7.25% per annum and will mature seven years from the date of closing, which is expected to occur by September 30, 2009, subject to normal and customary conditions. The Company intends to apply the net proceeds of the loans to the outstanding balance under its Unsecured Credit Facility due 2010. In August 2009, the Company also launched the renewal of its Unsecured Credit Facility due 2010. The Company anticipates

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closing on its new credit facility during the third quarter and expects the new facility to be similar in size to its current credit facility, but with a significantly higher interest rate than on its current credit facility (1.21% at June 30, 2009).

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and the REIT industry in order to gauge the potential impact on the operations of the Company. In addition to the matters discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 below are some of the factors and trends that management believes may impact future operations of the Company.

Cost of Capital

The Company launched the renewal of its Unsecured Credit Facility and entered into loan application and commitment agreements for an aggregate of approximately \$207.3 million in mortgage financing during the third quarter of 2009. The Company expects to close on both financings by the end of the third quarter, subject to normal and customary conditions, including the attainment of commitments on the new credit facility. The mortgage debt will bear interest at a fixed rate of 7.25% per annum. The Company anticipates that the interest rate on the new credit facility will be significantly higher than on its current credit facility which was 1.21% at June 30, 2009. The anticipated increases in interest expense will negatively impact the Company's future cash flows and results from operations.

2009 Acquisitions

During the first quarter of 2009, the Company acquired the remaining equity interest in a joint venture which owns a 62,246 square foot on-campus medical office building in Oregon, for approximately \$4.4 million of cash consideration, and assumed an outstanding mortgage totaling approximately \$12.8 million. Prior to the acquisition, the Company owned a 50% equity interest in the joint venture. The building is 97% occupied with lease expirations through 2025. During the first quarter, HR Ladco Holdings, LLC, a joint venture in which the Company has an 80% controlling interest, acquired a 33,974 square foot medical office building in Iowa for \$10.7 million. The property is 100% leased to two tenants.

During July 2009, HR Ladco Holdings, LLC acquired a 22,572 square foot medical office building in Iowa for \$3.6 million that is 100% occupied by one tenant whose lease expires in 2021. HR Ladco Holdings, LLC also acquired a 63,224 square foot medical office/wellness facility in Iowa for \$21.0 million that is 100% occupied by one tenant whose lease expires in 2029.

2009 Dispositions

During the first quarter of 2009, the Company disposed of three medical office buildings and membership interests in an entity that owned one medical office building for approximately \$66.1 million in net proceeds and repaid a \$19.5 million mortgage note secured by one of the properties.

During the second quarter of 2009, the Company disposed of one specialty inpatient facility and one ambulatory surgery center for approximately \$20.5 million in net proceeds, including \$1.5 million in proceeds from a land exchange.

During July 2009, the Company disposed of a physician clinic for approximately \$0.6 million in net proceeds.

Development Activity

At June 30, 2009, the Company had four construction projects underway. The Company expects completion of the core and shell of three of the four projects with budgets totaling approximately \$88.0 million during 2009 and expects the core and shell of the fourth project with a budget totaling approximately \$86.0 million to be completed during the second quarter of 2010.

In addition to the projects currently under construction discussed in the preceding paragraph, the Company is financing an on-campus medical office development in Iowa comprised of six facilities, with a total budget of approximately \$72.0 million, of which the Company expects to finance the remaining \$19.0 million during 2009 and 2010. With respect to five of the six facilities, the Company will have an option to purchase each facility at a market cap rate upon its completion and attaining full occupancy. The sixth facility is under contract for sale to an unrelated party. As discussed in 2009 Acquisitions, three of the five properties were acquired during 2009 for approximately \$35.3 million. See Note 6 to the Condensed Consolidated Financial Statements for more information on the Company's development activities.

Table of Contents*Expiring Leases*

Master leases on 14 of the Company's properties were set to expire during 2009. The Company sold one of the properties during the second quarter of 2009 to the tenant and has renewed or extended the lease expirations on three of the properties, representing nearly one-third of the expiring square footage. The Company has opted not to renew the master leases on the remaining 10 properties, which are located on or near hospital campuses and in locations where the Company already has existing management capabilities. These properties have existing physician subtenants, and the Company will assume these subtenant leases upon the expiration of the master leases, six of which have already occurred.

Approximately 440 of the Company's leases in its multi-tenanted buildings were set to expire during 2009, with each tenant lessee occupying an average of approximately 3,181 square feet. As of June 30, 2009, of the 280 leases that had expired, approximately 82% of the tenants had renewed or had expressed an intention to renew their leases. Management expects that the majority of the leases remaining that have not expired or renewed will renew at favorable rates.

Funds from Operations

Funds from Operations (FFO) and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts, Inc. (NAREIT). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT's operating performance equal to net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Impairment charges may not be added back to net income in calculating FFO, which has the effect of decreasing FFO in the period recorded.

Management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. The Company believes that by excluding the effect of depreciation, amortization and gains from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO and FFO per share can facilitate comparisons of operating performance between periods. Management uses FFO and FFO per share to compare and evaluate its own operating results from period to period, and to monitor the operating results of the Company's peers in the REIT industry. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share.

However, FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity. FFO for the six months ended June 30, 2009 was impacted favorably by a re-measurement gain of \$2.7 million, or \$0.05 per diluted common share, recognized in connection with the acquisition of the remaining interests in a joint venture during the first quarter of 2009. The table below reconciles FFO to net income for the three and six months ended June 30, 2009 and 2008:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands, except per share data)	2009	2008	2009	2008
Net income attributable to common stockholders	\$ 16,752	\$ 13,766	\$ 37,617	\$ 20,566
Gain on sales of real estate properties	(7,443)	(7,715)	(20,051)	(8,352)
Real estate depreciation and amortization	16,703	13,150	33,585	26,423
Total adjustments	9,260	5,435	13,534	18,071
Funds from Operations Basic and Diluted	\$ 26,012	\$ 19,201	\$ 51,151	\$ 38,637
Funds from Operations per Common Share Basic	\$ 0.45	\$ 0.39	\$ 0.88	\$ 0.78
Funds from Operations per Common Share Diluted	\$ 0.44	\$ 0.38	\$ 0.87	\$ 0.77
Weighted Average Common Shares Outstanding Basic	58,128,489	49,431,724	58,153,637	49,422,391
Weighted Average Common Shares Outstanding Diluted	58,899,618	50,474,762	58,897,895	50,442,808

Results of Operations*Second Quarter 2009 Compared to Second Quarter 2008*

Income from continuing operations for the three months ended June 30, 2009 was \$9.4 million, compared to \$4.8 million for the same period in 2008. Net income for the three months ended June 30, 2009 was \$16.8 million, or \$0.29 per basic common share (\$0.28 per diluted common share), compared to \$13.8 million, or \$0.28 per basic common share (\$0.27 per diluted common share), for the same period in 2008.

	Three Months Ended		Change	
	June 30,		\$	%
(Dollars in thousands)	2009	2008		
REVENUES				
Master lease rent	\$ 14,953	\$ 15,014	\$ (61)	-0.4%
Property operating	45,866	32,899	12,967	39.4%
Straight-line rent	328	(126)	454	360.3%
Mortgage interest	978	542	436	80.4%
Other operating	3,007	4,312	(1,305)	-30.3%
	65,132	52,641	12,491	23.7%

EXPENSES				
General and administrative	5,329	5,863	(534)	-9.1%
Property operating	23,587	19,279	4,308	22.3%
Bad debts, net of recoveries	127	115	12	10.4%
Depreciation	15,575	11,665	3,910	33.5%
Amortization	1,346	566	780	137.8%
	45,964	37,488	8,476	22.6%
OTHER INCOME (EXPENSE)				
Gain on extinguishment of debt		9	(9)	
Interest expense	(10,043)	(10,886)	843	-7.7%
Interest and other income, net	228	486	(258)	-53.1%
	(9,815)	(10,391)	576	-5.5%
INCOME FROM CONTINUING OPERATIONS	9,353	4,762	4,591	96.4%
DISCONTINUED OPERATIONS				
Income from discontinued operations	18	1,289	(1,271)	-98.6%
Gain on sales of real estate properties	7,443	7,715	(272)	-3.5%
INCOME FROM DISCONTINUED OPERATIONS	7,461	9,004	(1,543)	-17.1%
NET INCOME	16,814	13,766	3,048	22.1%
Less: Net income attributable to non-controlling interests	(62)		(62)	
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 16,752	\$ 13,766	\$ 2,986	21.7%

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Total revenues from continuing operations for the three months ended June 30, 2009 increased \$12.5 million, or 23.7%, compared to the same period in 2008, mainly for the reasons discussed below:

Master lease rental income decreased \$0.1 million, or 0.4%. Master lease rental income declined approximately \$1.0 million due to properties whose master leases had expired and the Company began recognizing the underlying tenant rents in property operating income. This amount was partially offset by additional revenues associated with the Company's 2008 real estate acquisitions of approximately \$0.4 million, with the remaining increase resulting mainly from annual rent increases and increases in additional rent.

Property operating income increased \$13.0 million, or 39.4%, due mainly to the recognition of approximately \$10.3 million in revenues in the second quarter of 2009 compared to 2008 from the Company's 2008 and 2009 real estate acquisitions. Also, the Company began recognizing the underlying tenant rental income on properties whose master leases had expired, resulting in approximately \$1.0 million in additional property operating income in the second quarter of 2009 compared to the same period in 2008, with the remaining increase resulting mainly from new leasing activity and annual rent increases.

Straight-line rent increased \$0.5 million due mainly to an increase of approximately \$0.8 million related to leases on properties acquired during 2008 and 2009 that require straight-line rent accounting, partially offset by a decrease of approximately \$0.5 million related to lease terminations associated with one operator.

Mortgage interest income increased \$0.4 million, or 80.4%, due mainly to an amendment to one note agreement, increasing the contractual interest rate.

Other operating income decreased \$1.3 million, or 30.3%, due mainly to lower guaranty income resulting from the expiration of property operating agreements relating to five properties. Other operating income for both periods included approximately \$0.6 million in replacement rent received by the Company pursuant to an agreement with one operator that expired on June 30, 2009.

Total expenses for the three months ended June 30, 2009 increased \$8.5 million, or 22.6%, compared to the same period in 2008, mainly for the reasons discussed below:

General and administrative expenses decreased \$0.5 million, or 9.1%, due mainly to a decrease in pension and deferred compensation expenses of approximately \$0.5 million and professional fees of approximately \$0.3 million, offset partially by the recognition of approximately \$0.3 million in compensation-related expenses from the termination of five employees during the second quarter of 2009.

Property operating expense increased \$4.3 million, or 22.3%, due mainly to the recognition of approximately \$3.6 million in expenses in the second quarter of 2009 compared to 2008 from the Company's 2008 and 2009 real estate acquisitions. Also, properties previously under construction that commenced operations during 2008 resulted in approximately \$0.5 million in additional property operating expenses in 2009 compared to 2008. The remaining increase was mostly due to properties whose master leases expired, and the Company began recognizing the underlying operating expenses of the buildings totaling approximately \$0.5 million for the second quarter of 2009.

Depreciation expense increased \$3.9 million, or 33.5%, due mainly to approximately \$2.7 million in additional depreciation recognized in the second quarter of 2009 compared to 2008 related to the Company's 2008 and 2009 real estate acquisitions and \$0.4 million related to properties previously under construction that commenced operations during 2008. The remainder of the increase was related to various building and tenant improvement expenditures.

Amortization expense increased \$0.8 million, or 137.8%, due mainly to additional amortization of approximately \$1.1 million recognized on lease intangibles acquired related to the Company's 2008 real estate acquisitions, offset partially by a decrease in amortization of approximately \$0.3 million on lease intangibles acquired related mainly to the Company's 2003 and 2004 real estate acquisitions which are becoming fully amortized.

Other income (expense) for the three months ended June 30, 2009 improved \$0.6 million, or 5.5%, compared to the same period in 2008, mainly because interest expense decreased \$0.8 million, or 7.7%. This decrease was mainly

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attributable to a reduction of approximately \$0.7 million as a result of certain repurchases of the Senior Notes due 2011 and 2014 during 2008, an increase in the capitalization of interest of approximately \$1.0 million relating to the Company's construction projects, as well as a reduction of approximately \$0.1 million related to the Unsecured Credit Facility resulting mainly from a decrease in interest rates. These amounts were partially offset by an increase of approximately \$1.0 million related to mortgage notes payable assumed by the Company in connection with its investments in two consolidated joint ventures during 2008 and 2009. (See "Cost of Capital" discussion below.)

Income from discontinued operations totaled \$7.5 million and \$9.0 million, respectively, for the three months ended June 30, 2009 and 2008, which includes the results of operations, gains on sale, and impairment charges related to assets classified as held for sale or disposed of during the second quarter of 2009 and 2008. The Company disposed of two properties during the second quarter of 2009, with two properties remaining in held for sale at June 30, 2009.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Income from continuing operations for the six months ended June 30, 2009 was \$17.1 million, compared to \$9.7 million for the same period in 2008. Net income for the six months ended June 30, 2009 was \$37.7 million, or \$0.65 per basic common share (\$0.64 per diluted common share), compared to \$20.6 million, or \$0.42 per basic common share (\$0.41 per diluted common share), for the same period in 2008.

<i>(Dollars in thousands)</i>	Six Months Ended		Change	
	2009	2008	\$	%
REVENUES				
Master lease rent	\$ 30,604	\$ 30,703	\$ (99)	-0.3%
Property operating	88,776	65,014	23,762	36.5%
Straight-line rent	688	(182)	870	-478.0%
Mortgage interest	1,468	1,067	401	37.6%
Other operating	6,514	8,164	(1,650)	-20.2%
	128,050	104,766	23,284	22.2%
EXPENSES				
General and administrative	12,296	11,908	388	3.3%
Property operating	46,950	37,524	9,426	25.1%
Bad debts, net of recoveries	562	260	302	116.2%
Depreciation	31,300	23,127	8,173	35.3%
Amortization	2,827	1,150	1,677	145.8%
	93,935	73,969	19,966	27.0%
OTHER INCOME (EXPENSE)				
Gain on extinguishment of debt		9	(9)	
Re-measurement gain of equity interest upon acquisition	2,701		2,701	
Interest expense	(20,116)	(21,764)	1,648	-7.6%
Interest and other income, net	383	622	(239)	-38.4%
	(17,032)	(21,133)	4,101	-19.4%
INCOME FROM CONTINUING OPERATIONS	17,083	9,664	7,419	76.8%

DISCONTINUED OPERATIONS

Income from discontinued operations	582	2,582	(2,000)	-77.5%
Impairments	(22)	(29)	7	-24.1%
Gain on sales of real estate properties	20,051	8,352	11,699	140.1%

INCOME FROM DISCONTINUED OPERATIONS

	20,611	10,905	9,706	89.0%
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NET INCOME

	37,694	20,569	17,125	83.3%
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Less: Net income attributable to non-controlling interests

	(77)	(3)	(74)	2,466.7%
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NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS

	\$ 37,617	\$ 20,566	\$ 17,051	82.9%
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Total revenues from continuing operations for the six months ended June 30, 2009 increased \$23.3 million, or 22.2%, compared to the same period in 2008, mainly for the reasons discussed below:

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Master lease income decreased \$0.1 million, or 0.3%. Master lease rental income declined approximately \$1.0 million due to properties whose master leases had expired and the Company began recognizing the underlying tenant rents in property operating income during 2009, as well as a lease termination fee received and recognized in 2008 of approximately \$0.8 million. These amounts were partially offset by additional revenues associated with the Company's 2008 real estate acquisitions of approximately \$0.8 million, with the remaining increase resulting mainly from annual rent increases and increases in additional rent.

Property operating income increased \$23.8 million, or 36.5%, due mainly to the recognition of approximately \$19.9 million in revenues in 2009 compared to 2008 from the Company's 2008 and 2009 real estate acquisitions. Also, the Company began recognizing the underlying tenant rental income on properties whose master leases had expired, resulting in approximately \$1.0 million in additional property operating income in 2009 compared to 2008, with the remaining increase resulting mainly from new leasing activity and annual rent increases.

Straight-line rent increased \$0.9 million due mainly to an increase of approximately \$1.3 million related to leases on properties acquired during 2008 and 2009 that require straight-line rent accounting, partially offset by a decrease of approximately \$0.5 million related to lease terminations associated with one operator.

Other operating income decreased \$1.7 million, or 20.2%, due mainly to lower guaranty income resulting from the expiration of property operating agreements relating to five properties. Other operating income for both periods included approximately \$1.2 million in replacement rent received by the Company pursuant to an agreement with one operator that expired on June 30, 2009.

Total expenses for the six months ended June 30, 2009 increased \$20.0 million, or 27.0%, compared to the same period in 2008, mainly for the reasons discussed below:

General and administrative expenses increased \$0.4 million, or 3.3%, due mainly to additional expense during the first quarter of 2009 of approximately \$1.0 million related to the payment of a partial pension settlement and approximately \$0.7 million of additional expenses relating to compensation-related matters, offset partially by a decrease in pursuit-related expenditures of approximately \$0.8 million and pension expense of approximately \$0.7 million.

Property operating expense increased \$9.4 million, or 25.1%, due mainly to approximately \$7.4 million in additional expenses in 2009 compared to 2008 from the Company's 2008 and 2009 real estate acquisitions. Also, properties previously under construction that commenced operations during 2008 resulted in approximately \$1.0 million in additional property operating expenses in 2009 compared to 2008. The remaining increase was mostly due to properties whose master leases expired, and the Company began recognizing the underlying operating expenses of the buildings totaling approximately \$0.4 million.

Depreciation expense increased \$8.2 million, or 35.3%, due mainly to approximately \$6.5 million in additional depreciation recognized in the first six months of 2009 compared to the same period in 2008 from the Company's 2008 and 2009 real estate acquisitions and \$0.8 million related to properties previously under construction that commenced operations during 2008. Also, in accordance with SFAS No. 144, the Company recorded a depreciation adjustment in the first quarter of 2009 totaling approximately \$0.5 million which reduced the Company's carrying amount on five properties to their respective adjusted net book value upon reclassification of the properties from held for sale to held for use. The remainder of the increase was related to various building and tenant improvement expenditures.

Amortization expense increased \$1.7 million, or 145.8%, due mainly to additional amortization of approximately \$2.0 million recognized on lease intangibles acquired related to the Company's 2008 real estate acquisitions, offset partially by a decrease in amortization of approximately \$0.4 million on lease intangibles recognized from the Company's 2003 and 2004 real estate acquisitions which are becoming fully amortized.

Other income (expense) for the six months ended June 30, 2009 improved \$4.1 million, or 19.4%, compared to the same period in 2008, mainly for the reasons discussed below:

The Company recognized a \$2.7 million gain related to the valuation and re-measurement of the Company's equity interest in a joint venture in connection with the Company's acquisition of the remaining equity interests in the joint venture.

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Interest expense decreased \$1.6 million, or 7.6%. This decrease was mainly attributable to an increase in the capitalization of interest of approximately \$1.5 million relating to the Company's construction projects, a reduction of approximately \$1.9 million due to certain repurchases of the Senior Notes due 2011 and 2014 during 2008, as well as a reduction of approximately \$0.4 million related to the Unsecured Credit Facility resulting mainly from a decrease in interest rates. These amounts were partially offset by an increase of approximately \$1.9 million related to mortgage notes assumed by the Company in connection with its investments in two consolidated joint ventures during 2008 and 2009. (See *Cost of Capital* discussion below.)

Income from discontinued operations totaled \$20.6 million and \$10.9 million, respectively, for the six months ended June 30, 2009 and 2008, which includes the results of operations, gains on sale, and impairment charges related to assets classified as held for sale or disposed of during the first six months of 2009 and 2008. The Company disposed of six properties during the first six months of 2009, with two properties remaining in held for sale at June 30, 2009.

Liquidity and Capital Resources

The Company derives most of its revenues from its real estate property portfolio based on contractual arrangements with its tenants and sponsors. The Company may, from time to time, also generate funds from capital market financings, sales of real estate properties or mortgages, borrowings under its Unsecured Credit Facility, secured debt borrowings, or from other private debt or equity offerings. For the six months ended June 30, 2009, the Company generated approximately \$45.8 million in cash from operations which included a \$2.3 million payment related to a partial pension settlement, and used approximately \$45.2 million in total cash from investing and financing activities, including dividend payments, as detailed in the Company's Condensed Consolidated Cash Flow Statement.

Cost of Capital

The Company launched the renewal of its Unsecured Credit Facility and entered into loan application and commitment agreements for an aggregate of approximately \$207.3 million in mortgage financing during the third quarter of 2009. The Company anticipates closing on both financings by the end of the third quarter, subject to normal and customary conditions, including the attainment of commitments on the new credit facility. The mortgage debt will bear interest at a fixed rate of 7.25% per annum. The Company anticipates that the interest rate on the new credit facility will be significantly higher than on its current credit facility which was 1.21% at June 30, 2009. The anticipated increases in interest expense will negatively impact the Company's future cash flows and results from operations.

Contractual Obligations

The Company monitors its contractual obligations to ensure funds are available to meet obligations when due. The following table represents the Company's long-term contractual obligations for which the Company was making payments as of June 30, 2009, including interest payments due where applicable. The Company is also required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. The Company's material contractual obligations for the remainder of 2009 and 2010 are included in the table below.

<i>(Dollars in thousands)</i>	2009	2010	Total
Long-term debt obligations, including interest ⁽¹⁾	\$23,093	\$384,018	\$407,111
Operating lease commitments ⁽²⁾	1,961	3,867	5,828
Construction in progress ⁽³⁾	38,321	11,132	49,453
Tenant improvements ⁽⁴⁾	2,552		2,552
Deferred gain ⁽⁵⁾	1,007		1,007
Construction loan obligation ⁽⁶⁾	4,793		4,793
Pension obligations ⁽⁷⁾			
	\$71,727	\$399,017	\$470,744

- (1) Includes estimated interest due on total debt other than on the Unsecured Credit Facility. See Note 4 to the Condensed Consolidated Financial Statements.
- (2) Includes primarily two office leases and ground leases related to various properties for which the Company is currently making payments.
- (3) Includes cash flow projections for the remainder of 2009 and 2010 related to the construction of four buildings. A portion of the remaining commitments is designated for tenant improvements that will generally be funded after the core and shell of the building is substantially completed.
- (4) The Company has various

remaining first-generation tenant improvements budgeted as of June 30, 2009 totaling approximately \$20.9 million related to properties that were developed by the Company that the Company may fund for tenant improvements as leases are signed.

- (5) As part of the sale of its senior living assets in 2007, the Company recorded a \$5.7 million deferred gain related to one tenant under a lease assigned to one buyer. The amounts the Company will pay are based upon the tenant's performance under its lease through July 31, 2011. As of June 30, 2009, the Company had paid \$4.7 million to the buyer which reduced the Company's deferred gain. The Company has historically made payments

quarterly. As such, assuming quarterly payments continue in 2009, the deferred gain would be eliminated during 2009.

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(6) The Company's remaining commitment at June 30, 2009 related to two construction loans.

(7) At June 30, 2009, two employees and five non-employee directors were eligible to retire under the Executive Retirement Plan or the Retirement Plan for Outside Directors. If these individuals retired at normal retirement age and received full retirement benefits based upon the terms of each applicable plan, the future benefits to be paid are estimated, as of the most recent measurement date, to be approximately \$33.6 million, of which approximately \$84,000 is currently being paid annually to one employee who is retired. Also, in

January 2009, subsequent to the measurement date, the Company paid \$2.3 million to its chief executive officer related to a partial settlement of his pension benefits. Because the Company does not know when these individuals will retire, it has not projected in this table when these amounts would be paid.

As of June 30, 2009, approximately 64.3% of the Company's outstanding debt balances were due in 2011 or after, with the majority of the debt balances due before 2011 relating to the Unsecured Credit Facility due in 2010. The Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 44.9% at June 30, 2009 and its earnings (from continuing operations) covered fixed charges at a ratio of 1.49 to 1.0 for the six months ended June 30, 2009. Also, at June 30, 2009, the Company had \$338.0 million outstanding under its Unsecured Credit Facility, with a weighted average interest rate of approximately 1.21%, and had borrowing capacity remaining, under its financial covenants, of approximately \$62.0 million.

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At June 30, 2009, the Company was in compliance with its financial covenant provisions under its various debt instruments.

The Company's senior debt is rated Baa3, BBB-, and BBB by Moody's Investors Service, Standard and Poor's, and Fitch Ratings, respectively.

Security Deposits and Letters of Credit

As of June 30, 2009, the Company had approximately \$6.1 million in letters of credit, security deposits, debt service reserves or capital replacement reserves for the benefit of the Company in the event the obligated lessee or operator fails to make payments under the terms of their respective lease or mortgage. Generally, the Company may, at its discretion and upon notification to the operator or tenant, draw upon these instruments if there are any defaults under the leases or mortgage notes.

2009 Acquisitions

During the first quarter of 2009, the Company acquired the remaining equity interest in a joint venture, which owns a 62,246 square foot on-campus medical office building in Oregon, for \$4.4 million, and assumed an outstanding mortgage totaling approximately \$12.8 million. Prior to the acquisition, the Company owned a 50% equity interest in the joint venture. The building is 97% occupied with lease expirations through 2025. During the first quarter, a joint venture in which the Company has an 80% controlling interest acquired a 33,974 square foot medical office building in Iowa for \$10.7 million. The property is 100% leased to two tenants.

During July 2009, HR Ladco Holdings, LLC acquired a 22,572 square foot medical office building in Iowa for \$3.6 million that is 100% occupied by one tenant whose lease expires in 2021. HR Ladco Holdings, LLC also acquired a 63,224 square foot medical office/wellness facility in Iowa for \$21.0 million that is 100% occupied by one tenant whose lease expires in 2029.

2009 Dispositions

During the first quarter of 2009, the Company disposed of four medical office buildings for approximately \$66.1 million in net proceeds and repaid a \$19.5 million mortgage note secured by one of the properties.

During the second quarter of 2009, the Company disposed of one specialty inpatient facility and one ambulatory surgery center for approximately \$20.5 million in net proceeds, including \$1.5 million in proceeds from a land exchange.

During July 2009, the Company disposed of a physician clinic for approximately \$0.6 million in net proceeds.

Purchase Options

At June 30, 2009, the Company had a gross investment of approximately \$120.1 million in real estate properties that were subject to outstanding, exercisable contractual options to purchase, with various conditions and terms, by the respective operators or lessees that had not been exercised.

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Construction in Progress and Other Construction Commitments

As of June 30, 2009, the Company had four medical office buildings under construction with estimated completion dates ranging from the third quarter of 2009 through the second quarter of 2010. At June 30, 2009, the Company had \$126.4 million invested in construction in progress, including \$17.3 million of land held for future development, and expects to fund \$38.3 million and \$11.1 million in 2009 and 2010, respectively, on projects currently under construction. See Note 6 to the Condensed Consolidated Financial Statements for more details on the Company's construction in progress at June 30, 2009.

The Company also had various remaining first-generation tenant improvements budgeted as of June 30, 2009 totaling approximately \$20.9 million related to properties that were developed by the Company and a tenant improvement obligation totaling approximately \$2.6 million.

In addition to the projects currently under construction, the Company is financing an on-campus medical office development of an outpatient campus comprised of six facilities, with a total budget of approximately \$72 million, of which the Company has already advanced \$53.0 million. The Company expects to finance the remaining \$19.0 million during 2009 and 2010. With respect to five of the six facilities, the Company has an option to purchase each facility at a market cap rate upon its completion and attaining full occupancy. During 2009, three of the five properties were acquired for approximately \$35.3 million. The sixth facility is under contract for sale to an unrelated party.

Dividends

The Company's Board of Directors declared a common stock cash dividend for the second quarter of 2009 of \$0.385 per share. This dividend is payable on September 4, 2009 to shareholders of record on August 21, 2009. As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under the heading

Risk Factors, the ability of the Company to pay dividends is dependent upon its ability to generate funds from operations and cash flows, and to make accretive new investments.

Liquidity

Net cash provided by operating activities was \$45.8 million and \$42.7 million for the six months ended June 30, 2009 and 2008, respectively. Net cash from operations for the six months ended June 30, 2009 included a \$2.3 million payment related to a partial pension settlement. The Company's cash flows are dependent upon rental rates on leases, occupancy levels of the multi-tenanted buildings, acquisition and disposition activity during the year, and the level of operating expenses, among other factors. The Company's leases, which provide its main source of income and cash flow, are generally fixed in nature, have terms of approximately one to 15 years and have annual rate increases based generally on consumer price indices.

The Company plans to continue to meet its liquidity needs, including funding additional investments in 2009, paying dividends, and funding debt service, with cash flows from operations, borrowings under its credit facility, proceeds of mortgage notes receivable repayments, proceeds from sales of real estate investments, proceeds from secured or unsecured debt borrowings, or additional capital market financings. The Company launched the renewal of its Unsecured Credit Facility and entered into loan application and commitment agreements for an aggregate of approximately \$207.3 million in mortgage financing during the third quarter of 2009. The Company anticipates closing both financings by the end of the third quarter, subject to normal and customary conditions, including the attainment of commitments on the new credit facility. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will continue to be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

Impact of Inflation

Inflation has not significantly affected the Company's earnings due to the moderate inflation rate in recent years and the fact that most of the Company's leases and financial support arrangements require tenants and sponsors to pay all or some portion of the increases in operating expenses, thereby reducing the Company's risk of the adverse effects of inflation. In addition, inflation has the effect of increasing gross revenue the Company is to receive under the terms of certain leases and financial support arrangements. Leases and financial support arrangements vary in the remaining terms of obligations, further reducing the Company's risk of any adverse effects of inflation. Interest payable under the

Unsecured Credit Facility is calculated at a variable rate; therefore, the amount of interest payable under the Unsecured Credit Facility is influenced by changes in short-term rates, which tend to be sensitive to inflation. During periods where interest rate increases outpace inflation, the Company's operating results should be negatively impacted. Conversely, when increases in inflation outpace increases in interest rates, the Company's operating results should be positively impacted.

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage notes and other notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. During the three months ended June 30, 2009, there were no material changes in the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

Changes in Internal Control over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings.**

The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and in Part II, Item 1A. Risk Factors in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, which could materially affect the Company's business, financial condition or future results. The risks, as described in the Company's Annual Report on Form 10-K and in Part II, Item 1A. Risk Factors in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition or operating results.

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

The Company's annual meeting of shareholders was held on May 19, 2009, and its shareholders voted on the following matters.

(a) Charles Raymond Fernandez, M.D., Errol L. Biggs, Ph. D., and Bruce D. Sullivan were elected to serve as Directors. The vote was as follows:

	Director Class	Term Expires	Votes Cast in Favor	Votes Cast Against or Withheld	Non Votes
Charles Raymond Fernandez, M.D.	1	2012	53,406,393	1,403,445	4,494,599
Errol L. Biggs, Ph. D.	1	2012	53,453,408	1,356,430	4,494,599
Bruce D. Sullivan	1	2012	53,975,570	834,268	4,494,599

The following Class 2 and Class 3 Directors continued in office following the meeting:

	Term Expires
Marliese E. Mooney	2010
Edwin B. Morris III	2010
John Knox Singleton	2010
David R. Emery	2011
Batey M. Gresham, Jr.	2011
Dan S. Wilford	2011

(b) The shareholders ratified the appointment of BDO Seidman, LLP as the Company's independent auditors for the fiscal year ended December 31, 2009, by the following vote:

Votes Cast in Favor	Votes Cast Against	Abstentions/Non Votes
54,589,039	135,856	4,579,542
	33	

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Item 6. Exhibits.

- Exhibit 3.1 Second Articles of Amendment and Restatement of the Company (1)
- Exhibit 3.2 Amended and Restated Bylaws of the Company, as amended (2)
- Exhibit 4.1 Specimen Stock Certificate (1)
- Exhibit 4.2 Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
- Exhibit 4.3 First Supplemental Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
- Exhibit 4.4 Form of 8.125% Senior Note Due 2011 (3)
- Exhibit 4.5 Second Supplemental Indenture, dated as of March 30, 2004, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly Wachovia Bank, National Association, as Trustee) (4)
- Exhibit 4.6 Form of 5.125% Senior Note Due 2014 (4)
- Exhibit 11 Statement re: Computation of per share earnings (filed herewith in Note 7 to the Condensed Consolidated Financial Statements)
- Exhibit 31.1 Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- Exhibit 31.2 Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- Exhibit 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

(1) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by

reference.

- (2) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 2007 and hereby incorporated by reference.
- (3) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated by reference.
- (4) Filed as an exhibit to the Company's Form 8-K filed March 29, 2004 and hereby incorporated by reference.

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SIGNATURE

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.

HEALTHCARE REALTY TRUST
INCORPORATED

By: /s/ SCOTT W. HOLMES
Scott W. Holmes
Executive Vice President and Chief Financial
Officer

Date: August 10, 2009

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Exhibit Index

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