

HEALTHCARE REALTY TRUST INC

Form 10-K

February 22, 2010

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

Form 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2009

OR

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

For the transition period to

Commission File Number: 1-11852

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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common stock, \$.01 par value per share

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

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

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

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

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

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

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 ☐
(Do not check if a smaller
reporting company)

Smaller reporting
company ☐

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

The aggregate market value of the shares of common stock (based upon the closing price of these shares on the New York Stock Exchange, Inc. on June 30, 2009) of the Registrant held by non-affiliates on June 30, 2009 was approximately \$973,457,298.

As of January 31, 2010, 61,390,762 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 18, 2010 are incorporated by reference into Part III of this Report.

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Healthcare Realty Trust Incorporated (Healthcare Realty or the Company) was incorporated in Maryland in 1993 and is a self-managed and self-administered 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 operates so as to qualify as a REIT for federal income tax purposes. As a REIT, the Company is not subject to corporate federal income tax with respect to net income distributed to its stockholders. See Federal Income Tax Information in Item 1 of this report.

As of December 31, 2009, the Company's real estate property investments, excluding assets held for sale and including an investment in one unconsolidated joint venture, are shown in the table below:

	Number of Investments	Gross Investment		Square Feet	
<i>(Dollars and Square Feet in thousands)</i>		Amount	%	Footage	%
Owned properties:					
<i>Master leases</i>					
Medical office	17	\$ 160,880	7.1%	834	6.7%
Physician clinics	16	123,611	5.4%	688	5.6%
Ambulatory care/surgery	5	33,351	1.4%	133	1.1%
Specialty outpatient	3	8,265	0.4%	37	0.3%
Specialty inpatient	13	234,624	10.4%	916	7.4%
Other	10	45,390	2.0%	498	4.0%
	64	606,121	26.7%	3,106	25.1%
<i>Property operating agreements</i>					
Medical office	8	83,893	3.7%	621	5.0%
	8	83,893	3.7%	621	5.0%
<i>Multi-tenanted with occupancy leases</i>					
Medical office	105	1,380,176	61.2%	7,965	64.5%
Physician clinics	15	50,691	2.3%	331	2.7%
Ambulatory care/surgery	5	67,293	3.0%	303	2.5%
Specialty outpatient	2	5,221	0.2%	22	0.2%
	127	1,503,381	66.7%	8,621	69.9%
<i>Land Held for Development</i>		17,301	0.8%		
<i>Corporate property</i>		14,631	0.6%		
		31,932	1.4%		
Total owned properties	199	2,225,327	98.5%	12,348	100.0%

Mortgage loans:

Medical office	2	14,190	0.6%
Physician clinics	2	16,818	0.8%

	4	31,008	1.4%
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Unconsolidated joint venture:

Other	1	1,266	0.1%
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	1	1,266	0.1%
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Total real estate investments	204	\$ 2,257,601	100.0%	12,348	100.0%
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The Company provided property management services for 140 healthcare-related properties nationwide, totaling approximately 9.3 million square feet at December 31, 2009. The Company's portfolio of properties is focused predominantly on outpatient services and medical office segments of the healthcare industry and is diversified by tenant, geographic location and facility type.

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The following table details occupancy of the Company's owned properties by facility type as of December 31, 2009 and 2008.

	Percentage of Square Feet	Occupancy (1)	
		2009	2008
Medical office buildings	76.2%	88%	89%
Physician clinics	8.3%	92%	97%
Ambulatory care/surgery centers	3.6%	87%	89%
Specialty outpatient	0.5%	63%	89%
Specialty inpatient	7.4%	100%	100%
Other	4.0%	94%	93%
Total	100.0%	90%	91%

(1) Occupancy represents the percentage of total rentable square feet leased (including month-to-month and holdover leases) as of December 31, 2009 and 2008, excluding six properties in discontinued operations and 10 properties in lease-up. Properties under financial support or master lease agreements are included at 100% occupancy. Upon expiration of these agreements, occupancy reflects underlying tenant leases in the building.

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As of December 31, 2009, the weighted average remaining years to maturity pursuant to the Company's long-term master leases, financial support agreements, and multi-tenanted occupancy leases was approximately 5.0 years, with expirations through 2029.

Below is the Company's 10-year lease maturity schedule, excluding the six properties classified as held for sale, as of December 31, 2009:

Expiration	Annualized Minimum	Number of	Percentage of	Average Square Feet
Year	Rents (1)	Leases	Revenues	Per Lease
2010	\$ 29,016	338	13.5%	3,692
2011	26,946	278	12.6%	3,928
2012	25,554	236	11.9%	4,492
2013	31,022	189	14.5%	6,599
2014	33,001	245	15.4%	5,140
2015	8,393	56	3.9%	7,107
2016	10,325	44	4.8%	8,841
2017	13,532	35	6.3%	20,855
2018	9,593	59	4.5%	8,654
2019	9,998	18	4.7%	8,370
Thereafter	17,146	54	7.9%	14,021

(1) Represents the annualized minimum rents on leases in-place as of December 31, 2009, excluding the impact of potential lease renewals, future step-ups in rent, sponsor support payments under financial support agreements and straight-line rent.

Business Strategy

Healthcare Realty's strategy is to own and operate quality medical office and other outpatient-related facilities that produce stable and growing rental income. Consistent with this strategy, the Company selectively seeks acquisition and development opportunities located on or near the campuses of large, stable healthcare systems. Additionally, the Company provides a broad spectrum of services needed to own, develop, lease, finance and manage its portfolio of healthcare properties.

The Company's portfolio focuses on medical office and other outpatient-related facilities associated with large acute care hospitals and leading health systems because it views these facilities as stable, low-risk real estate investments. The nation's healthcare spending in 2008 was \$2.3 trillion. Healthcare spending is currently 16.2% of the nation's gross national product and is projected to increase to an estimated 19.3% by 2019. Historically, more than half

of the nation's healthcare spending has been received by hospitals and outpatient-related facility tenants. In addition, management believes that the diversity of tenants in the Company's medical office and other outpatient-related facilities, which includes physicians of nearly two-dozen specialties, as well as surgery, imaging, and diagnostic centers, lowers the Company's financial and operational risk.

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The Company plans to continue to meet its liquidity needs, including funding additional investments in 2010, paying dividends and funding debt service, with cash flows from operations, borrowings under the \$550.0 million unsecured credit facility due 2012 (the Unsecured Credit Facility), proceeds from mortgage notes receivable repayments, proceeds from sales of real estate investments, proceeds from secured debt borrowings, and additional capital market financings. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Item 7 and Risk Factors in Item 1A of this report for more discussion concerning the Company's liquidity and capital resources.

Acquisitions and Dispositions

Acquisition Activity

During 2009, the Company acquired approximately \$106.4 million in real estate assets and funded a \$9.9 million mortgage note receivable. Four of the properties, aggregating approximately \$43.9 million, were acquired by a joint venture in which the Company has an 80% controlling interest. These acquisitions were funded with borrowings on the Company's unsecured credit facilities, the assumption of existing mortgage debt, proceeds from real estate dispositions, and proceeds from various capital market financings. See Note 4 to the Consolidated Financial Statements for more information on these acquisitions.

Dispositions

During 2009, the Company disposed of seven real estate properties for approximately \$85.7 million in net proceeds. Also, one mortgage note receivable totaling approximately \$12.6 million was repaid. Proceeds from these dispositions were used to repay amounts under the Unsecured Credit Facility and to fund additional real estate investments. See Note 4 to the Consolidated Financial Statements for more information on these dispositions.

2010 Disposition

In January 2010, pursuant to a purchase option with an operator, the Company disposed of five properties in Virginia. The Company's aggregate net investment in the buildings was approximately \$16.0 million at December 31, 2009. The Company received approximately \$19.2 million in net proceeds and \$0.8 million in lease termination fees. The Company expects to recognize a gain on sale of approximately \$2.7 million, including the write-off of approximately \$0.5 million of straight-line rent receivables.

Purchase Options

Excluding the five properties located in Virginia that were classified as held for sale, the Company had approximately \$111.1 million in real estate properties at December 31, 2009 that were subject to exercisable purchase options held by the respective operators and lessees that had not been exercised. On a probability-weighted basis, the Company currently estimates that approximately \$32.0 million of these options might be exercised in the future. During 2010, an additional purchase option becomes exercisable on a property in which the Company had a gross investment of approximately \$3.1 million at December 31, 2009. The Company does not believe it is likely that the operator will exercise the purchase option in the near future. Other properties may have purchase options exercisable in 2011 and beyond, but the Company does not believe it can reasonably estimate the probability of exercise of these purchase options.

Construction in Progress and Other Commitments

As of December 31, 2009, the Company had two medical office buildings under construction with budgets totaling \$178.2 million and estimated completion dates in the second quarter of 2010 and the third quarter of 2011. At December 31, 2009, the Company had \$95.1 million invested in construction in progress, including two parcels of land totaling \$17.3 million in land held for future development, and expects to fund \$57.0 million, \$31.4 million, and \$5.2 million in 2010, 2011 and 2012, respectively, on the two projects currently under construction. See Note 14 to the Consolidated Financial Statements for more details on the Company's construction in progress at December 31, 2009.

The Company also had various remaining first-generation tenant improvement obligations budgeted as of December 31, 2009 totaling approximately \$31.3 million related to properties that were developed by the Company.

In addition to the projects currently under construction, the Company is financing the development of a six-facility outpatient campus with a budget totaling approximately \$72 million. The Company has funded \$56.4 million towards the construction of four of the buildings. The Company's consolidated joint venture acquired

three of the buildings and the fourth building was sold to a third party during 2009. These acquisitions are discussed in more detail in Note 4 to the Consolidated Financial Statements. Construction of the remaining two buildings has not yet begun, but the Company expects to fund the remaining \$15.6 million during 2010 and 2011. The

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Company's consolidated joint venture will have an option to purchase the two remaining buildings at a market price upon completion and full occupancy.

Contractual Obligations

As of December 31, 2009, the Company had long-term contractual obligations of approximately \$1.8 billion, consisting primarily of \$1.4 billion of long-term debt obligations. For a more detailed description of these contractual obligations, see Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations, in Item 7 of this report.

Competition

The Company competes for the acquisition and development of real estate properties with private investors, healthcare providers, other healthcare-related REITs, real estate partnerships and financial institutions, among others. The business of acquiring and constructing new healthcare facilities is highly competitive and is subject to price, construction and operating costs, and other competitive pressures.

The financial performance of all of the Company's properties is subject to competition from similar properties. The extent to which the Company's properties are utilized depends upon several factors, including the number of physicians using the healthcare facilities or referring patients there, healthcare employment, competitive systems of healthcare delivery, and the area's population, size and composition. Private, federal and state payment programs and other laws and regulations may also have an effect on the utilization of the properties. Virtually all of the Company's properties operate in a competitive environment, and patients and referral sources, including physicians, may change their preferences for a healthcare facility from time to time.

Government Regulation

The healthcare industry continues to face rising costs in the delivery of healthcare services, increased competition for patients, an economy struggling with high unemployment and a growing population of uninsured patients, higher bad debt expense, changes in reimbursement by private and governmental payors, regulatory scrutiny by federal and state administrative authorities, and pressure on government payment rates from high federal and state budget deficits, thus presenting the industry and its individual participants with uncertainty. These varied changes can affect the economic performance of some or all of the Company's tenants and clients. The Company cannot predict the degree to which these changes may affect the economic performance of the Company, positively or negatively.

The facilities owned by the Company and the manner in which they are operated are affected by changes in the reimbursement, licensing and certification policies of federal, state and local governments. Facilities may also be affected by changes in accreditation standards or procedures of accrediting agencies that are recognized by governments in the certification process. In addition, expansion (including the addition of new beds or services or acquisition of medical equipment) and occasionally the discontinuation of services of healthcare facilities are, in some states, subjected to state regulatory approval through certificate of need laws and regulations. Loss by a facility of its ability to participate in government-sponsored programs because of licensing, certification or accreditation deficiencies or because of program exclusion resulting from violations of law would have a material adverse effect on facility revenues.

Although the Company is not a healthcare provider or in a position to refer patients or order services reimbursable by the federal government, to the extent that a healthcare provider leases space from the Company and, in turn, subleases space to physicians or other referral sources at less than a fair market value rental rate, or otherwise arranges for remuneration to such a referral source, the Anti-Kickback Statute (a provision of the Social Security Act addressing illegal remuneration) and, depending on the type of provider the lessee is, the Stark Law (the federal physician self-referral law) could be implicated. The Company's leases require the lessees to agree to comply with all applicable laws.

A significant portion of the revenue of healthcare providers is derived from government reimbursement programs, such as the federal Medicare program and the joint federal and state Medicaid program. Although lease payments to the Company are not directly affected by government reimbursement, changes in these programs could adversely affect healthcare providers' and tenants' ability to make payments to the Company.

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change. Government healthcare spending has increased over time; however, changes from year to year in reimbursement

methodology, rates and other regulatory requirements have resulted in a challenging operating environment for healthcare providers. Spending on government reimbursement programs is expected to continue to rise significantly over the next 20 years, particularly as the government seeks to expand public insurance programs for the uninsured. While government proposals for achieving universal healthcare coverage and other

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costly initiatives could benefit healthcare providers by decreasing the level of uninsured patients and bad debt expense, Congress could decide to slow the growth in healthcare spending by limiting Medicare and Medicaid reimbursement rates to healthcare providers, possibly even several years prior to the implementation of expanded health insurance coverage. Reductions in the growth of Medicare and Medicaid payments could have an adverse impact on healthcare providers' financial condition, in addition to the approximate 30 million patients with low-profit margin public insurance that could crowd out providers' current levels of private-pay patients. These governmental health insurance reforms could adversely affect the ability of providers to make rental payments. However, the Company expects healthcare providers to continue to adjust to new operating challenges, as they have in the past, by increasing operating efficiency and modifying their strategies for profitable operations and growth. Furthermore, under comprehensive healthcare reform, the Company could benefit from higher demand for medical office space as the newly insured population would require additional healthcare providers and facilities.

The Company believes its strategic focus on the medical office and outpatient sector of the healthcare industry mitigates risk from changes in public healthcare spending and reimbursement because physician practices generally derive a large portion of their revenue from private insurance and out-of-pocket patient expense. The diversity of the Company's multi-tenant medical office facilities also provides lower reimbursement risk as payor mix varies from physician to physician, depending on location, specialty, patients, and physician preferences.

Legislative Developments

Each year, legislative proposals for health policy are introduced in Congress and state legislatures, and regulatory changes are enacted by government agencies. These proposals, individually or in the aggregate, could significantly change the delivery of healthcare services, either nationally or at the state level, if implemented. Among the matters under consideration or recently implemented are:

- comprehensive healthcare reform legislation, currently under consideration in Congress, seeks to provide universal health insurance coverage through tax subsidies, expanded federal health insurance programs, individual and employer mandates for coverage, and health insurance exchanges; to be paid for by cuts to Medicare and Medicaid and increased taxes; also, to include heightened regulations on insurers and pharmaceutical companies and various cost containment initiatives;

- cost containment, quality control and payment system refinements for Medicaid, Medicare and other public funding, such as expansion of pay-for-performance criteria and value-based purchasing programs, bundled provider payments, accountable care organizations, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;

- reform of the Medicare physician fee-for-service reimbursement formula that dictates annual updates in payment rates for physician services;

- prohibitions on additional types of contractual relationships between physicians and the healthcare facilities and providers to which they refer, and related information-collection activities;

- efforts to increase transparency with respect to pricing and financial relationships among healthcare providers and drug/device manufacturers;

- heightened health information technology standards for healthcare providers;

- increased scrutiny of medical errors and conditions acquired inside health facilities;

- patient and drug safety initiatives;

- re-importation of pharmaceuticals;

pharmaceutical drug pricing and compliance activities under Medicare part D;

tax law changes affecting non-profit providers;

immigration reform and related healthcare mandates;

modifications to increase requirements for facility accessibility by persons with disabilities; and

facility requirements related to earthquakes and other disasters, including structural retrofitting.

The Company cannot predict whether any proposals will be adopted or what effect, whether positive or negative, such proposals would have on the Company's business.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property (such as the Company) may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances (including government fines and injuries to persons and adjacent property). Most, if not all, of these laws, ordinances and regulations contain stringent enforcement provisions including, but not limited to, the authority to impose substantial administrative, civil and criminal fines and penalties upon violators. Such laws often impose liability, without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and may be imposed on the owner in connection with the activities of an operator of the property.

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The cost of any required remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the aggregate assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or lease such property or to borrow using such property as collateral. A property can also be negatively impacted either through physical contamination or by virtue of an adverse effect on value, from contamination that has or may have emanated from other properties.

Operations of the properties owned, developed or managed by the Company are and will continue to be subject to numerous federal, state, and local environmental laws, ordinances and regulations, including those relating to the following: the generation, segregation, handling, packaging and disposal of medical wastes; air quality requirements related to operations of generators, incineration devices, or sterilization equipment; facility siting and construction; disposal of non-medical wastes and ash from incinerators; and underground storage tanks. Certain properties owned, developed or managed by the Company contain, and others may contain or at one time may have contained, underground storage tanks that are or were used to store waste oils, petroleum products or other hazardous substances. Such underground storage tanks can be the source of releases of hazardous or toxic materials. Operations of nuclear medicine departments at some properties also involve the use and handling, and subsequent disposal of, radioactive isotopes and similar materials, activities which are closely regulated by the Nuclear Regulatory Commission and state regulatory agencies. In addition, several of the properties were built during the period that asbestos was commonly used in building construction and other such facilities may be acquired by the Company in the future. The presence of such materials could result in significant costs in the event that any asbestos-containing materials requiring immediate removal and/or encapsulation are located in or on any facilities or in the event of any future renovation activities.

The Company has had environmental site assessments conducted on substantially all of the properties currently owned. These site assessments are limited in scope and provide only an evaluation of potential environmental conditions associated with the property, not compliance assessments of ongoing operations. While it is the Company's policy to seek indemnification relating to environmental liabilities or conditions, even where leases and sale and purchase agreements do contain such provisions, there can be no assurances that the tenant or seller will be able to fulfill its indemnification obligations. In addition, the terms of the Company's leases or financial support agreements do not give the Company control over the operational activities of its lessees or healthcare operators, nor will the Company monitor the lessees or healthcare operators with respect to environmental matters.

Insurance

The Company generally requires its tenants to maintain comprehensive liability and property insurance that covers the Company as well as the tenants. The Company also carries comprehensive liability insurance and property insurance covering its owned and managed properties, including those held under long-term ground leases. In addition, tenants under long-term net master leases are required to carry property insurance covering the Company's interest in the buildings. The Company has also obtained title insurance with respect to each of the properties it owns, insuring that the Company holds title to each of the properties free and clear of all liens and encumbrances except those approved by the Company.

Employees

As of December 31, 2009, the Company employed 229 people. The employees are not members of any labor union, and the Company considers its relations with its employees to be excellent.

Federal Income Tax Information

The Company is and intends to remain qualified as a REIT under the Internal Revenue Code of 1986, as amended (the Code). As a REIT, the Company's net income attributable to common stockholders will be exempt from federal taxation to the extent that it is distributed as dividends to stockholders. Distributions to the Company's stockholders generally will be includable in their income; however, dividends distributed that are in excess of current and/or accumulated earnings and profits will be treated for tax purposes as a return of capital to the extent of a stockholder's basis and will reduce the basis of the stockholder's shares.

Introduction

The Company is qualified and intends to remain qualified as a REIT for federal income tax purposes under Sections 856 through 860 of the Code. The following discussion addresses the material federal tax considerations

relevant to the taxation of the Company and summarizes certain federal income tax consequences that may be relevant to certain stockholders. However, the actual tax consequences of holding particular securities issued by the Company may vary in light of a securities holder's particular facts and circumstances. Certain holders, such as tax-exempt entities, insurance companies and financial institutions, are generally subject to special rules. In addition, the following discussion does not address issues under any foreign, state or local tax laws. The tax treatment of a holder of any of the securities issued by the Company will vary depending upon the terms of the specific securities acquired by such holder, as well as the holder's particular situation, and this discussion does not attempt to address aspects of federal income taxation relating to holders of

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particular securities of the Company. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof. The Code, rules, regulations, and administrative and judicial interpretations are all subject to change at any time (possibly on a retroactive basis).

The Company is organized and is operating in conformity with the requirements for qualification and taxation as a REIT and intends to continue operating so as to enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code. The Company's qualification and taxation as a REIT depends upon its ability to meet, through actual annual operating results, the various income, asset, distribution, stock ownership and other tests discussed below. Accordingly, the Company cannot guarantee that the actual results of operations for any one taxable year will satisfy such requirements.

If the Company were to cease to qualify as a REIT, and the statutory relief provisions were found not to apply, the Company's income that it distributed to stockholders would be subject to the double taxation on earnings (once at the corporate level and again at the stockholder level) that generally results from an investment in the equity securities of a corporation. The distributions would then qualify for the reduced dividend rates created by the Jobs and Growth Tax Relief Reconciliation Act of 2003. However, the reduced dividend rates are scheduled to expire for taxable years beginning after December 31, 2010. Failure to maintain qualification as a REIT would force the Company to significantly reduce its distributions and possibly incur substantial indebtedness or liquidate substantial investments in order to pay the resulting corporate taxes. In addition, the Company, once having obtained REIT status and having thereafter lost such status, would not be eligible to re-elect REIT status for the four subsequent taxable years, unless its failure to maintain its qualification was due to reasonable cause and not willful neglect and certain other requirements were satisfied. In order to elect again to be taxed as a REIT, just as with its original election, the Company would be required to distribute all of its earnings and profits accumulated in any non-REIT taxable year.

Taxation of the Company

As long as the Company remains qualified to be taxed as a REIT, it generally will not be subject to federal income taxes on that portion of its ordinary income or capital gain that is currently distributed to stockholders.

However, the Company will be subject to federal income tax as follows:

The Company will be taxed at regular corporate rates on any undistributed real estate investment trust taxable income, including undistributed net capital gains.

Under certain circumstances, the Company may be subject to the alternative minimum tax on its items of tax preference, if any.

If the Company has (i) net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business, or (ii) other non-qualifying income from foreclosure property, it will be subject to tax on such income at the highest regular corporate rate.

Any net income that the Company has from prohibited transactions (which are, in general, certain sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business) will be subject to a 100% tax.

If the Company should fail to satisfy either the 75% or 95% gross income test (as discussed below), and has nonetheless maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a percentage tax calculated by the ratio of REIT taxable income to gross income with certain adjustments multiplied by the gross income attributable to the greater of the amount by which the Company fails the 75% or 95% gross income test.

If the Company fails to distribute during each year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain net income for such year, and (iii) any undistributed taxable income from preceding periods, then the Company will be subject to a 4% excise tax on the excess of such

required distribution over the amounts actually distributed.

In the event of a more than de minimis failure of any of the asset tests, as described below under Asset Tests, as long as the failure was due to reasonable cause and not to willful neglect, the Company files a description of each asset that caused such failure with the Internal Revenue Services (IRS), and disposes of the assets or otherwise complies with the asset tests within six months after the last day of the quarter in which the Company identifies such failure, the Company will pay a tax equal to the greater of \$50,000 or 35% of the net income from the nonqualifying assets during the period in which the Company failed to satisfy the asset tests.

In the event the Company fails to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and such failure is due to reasonable cause and not to willful neglect, the Company will be required to pay a penalty of \$50,000 for each such failure.

To the extent that the Company recognizes gain from the disposition of an asset with respect to which there existed built-in gain upon its acquisition by the Company from a Subchapter C corporation in a carry-over basis transaction and such disposition occurs within a maximum ten-year recognition period beginning on the date on which it was acquired by the

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Company, the Company will be subject to federal income tax at the highest regular corporate rate on the amount of its net recognized built-in gain.

To the extent that the Company has net income from a taxable REIT subsidiary (TRS), the TRS will be subject to federal corporate income tax in much the same manner as other non-REIT Subchapter C corporations, with the exceptions that the deductions for interest expense on debt and rental payments made by the TRS to the Company will be limited and a 100% excise tax may be imposed on transactions between the TRS and the Company or the Company's tenants that are not conducted on an arm's length basis. A TRS is a corporation in which a REIT owns stock, directly or indirectly, and for which both the REIT and the corporation have made TRS elections.

Requirements for Qualification as a REIT

To qualify as a REIT for a taxable year, the Company must have no earnings and profits accumulated in any non-REIT year. The Company also must elect or have in effect an election to be taxed as a REIT and must meet other requirements, some of which are summarized below, including percentage tests relating to the sources of its gross income, the nature of the Company's assets and the distribution of its income to stockholders. Such election, if properly made and assuming continuing compliance with the qualification tests described herein, will continue in effect for subsequent years.

Organizational Requirements and Share Ownership Tests

Section 856(a) of the Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;
- (3) that would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation;
- (4) that is neither a financial institution nor an insurance company subject to certain provisions of the Code;
- (5) the beneficial ownership of which is held by 100 or more persons, determined without reference to any rules of attribution (the share ownership test);
- (6) that during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) (the five or fewer test); and
- (7) that meets certain other tests, described below, regarding the nature of its income and assets.

Section 856(b) of the Code provides that conditions (1) through (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of fewer than 12 months. The five or fewer test and the share ownership test do not apply to the first taxable year for which an election is made to be treated as a REIT.

The Company is also required to request annually (within 30 days after the close of its taxable year) from record holders of specified percentages of its shares written information regarding the ownership of such shares. A list of stockholders failing to fully comply with the demand for the written statements is required to be maintained as part of the Company's records required under the Code. Rather than responding to the Company, the Code allows the stockholder to submit such statement to the IRS with the stockholder's tax return.

The Company has issued shares to a sufficient number of people to allow it to satisfy the share ownership test and the five or fewer test. In addition, to assist in complying with the five or fewer test, the Company's Articles of Incorporation contain provisions restricting share transfers where the transferee (other than specified individuals

involved in the formation of the Company, members of their families and certain affiliates, and certain other exceptions) would, after such transfer, own (a) more than 9.9% either in number or value of the outstanding common stock of the Company or (b) more than 9.9% either in number or value of any outstanding preferred stock of the Company. Pension plans and certain other tax-exempt entities have different restrictions on ownership. If, despite this prohibition, stock is acquired increasing a transferee's ownership to over 9.9% in value of either the outstanding common stock or any preferred stock of the Company, the stock in excess of this 9.9% in value is deemed to be held in trust for transfer at a price that does not

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exceed what the purported transferee paid for the stock, and, while held in trust, the stock is not entitled to receive dividends or to vote. In addition, under these circumstances, the Company has the right to redeem such stock.

For purposes of determining whether the five or fewer test (but not the share ownership test) is met, any stock held by a qualified trust (generally, pension plans, profit-sharing plans and other employee retirement trusts) is, generally, treated as held directly by the trust's beneficiaries in proportion to their actuarial interests in the trust and not as held by the trust.

Income Tests

In order to maintain qualification as a REIT, two gross income requirements must be satisfied annually.

First, at least 75% of the Company's gross income (excluding gross income from certain sales of property held as inventory or primarily for sale in the ordinary course of business) must be derived from rents from real property; interest on obligations secured by mortgages on real property or on interests in real property; gain (excluding gross income from certain sales of property held as inventory or primarily for sale in the ordinary course of business) from the sale or other disposition of, and certain other gross income related to, real property (including interests in real property and in mortgages on real property); and income received or accrued within one year of the Company's receipt of, and attributable to the temporary investment of, new capital (any amount received in exchange for stock other than through a dividend reinvestment plan or in a public offering of debt obligations having maturities of at least five years).

Second, at least 95% of the Company's gross income (excluding gross income from certain sales of property held as inventory or primarily for sale in the ordinary course of business) must be derived from dividends; interest; rents from real property; gain (excluding gross income from certain sales of property held as inventory or primarily for sale in the ordinary course of business) from the sale or other disposition of, and certain other gross income related to, real property (including interests in real property and in mortgages on real property); and gain from the sale or other disposition of stock and securities.

The Company may temporarily invest its working capital in short-term investments. Although the Company will use its best efforts to ensure that income generated by these investments will be of a type that satisfies the 75% and 95% gross income tests, there can be no assurance in this regard (see the discussion above of the new capital rule under the 75% gross income test).

For an amount received or accrued to qualify for purposes of an applicable gross income test as rents from real property or interest on obligations secured by mortgages on real property or on interests in real property, the determination of such amount must not depend in whole or in part on the income or profits derived by any person from such property (except that such amount may be based on a fixed percentage or percentages of receipts or sales). In addition, for an amount received or accrued to qualify as rents from real property, such amount may not be received or accrued directly or indirectly from a person in which the Company owns directly or indirectly 10% or more of, in the case of a corporation, the total voting power of all voting stock or the total value of all stock, and, in the case of an unincorporated entity, the assets or net profits of such entity (except for certain amounts received or accrued from a TRS in connection with property substantially rented to persons other than a TRS of the Company and other 10%-or-more owned persons or with respect to certain healthcare facilities, if certain conditions are met). The Company leases and intends to lease property only under circumstances such that substantially all, if not all, rents from such property qualify as rents from real property. Although it is possible that a tenant could sublease space to a sublessee in whom the Company is deemed to own directly or indirectly 10% or more of the tenant, the Company believes that as a result of the provisions of the Company's Articles of Incorporation that limit ownership to 9.9%, such occurrence would be unlikely. Application of the 10% ownership rule is, however, dependent upon complex attribution rules provided in the Code and circumstances beyond the control of the Company. Ownership, directly or by attribution, by an unaffiliated third party of more than 10% of the Company's stock and more than 10% of the stock of any tenant or subtenant would result in a violation of the rule.

In addition, the Company must not manage its properties or furnish or render services to the tenants of its properties, except through an independent contractor from whom the Company derives no income or through a TRS unless (i) the Company is performing services that are usually or customarily furnished or rendered in connection with

the rental of space for occupancy only and the services are of the sort that a tax-exempt organization could perform without being considered in receipt of unrelated business taxable income or (ii) the income earned by the Company for other services furnished or rendered by the Company to tenants of a property or for the management or operation of the property does not exceed a de minimis threshold generally equal to 1% of the income from such property. The Company self-manages some of its properties, but does not believe it provides services to tenants that are outside the exception.

If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as rents from real property. Generally, this 15% test is applied separately to each lease. The portion of rental income treated as attributable to personal property is

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determined according to the ratio of the fair market value of the personal property to the total fair market value of the property that is rented. The determination of what fixtures and other property constitute personal property for federal tax purposes is difficult and imprecise. The Company does not have 15% by value of any of its properties classified as personal property. If, however, rent payments do not qualify, for reasons discussed above, as rents from real property for purposes of Section 856 of the Code, it will be more difficult for the Company to meet the 95% and 75% gross income tests and continue to qualify as a REIT.

The Company is and expects to continue performing third-party management and development services. If the gross income to the Company from this or any other activity producing disqualified income for purposes of the 95% or 75% gross income tests approaches a level that could potentially cause the Company to fail to satisfy these tests, the Company intends to take such corrective action as may be necessary to avoid failing to satisfy the 95% or 75% gross income tests.

The Company may enter into hedging transactions with respect to one or more of its assets or liabilities. The Company's hedging activities may include entering into interest rate swaps, caps and floors, options to purchase such items, and futures and forward contracts. Income and gain from hedging transactions will be excluded from gross income for purposes of the 95% and 75% gross income tests. A hedging transaction includes any transaction entered into in the normal course of the Company's trade or business primarily to manage the risk of interest rate, price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets. The Company will be required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated or entered into. The Company intends to structure any hedging or similar transactions so as not to jeopardize its status as a REIT.

If the Company were to fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for such year if it is entitled to relief under certain provisions of the Code. These relief provisions would generally be available if (i) the Company's failure to meet such test or tests was due to reasonable cause and not to willful neglect and (ii) following its identification of its failure to meet these tests, the Company files a description of each item of income that fails to meet these tests in a schedule in accordance with Treasury Regulations. It is not possible, however, to know whether the Company would be entitled to the benefit of these relief provisions since the application of the relief provisions is dependent on future facts and circumstances. If these provisions were to apply, the Company would be subjected to tax equal to a percentage tax calculated by the ratio of REIT taxable income to gross income with certain adjustments multiplied by the gross income attributable to the greater of the amount by which the Company failed either of the 75% or the 95% gross income tests.

Asset Tests

At the close of each quarter of its taxable year, the Company must also satisfy four tests relating to the nature of its assets.

At least 75% of the value of the Company's total assets must consist of real estate assets (including interests in real property and interests in mortgages on real property as well as its allocable share of real estate assets held by joint ventures or partnerships in which the Company participates), cash, cash items and government securities.

Not more than 25% of the Company's total assets may be represented by securities other than those includable in the 75% asset class.

Not more than 25% of the Company's total assets may be represented by securities of one or more TRS.

Of the investments included in the 25% asset class, except for TRS, (i) the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets, (ii) the Company may not own more than 10% of any one issuer's outstanding voting securities and (iii) the Company may not hold securities having a value of more than 10% of the total value of the outstanding securities of any one issuer. Securities issued by affiliated qualified REIT subsidiaries (QRS), which are corporations wholly owned by the Company, either directly or indirectly, that are not TRS, are not subject

to the 25% of total assets limit, the 5% of total assets limit or the 10% of a single issuer's voting securities limit or the 10% of a single issuer's value limit. Additionally, straight debt and certain other exceptions are not securities for purposes of the 10% of a single issuer's value test. The existence of QRS are ignored, and the assets, income, gain, loss and other attributes of the QRS are treated as being owned or generated by the Company, for federal income tax purposes. The Company currently has 61 subsidiaries and other affiliates that it employs in the conduct of its business.

If the Company meets the asset tests described above at the close of any quarter, it will not lose its status as a REIT because of a change in value of its assets unless the discrepancy exists immediately after the acquisition of any security or other property that is wholly or partly the result of an acquisition during such quarter. Where a failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient non-qualifying assets within 30 days after the close of such quarter. The Company maintains adequate records of the value of its assets to maintain compliance with the asset tests and to

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take such action as may be required to cure any failure to satisfy the test within 30 days after the close of any quarter. Nevertheless, if the Company were unable to cure within the 30-day cure period, the Company may cure a violation of the 5% asset test or the 10% asset test so long as the value of the asset causing such violation does not exceed the lesser of 1% of the Company's assets at the end of the relevant quarter or \$10 million and the Company disposes of the asset causing the failure or otherwise complies with the asset tests within six months after the last day of the quarter in which the failure to satisfy the asset test is discovered. For violations due to reasonable cause and not due to willful neglect that are larger than this amount, the Company is permitted to avoid disqualification as a REIT after the 30-day cure period by (i) disposing of an amount of assets sufficient to meet the asset tests, (ii) paying a tax equal to the greater of \$50,000 or the highest corporate tax rate times the taxable income generated by the non-qualifying asset and (iii) disclosing certain information to the IRS.

Distribution Requirement

In order to qualify as a REIT, the Company is required to distribute dividends (other than capital gain dividends) to its stockholders in an amount equal to or greater than the excess of (a) the sum of (i) 90% of the Company's real estate investment trust taxable income (computed without regard to the dividends paid deduction and the Company's net capital gain) and (ii) 90% of the net income (after tax on such income), if any, from foreclosure property, over (b) the sum of certain non-cash income (from certain imputed rental income and income from transactions inadvertently failing to qualify as like-kind exchanges). These requirements may be waived by the IRS if the Company establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the 4% excise tax described below. To the extent that the Company does not distribute all of its net long-term capital gain and all of its real estate investment trust taxable income, it will be subject to tax thereon. In addition, the Company will be subject to a 4% excise tax to the extent it fails within a calendar year to make required distributions to its stockholders of 85% of its ordinary income and 95% of its capital gain net income plus the excess, if any, of the grossed up required distribution for the preceding calendar year over the amount treated as distributed for such preceding calendar year. For this purpose, the term grossed up required distribution for any calendar year is the sum of the taxable income of the Company for the taxable year (without regard to the deduction for dividends paid) and all amounts from earlier years that are not treated as having been distributed under the provision. Dividends declared in the last quarter of the year and paid during the following January will be treated as having been paid and received on December 31 of such earlier year. The Company's distributions for 2009 were adequate to satisfy its distribution requirement.

It is possible that the Company, from time to time, may have insufficient cash or other liquid assets to meet the 90% distribution requirement due to timing differences between the actual receipt of income and the actual payment of deductible expenses or dividends on the one hand and the inclusion of such income and deduction of such expenses or dividends in arriving at real estate investment trust taxable income on the other hand. The problem of not having adequate cash to make required distributions could also occur as a result of the repayment in cash of principal amounts due on the Company's outstanding debt, particularly in the case of balloon repayments or as a result of capital losses on short-term investments of working capital. Therefore, the Company might find it necessary to arrange for short-term, or possibly long-term, borrowing or new equity financing. If the Company were unable to arrange such borrowing or financing as might be necessary to provide funds for required distributions, its REIT status could be jeopardized.

Under certain circumstances, the Company may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to stockholders in a later year, which may be included in the Company's deduction for dividends paid for the earlier year. The Company may be able to avoid being taxed on amounts distributed as deficiency dividends; however, the Company might in certain circumstances remain liable for the 4% excise tax described above.

Federal Income Tax Treatment of Leases

The availability to the Company of, among other things, depreciation deductions with respect to the facilities owned and leased by the Company depends upon the treatment of the Company as the owner of the facilities and the classification of the leases of the facilities as true leases, rather than as sales or financing arrangements, for federal income tax purposes. The Company has not requested nor has it received an opinion that it will be treated as the

owner of the portion of the facilities constituting real property and that the leases will be treated as true leases of such real property for federal income tax purposes.

Other Issues

With respect to property acquired from and leased back to the same or an affiliated party, the IRS could assert that the Company realized prepaid rental income in the year of purchase to the extent that the value of the leased property exceeds the purchase price paid by the Company for that property. In litigated cases involving sale-leasebacks which have considered this issue, courts have concluded that buyers have realized prepaid rent where both parties acknowledged that the purported purchase price for the property was substantially less than fair market value and the purported rents were substantially less than the fair market rentals. Because of the lack of clear precedent and the inherently factual nature of the inquiry, the Company cannot give complete assurance that the IRS could not successfully assert the existence of prepaid rental income in such circumstances. The value of property and the fair market rent for properties involved in sale-leasebacks are inherently factual matters and always subject to challenge.

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Additionally, it should be noted that Section 467 of the Code (concerning leases with increasing rents) may apply to those leases of the Company that provide for rents that increase from one period to the next. Section 467 provides that in the case of a so-called disqualified leaseback agreement, rental income must be accrued at a constant rate. If such constant rent accrual is required, the Company would recognize rental income in excess of cash rents and, as a result, may fail to have adequate funds available to meet the 90% dividend distribution requirement. Disqualified leaseback agreements include leaseback transactions where a principal purpose of providing increasing rent under the agreement is the avoidance of federal income tax. Since the Section 467 regulations provide that rents will not be treated as increasing for tax avoidance purposes where the increases are based upon a fixed percentage of lessee receipts, additional rent provisions of leases containing such clauses should not result in these leases being disqualified leaseback agreements. In addition, the Section 467 regulations provide that leases providing for fluctuations in rents by no more than a reasonable percentage, which is 15% for long-term real property leases, from the average rent payable over the term of the lease will be deemed to not be motivated by tax avoidance. The Company does not believe it has rent subject to the disqualified leaseback provisions of Section 467.

Subject to a safe harbor exception for annual sales of up to seven properties (or properties with a basis of up to 10% of the REIT's assets) that have been held for at least four years, gain from sales of property held for sale to customers in the ordinary course of business is subject to a 100% tax. The simultaneous exercise of options to acquire leased property that may be granted to certain tenants or other events could result in sales of properties by the Company that exceed this safe harbor. However, the Company believes that in such event, it will not have held such properties for sale to customers in the ordinary course of business.

Depreciation of Properties

For federal income tax purposes, the Company's real property is being depreciated over 31.5, 39 or 40 years, using the straight-line method of depreciation and its personal property over various periods utilizing accelerated and straight-line methods of depreciation.

Failure to Qualify as a REIT

If the Company was to fail to qualify for federal income tax purposes as a REIT in any taxable year, and the relief provisions were found not to apply, the Company would be subject to tax on its taxable income at regular corporate rates (plus any applicable alternative minimum tax). Distributions to stockholders in any year in which the Company failed to qualify would not be deductible by the Company nor would they be required to be made. In such event, to the extent of current and/or accumulated earnings and profits, all distributions to stockholders would be taxable as qualified dividend income, including, presumably, subject to the 15% maximum rate on dividends created by the Jobs and Growth Tax Relief Reconciliation Act of 2003, and, subject to certain limitations in the Code, eligible for the 70% dividends received deduction for corporations that are REIT stockholders. However, this reduced rate for dividend income is set to expire for taxable years beginning after December 31, 2010. Unless entitled to relief under specific statutory provisions, the Company would also be disqualified from taxation as a REIT for the following four taxable years. It is not possible to state whether in all circumstances the Company would be entitled to statutory relief from such disqualification. Failure to qualify for even one year could result in the Company's incurring substantial indebtedness (to the extent borrowings were feasible) or liquidating substantial investments in order to pay the resulting taxes.

Taxation of Tax-Exempt Stockholders

The IRS has issued a revenue ruling in which it held that amounts distributed by a REIT to a tax-exempt employees' pension trust do not constitute unrelated business taxable income, even though the REIT may have financed certain of its activities with acquisition indebtedness. Although revenue rulings are interpretive in nature and are subject to revocation or modification by the IRS, based upon the revenue ruling and the analysis therein, distributions made by the Company to a U.S. stockholder that is a tax-exempt entity (such as an individual retirement account (IRA) or a 401(k) plan) should not constitute unrelated business taxable income unless such tax-exempt U.S. stockholder has financed the acquisition of its shares with acquisition indebtedness within the meaning of the Code, or the shares are otherwise used in an unrelated trade or business conducted by such U.S. stockholder.

Special rules apply to certain tax-exempt pension funds (including 401(k) plans but excluding IRAs or government pension plans) that own more than 10% (measured by value) of a pension-held REIT. Such a pension

fund may be required to treat a certain percentage of all dividends received from the REIT during the year as unrelated business taxable income. The percentage is equal to the ratio of the REIT's gross income (less direct expenses related thereto) derived from the conduct of unrelated trades or businesses determined as if the REIT were a tax-exempt pension fund (including income from activities financed with acquisition indebtedness), to the REIT's gross income (less direct expenses related thereto) from all sources. The special rules will not require a pension fund to recharacterize a portion of its dividends as unrelated business taxable income unless the percentage computed is at least 5%.

A REIT will be treated as a pension-held REIT if the REIT is predominantly held by tax-exempt pension funds and if the REIT would otherwise fail to satisfy the five or fewer test discussed above. A REIT is predominantly held by tax-exempt pension funds if at least one tax-exempt pension fund holds more than 25% (measured by value) of the REIT's stock or beneficial interests, or if one or

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more tax-exempt pension funds (each of which owns more than 10% (measured by value) of the REIT's stock or beneficial interests) own in the aggregate more than 50% (measured by value) of the REIT's stock or beneficial interests. The Company believes that it will not be treated as a pension-held REIT. However, because the shares of the Company will be publicly traded, no assurance can be given that the Company is not or will not become a pension-held REIT.

Taxation of Non-U.S. Stockholders

The rules governing United States federal income taxation of any person other than (i) a citizen or resident of the United States, (ii) a corporation or partnership created in the United States or under the laws of the United States or of any state thereof, (iii) an estate whose income is includable in income for U.S. federal income tax purposes regardless of its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States fiduciaries have the authority to control all substantial decisions of the trust (Non-U.S. Stockholders) are highly complex, and the following discussion is intended only as a summary of such rules. Prospective Non-U.S. Stockholders should consult with their own tax advisors to determine the impact of United States federal, state, and local income tax laws on an investment in stock of the Company, including any reporting requirements.

In general, Non-U.S. Stockholders are subject to regular United States income tax with respect to their investment in stock of the Company in the same manner as a U.S. stockholder if such investment is effectively connected with the Non-U.S. Stockholder's conduct of a trade or business in the United States. A corporate Non-U.S. Stockholder that receives income with respect to its investment in stock of the Company that is (or is treated as) effectively connected with the conduct of a trade or business in the United States also may be subject to the 30% branch profits tax imposed by the Code, which is payable in addition to regular United States corporate income tax. The following discussion addresses only the United States taxation of Non-U.S. Stockholders whose investment in stock of the Company is not effectively connected with the conduct of a trade or business in the United States.

Ordinary Dividends

Distributions made by the Company that are not attributable to gain from the sale or exchange by the Company of United States real property interests (USRPI) and that are not designated by the Company as capital gain dividends will be treated as ordinary income dividends to the extent made out of current or accumulated earnings and profits of the Company. Generally, such ordinary income dividends will be subject to United States withholding tax at the rate of 30% on the gross amount of the dividend paid unless reduced or eliminated by an applicable United States income tax treaty. The Company expects to withhold United States income tax at the rate of 30% on the gross amount of any such dividends paid to a Non-U.S. Stockholder unless a lower treaty rate applies and the Non-U.S. Stockholder has filed an IRS Form W-8BEN with the Company, certifying the Non-U.S. Stockholder's entitlement to treaty benefits.

Non-Dividend Distributions

Distributions made by the Company in excess of its current and accumulated earnings and profits to a Non-U.S. Stockholder who holds 5% or less of the stock of the Company (after application of certain ownership rules) will not be subject to U.S. income or withholding tax. If it cannot be determined at the time a distribution is made whether or not such distribution will be in excess of the Company's current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to a dividend distribution. However, the Non-U.S. Stockholder may seek a refund from the IRS of any amount withheld if it is subsequently determined that such distribution was, in fact, in excess of the Company's then current and accumulated earnings and profits.

Capital Gain Dividends

As long as the Company continues to qualify as a REIT, distributions made by the Company after December 31, 2005, that are attributable to gain from the sale or exchange by the Company of any USRPI will not be treated as effectively connected with the conduct of a trade or business in the United States. Instead, such distributions will be treated as REIT dividends that are not capital gains and will not be subject to the branch profits tax as long as the Non-U.S. Stockholder does not hold greater than 5% of the stock of the Company at any time during the one-year period ending on the date of the distribution. Non-U.S. Stockholders who hold more than 5% of the stock of the Company will be treated as if such gains were effectively connected with the conduct of a trade or business in the United States and generally subject to the same capital gains rates applicable to U.S. stockholders. In addition,

corporate Non-U.S. Stockholders may also be subject to the 30% branch profits tax and to withholding at the rate of 35% of the gross distribution.

Disposition of Stock of the Company

Generally, gain recognized by a Non-U.S. Stockholder upon the sale or exchange of stock of the Company will not be subject to United States taxation unless such stock constitutes a USRPI within the meaning of the Foreign Investment in Real Property Tax Act of 1980 (" FIRPTA "). The stock of the Company will not constitute a USRPI so long as the Company is a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its stock or

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beneficial interests are held directly or indirectly by Non-U.S. Stockholders. The Company believes that it will be a domestically controlled REIT, and therefore that the sale of stock of the Company will generally not be subject to taxation under FIRPTA. However, because the stock of the Company is publicly traded, no assurance can be given that the Company is or will continue to be a domestically controlled REIT.

Under recently enacted wash sale rules applicable to certain dispositions of interests in domestically controlled REITs, a Non-U.S. Stockholder could be subject to taxation under FIRPTA on the disposition of stock of the Company if certain conditions are met. If the Company is a domestically controlled REIT, a Non-U.S. Stockholder will be treated as having disposed of USRPI, if such Non-U.S. Stockholder disposes of an interest in the Company in an applicable wash sale transaction. An applicable wash sale transaction is any transaction in which a Non-U.S. Stockholder avoids receiving a distribution from a REIT by (i) disposing of an interest in a domestically controlled REIT during the 30-day period preceding a distribution, any portion of which distribution would have been treated as gain from the sale of a USRPI if it had been received by the Non-U.S. Stockholder and (ii) acquiring, or entering into a contract or option to acquire, a substantially identical interest in the REIT during the 61-day period beginning the first day of the 30-day period preceding the distribution. The wash sale rule does not apply to a Non-U.S. Stockholder who actually receives the distribution from the Company or, so long as the Company is publicly traded, to any Non-U.S. Stockholder holding greater than 5% of the outstanding stock of the Company at any time during the one-year period ending on the date of the distribution.

If the Company did not constitute a domestically controlled REIT, gain arising from the sale or exchange by a Non-U.S. Stockholder of stock of the Company would be subject to United States taxation under FIRPTA as a sale of a USRPI unless (i) the stock of the Company is regularly traded (as defined in the applicable Treasury regulations) and (ii) the selling Non-U.S. Stockholder's interest (after application of certain constructive ownership rules) in the Company is 5% or less at all times during the five years preceding the sale or exchange. If gain on the sale or exchange of the stock of the Company were subject to taxation under FIRPTA, the Non-U.S. Stockholder would be subject to regular United States income tax with respect to such gain in the same manner as a U.S. stockholder (subject to any applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals and the possible application of the 30% branch profits tax in the case of foreign corporations), and the purchaser of the stock of the Company (including the Company) would be required to withhold and remit to the IRS 10% of the purchase price. Additionally, in such case, distributions on the stock of the Company to the extent they represent a return of capital or capital gain from the sale of the stock of the Company, rather than dividends, would be subject to a 10% withholding tax.

Capital gains not subject to FIRPTA will nonetheless be taxable in the United States to a Non-U.S. Stockholder in two cases:

- if the Non-U.S. Stockholder's investment in the stock of the Company is effectively connected with a U.S. trade or business conducted by such Non-U.S. Stockholder, the Non-U.S. Stockholder will be subject to the same treatment as a U.S. stockholder with respect to such gain; or
- if the Non-U.S. Stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

Information Reporting Requirements and Backup Withholding Tax

The Company will report to its U.S. stockholders and to the IRS the amount of dividends paid during each calendar year and the amount of tax withheld, if any, with respect thereto. Under the backup withholding rules, a U.S. stockholder may be subject to backup withholding, currently at a rate of 28% on dividends paid unless such U.S. stockholder:

- is a corporation or falls within certain other exempt categories and, when required, can demonstrate this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

A U.S. stockholder who does not provide the Company with his correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the

U.S. stockholder's federal income tax liability. In addition, the Company may be required to withhold a portion of any capital gain distributions made to U.S. stockholders who fail to certify their non-foreign status to the Company.

Additional issues may arise pertaining to information reporting and backup withholding with respect to Non-U.S. Stockholders, and Non-U.S. Stockholders should consult their tax advisors with respect to any such information reporting and backup withholding requirements.

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State and Local Taxes

The Company and its stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its stockholders may not conform to the federal income tax consequences discussed above. Consequently, prospective holders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in the stock of the Company.

Real Estate Investment Trust Tax Proposals

Investors must recognize that the present federal income tax treatment of the Company may be modified by future legislative, judicial or administrative actions or decisions at any time, which may be retroactive in effect, and, as a result, any such action or decision may affect investments and commitments previously made. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the Treasury Department, resulting in statutory changes as well as promulgation of new, or revisions to existing, regulations and revised interpretations of established concepts. No prediction can be made as to the likelihood of the passage of any new tax legislation or other provisions either directly or indirectly affecting the Company or its stockholders.

Other Legislation

The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the maximum individual tax rate for long-term capital gains generally from 20% to 15% (for sales occurring after May 6, 2003 through December 31, 2008) and for dividends generally from 38.6% to 15% (for tax years from 2003 through 2008). These provisions have been extended through the 2010 tax year. Without future congressional action, the maximum tax rate on long-term capital gains will return to 20% in 2011, and the maximum rate on dividends will move to 39.6% in 2011. Because a REIT is not generally subject to federal income tax on the portion of its REIT taxable income or capital gains distributed to its stockholders, distributions of dividends by a REIT are generally not eligible for the new 15% tax rate on dividends. As a result, the Company's ordinary REIT dividends will continue to be taxed at the higher tax rates (currently, a maximum of 35%) applicable to ordinary income.

ERISA Considerations

The following is a summary of material considerations arising under ERISA and the prohibited transaction provisions of Section 4975 of the Code that may be relevant to a holder of stock of the Company. This discussion does not propose to deal with all aspects of ERISA or Section 4975 of the Code or, to the extent not preempted, state law that may be relevant to particular employee benefit plan stockholders (including plans subject to Title I of ERISA, other employee benefit plans and IRAs subject to the prohibited transaction provisions of Section 4975 of the Code, and governmental plans and church plans that are exempt from ERISA and Section 4975 of the Code but that may be subject to state law requirements) in light of their particular circumstances.

A fiduciary making the decision to invest in stock of the Company on behalf of a prospective purchaser which is an ERISA plan, a tax-qualified retirement plan, an IRA or other employee benefit plan is advised to consult its own legal advisor regarding the specific considerations arising under ERISA, Section 4975 of the Code, and (to the extent not preempted) state law with respect to the purchase, ownership or sale of stock by such plan or IRA.

Employee Benefit Plans, Tax-Qualified Retirement Plans and IRAs

Each fiduciary of an employee benefit plan subject to Title I of ERISA (an "ERISA Plan") should carefully consider whether an investment in stock of the Company is consistent with its fiduciary responsibilities under ERISA. In particular, the fiduciary requirements of Part 4 of Title I of ERISA require (i) an ERISA Plan's investments to be prudent and in the best interests of the ERISA Plan, its participants and beneficiaries, (ii) an ERISA Plan's investments to be diversified in order to reduce the risk of large losses, unless it is clearly prudent not to do so, (iii) an ERISA Plan's investments to be authorized under ERISA and the terms of the governing documents of the ERISA Plan and (iv) that the fiduciary not cause the ERISA Plan to enter into transactions prohibited under Section 406 of ERISA. In determining whether an investment in stock of the Company is prudent for purposes of ERISA, the appropriate fiduciary of an ERISA Plan should consider all of the facts and circumstances, including whether the investment is reasonably designed, as a part of the ERISA Plan's portfolio for which the fiduciary has investment responsibility, to meet the objectives of the ERISA Plan, taking into consideration the risk of loss and opportunity for gain (or other

return) from the investment, the diversification, cash flow and funding requirements of the ERISA Plan and the liquidity and current return of the ERISA Plan's portfolio. A fiduciary should also take into account the nature of the Company's business, the length of the Company's operating history and other matters described below under Risk Factors.

The fiduciary of an IRA or of an employee benefit plan not subject to Title I of ERISA because it is a governmental or church plan or because it does not cover common law employees (a Non-ERISA Plan) should consider that such an IRA or Non-ERISA Plan

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may only make investments that are authorized by the appropriate governing documents, not prohibited under Section 4975 of the Code and permitted under applicable state law.

Status of the Company under ERISA

A prohibited transaction may occur if the assets of the Company are deemed to be assets of the investing Plans and parties in interest or disqualified persons as defined in ERISA and Section 4975 of the Code, respectively, deal with such assets. In certain circumstances where a Plan holds an interest in an entity, the assets of the entity are deemed to be Plan assets (the look-through rule). Under such circumstances, any person that exercises authority or control with respect to the management or disposition of such assets is a Plan fiduciary. Plan assets are not defined in ERISA or the Code, but the United States Department of Labor issued regulations in 1987 (the Regulations) that outline the circumstances under which a Plan's interest in an entity will be subject to the look-through rule.

The Regulations apply only to the purchase by a Plan of an equity interest in an entity, such as common stock or common shares of beneficial interest of a REIT. However, the Regulations provide an exception to the look-through rule for equity interests that are publicly-offered securities.

Under the Regulations, a publicly-offered security is a security that is (i) freely transferable, (ii) part of a class of securities that is widely held and (iii) either (a) part of a class of securities that is registered under section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act), or (b) sold to a Plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act of 1933, as amended (the Securities Act) and the class of securities of which such security is a part of is registered under the Securities Act within 120 days (or such longer period allowed by the Securities and Exchange Commission (SEC)) after the end of the fiscal year of the issuer during which the offering of such securities to the public occurred. Whether a security is considered freely transferable depends on the facts and circumstances of each case. Generally, if the security is part of an offering in which the minimum investment is \$10,000 or less, any restriction on or prohibition against any transfer or assignment of such security for the purposes of preventing a termination or reclassification of the entity for federal or state tax purposes will not of itself prevent the security from being considered freely transferable. A class of securities is considered widely held if it is a class of securities that is owned by 100 or more investors independent of the issuer and of one another.

Management believes that the stock of the Company will meet the criteria of the publicly offered securities exception to the look-through rule in that the stock of the Company is freely transferable, the minimum investment is less than \$10,000 and the only restrictions upon its transfer are those required under federal income tax laws to maintain the Company's status as a REIT. Second, stock of the Company is held by 100 or more investors and at least 100 or more of these investors are independent of the Company and of one another. Third, the stock of the Company has been and will be part of offerings of securities to the public pursuant to an effective registration statement under the Securities Exchange Act and will be registered under the Securities Act within 120 days after the end of the fiscal year of the Company during which an offering of such securities to the public occurs. Accordingly, management believes that if a Plan purchases stock of the Company, the Company's assets should not be deemed to be Plan assets and, therefore, that any person who exercises authority or control with respect to the Company's assets should not be treated as a Plan fiduciary for purposes of the prohibited transaction rules of ERISA and Section 4975 to the Code.

Available Information

The Company makes available to the public free of charge through its internet website the Company's Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such reports with, or furnishes such reports to, the SEC. The Company's Internet website address is www.healthcarerealty.com.

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company's reports on its website at www.sec.gov.

Corporate Governance Principles

The Company has adopted Corporate Governance Principles relating to the conduct and operations of the Board of Directors. The Corporate Governance Principles are posted on the Company's website (www.healthcarerealty.com) and are available in print to any stockholder who requests a copy.

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Committee Charters

The Board of Directors has an Audit Committee, Compensation Committee, Corporate Governance Committee and Executive Committee. The Board of Directors has adopted written charters for each committee except for the Executive Committee, which are posted on the Company's website (www.healthcarerealty.com) and are available in print to any stockholder who requests a copy.

Executive Officers

Information regarding the executive officers of the Company is set forth in Part III, Item 10 of this report and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following are some of the risks and uncertainties that could negatively affect the Company's financial condition, results of operations, business and prospects. These risks, as well as the risks described in Item 1 under the headings Competition, Government Regulation, Environmental Matters, and Federal Income Tax Information and Item 7 under the heading Disclosure Regarding Forward-Looking Statements should be carefully considered before making an investment decision regarding the Company. The risks and uncertainties described below are not the only ones facing the Company, and there may be additional risks that the Company does not presently know of or that the Company currently considers not likely to have a significant impact. If any of the events underlying the following risks actually occurred, the Company's business, financial condition and operating results could suffer, and the trading price of its common stock could decline.

The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company's debt ratings could have an adverse effect on the Company's ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity.

A REIT is required by IRS regulations to make dividend distributions, thereby retaining less of its capital for growth. As a result, a REIT typically grows through steady investments of new capital in real estate assets. Presently, the Company has sufficient capital availability. However, there may be times when the Company will have limited access to capital from the equity and/or debt markets. Changes in the Company's debt ratings could have a material adverse effect on its interest costs and financing sources. The Company's debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities. The capital and credit markets have recently experienced volatility and limited the availability of funds. The Company's ability to access the capital and credit markets may be limited by these or other factors, which could have an impact on its ability to refinance maturing debt, including its unsecured senior notes due 2011 (the Senior Notes due 2011), fund dividend payments and operations, acquire healthcare properties and complete construction projects. If the Company is unable to refinance or extend principal payments due at maturity of its various debt instruments, its cash flow may not be sufficient to repay maturing debt and, consequently, make dividend payments to stockholders. If the Company defaults in paying any of its debts or honoring its debt covenants, it could experience cross-defaults among debt instruments, the debts could be accelerated and the Company could be forced to liquidate assets for less than the values it would otherwise receive.

The Company is exposed to increases in interest rates, which could reduce its profitability and adversely impact its ability to refinance existing debt, sell assets or engage in acquisition and development activity.

The Company receives a significant portion of its revenues by leasing its assets under long-term leases in which the rental rate is generally fixed, subject to annual rent escalators. A significant portion of the Company's debt will be from time to time subject to floating rates, based on LIBOR or other indices. The generally fixed nature of revenues and the variable rate of certain debt obligations create interest rate risk for the Company. Such increased costs could have the effect of reducing the Company's profitability and could make the financing of any acquisition or investment activity more costly. Rising interest rates could limit the Company's ability to refinance existing debt when it matures, such as the Senior Notes due 2011, or cause the Company to pay higher rates upon refinancing. An increase in interest rates also could have the effect of reducing the amounts that third parties might be willing to pay for real estate assets, which could limit the Company's ability to sell assets at times when it might be advantageous to do so in response to changes in economic conditions.

Covenants in the Company's debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company's financial condition and results of operations.

The terms of the Unsecured Credit Facility, the indentures governing the Company's outstanding senior notes and other debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. The Company's continued ability to incur debt and operate its business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in defaults under applicable debt instruments, even if payment obligations are satisfied.

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Financial and other covenants that limit the Company's operational flexibility, as well as defaults resulting from a breach of any of these covenants in its debt instruments, could have a material adverse effect on the Company's financial condition and results of operations.

The Company's revenues depend on the ability of its tenants and sponsors under its leases and financial support agreements to generate sufficient income from their operations to make loan, rent and support payments to the Company.

The Company's revenues are subject to the financial strength of its tenants and sponsors. The Company has no operational control over the business of these tenants and sponsors who face a wide range of economic, competitive, government reimbursement and regulatory pressures and constraints. The slowdown in the economy, decline in the availability of financing from the capital markets, and widened credit spreads have affected, or may in the future adversely affect, the businesses of the Company's tenants and sponsors to varying degrees. Such conditions may further impact such tenants' and sponsors' abilities to meet their obligations to the Company and, in certain cases, could lead to restructurings, disruptions, or bankruptcies of such tenants and sponsors. In turn, these conditions could adversely affect the Company's revenues and could increase allowances for losses and result in impairment charges, which could decrease net income attributable to common stockholders and equity, and reduce cash flows from operations.

If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility.

If the Company loses a tenant or sponsor and is unable to attract another healthcare provider on a timely basis and on acceptable terms, the Company's cash flows and results of operations could suffer. In addition, many of the Company's properties are special purpose healthcare facilities that may not be easily adaptable to other uses. Transfers of operations of healthcare facilities are often subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

If lenders under the Unsecured Credit Facility fail to meet their funding commitments, the Company's financial position would be negatively impacted.

Access to external capital on favorable terms is critical to the Company's success in growing and maintaining its portfolio. If financial institutions within the Unsecured Credit Facility were unwilling or unable to meet their respective funding commitments to the Company, any such failure would have a negative impact on the Company's operations, financial condition and ability to meet its obligations, including the payment of dividends to stockholders. ***Many of the Company's medical office properties are held under long-term ground leases. These ground leases contain provisions that may limit the Company's ability to lease, sell, or finance these properties.***

The Company's ground lease agreements with hospitals and health systems typically contain restrictions that limit building occupancy to physicians on the medical staff of an affiliated hospital and prohibit physician tenants from providing services that compete with the services provided by the affiliated hospital. Ground leases may also contain consent requirements or other restrictions on sale or assignment of the Company's leasehold interest. These ground lease provisions may limit the Company's ability to lease, sell, or obtain mortgage financing secured by such properties which, in turn, could adversely affect the income from operations or the proceeds received from a sale. As a ground lessee, the Company is also exposed to the risk of reversion of the property upon expiration of the ground lease term, or an earlier breach by the Company of the ground lease, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected or if the Company is required to undertake significant capital expenditures to attract new tenants, then the Company's business and results of operations would be adversely affected.

A significant portion of the Company's leases will mature over the course of any year. The Company may not be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space to attract new tenants. If it is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected, or if the Company

is required to undertake significant capital expenditures in connection with re-letting units, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

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The Company may incur impairment charges on its real estate properties or other assets.

The Company performs an annual impairment review on its real estate properties in the third quarter of every fiscal year. In addition, the Company assesses the potential for impairment of identifiable intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the recorded value might not be fully recoverable. At some future date, the Company may determine that an impairment has occurred in the value of one or more of its real estate properties or other assets. In such an event, the Company may be required to recognize an impairment loss which could have a material adverse affect on the Company's financial condition and results of operations.

The Company may be required to sell certain properties to tenants or sponsors whose leases or financial support agreements provide for options to purchase. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold. The Company may recognize asset impairment charges as a result of the exercise of a purchase option.

At December 31, 2009, the Company had approximately \$111.1 million in real estate properties that are subject to exercisable purchase options held by lessees or financial support agreement sponsors that had not been exercised. Other properties have purchase options that become exercisable in 2010 and beyond. The exercise of these purchase options exposes the Company to reinvestment risk. In certain cases, the option purchase price may not be as great as the Company's capital investment in the property, causing an asset impairment charge. If the Company is unable to reinvest the proceeds of sale at rates of return equal to the return received on the properties that are sold, it may experience a decline in lease revenues and a corresponding material adverse effect on the Company's business and financial condition, the Company's ability to make distributions to its stockholders, and the market price of its common stock.

Certain of the Company's properties are special purpose healthcare facilities and may not be easily adaptable to other uses.

Some of the Company's properties are specialized medical facilities. If the Company or the Company's tenants terminate the leases for these properties or the Company's tenants lose their regulatory authority to operate such properties, the Company may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, the Company may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to its stockholders, and the market price of the Company's common stock.

The Company is subject to risks associated with the development of properties.

The Company is subject to certain risks associated with the development of properties including the following:

The construction of properties generally requires various government and other approvals which may not be received when expected, or at all, which could delay or preclude commencement of construction;

Unsuccessful development opportunities could result in the recognition of direct expenses which could impact the Company's results of operations;

Construction costs could exceed original estimates, which would impact the building's profitability to the Company;

Operating expenses could be higher than forecasted;

Time required to initiate and complete the construction of a property and lease up a completed development property may be greater than originally anticipated, thereby adversely affecting the Company's cash flow and liquidity;

Occupancy rates and rents of a completed development property may not be sufficient to make the property profitable to the Company; and

Favorable capital sources to fund the Company's development activities may not be available when needed.

The Company may be unsuccessful in operating new and existing real estate properties.

The Company's acquired, developed and existing real estate properties may not perform in accordance with management's expectations because of many factors including the following:

The Company's purchase price for acquired facilities may be based upon a series of market judgments which may be incorrect;

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The costs of any improvements required to bring an acquired facility up to standards necessary to establish the market position intended for that facility might exceed budgeted costs;

The Company may incur unexpected costs in the acquisition, construction or maintenance of real estate assets that could impact its expected returns on such assets; and

Leasing of real estate properties may not occur within expected timeframes or at expected rental rates.

Further, the Company can give no assurance that acquisition and development opportunities that will meet management's investment criteria will be available when needed or anticipated.

The Company's long-term master leases and financial support agreements may expire and not be extended.

Long-term master leases and financial support agreements that are expiring may not be extended. To the extent these properties have vacancies or subleases at lower rates upon expiration, income may decline if the Company is not able to re-let the properties at rental rates that are as high as the former rates.

The market price of the Company's stock may be affected adversely by changes in the Company's dividend policy.

The ability of the Company to pay dividends is dependent upon its ability to maintain funds from operations and cash flow, to make accretive new investments and to access capital. A failure to maintain dividend payments at current levels could result in a reduction of the market price of the Company's stock.

Adverse trends in the healthcare service industry may negatively affect the Company's lease revenues and the values of its investments.

The healthcare service industry is currently experiencing:

Regulatory and government reimbursement uncertainty resulting from comprehensive healthcare reform efforts;

Changing trends in the method of delivery of healthcare services;

Increased expense for uninsured patients and uncompensated care;

Increased competition among healthcare providers;

Continuing pressure by private and governmental payors to contain costs and reimbursements while increasing patients' access to healthcare services;

Lower pricing, admissions growth and operating profit margins in an uncertain economy;

Investment losses;

Constrained availability of capital;

Credit downgrades;

Increased liability insurance expense; and

Increased scrutiny and formal investigations by federal and state authorities.

These changes, among others, can adversely affect the economic performance of some or all of the tenants and sponsors who provide financial support to the Company's investments and, in turn, negatively affect the lease revenues and the value of the Company's property investments.

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The Company is exposed to risks associated with entering new geographic markets.

The Company's acquisition and development activities may involve entering geographic markets where the Company has not previously had a presence. The construction and/or acquisition of properties in new geographic areas involves risks, including the risk that the property will not perform as anticipated and the risk that any actual costs for site development and improvements identified in the pre-construction or pre-acquisition due diligence process will exceed estimates. There is, and it is expected that there will continue to be, significant competition for investment opportunities that meet management's investment criteria, as well as risks associated with obtaining financing for acquisition activities, if necessary.

The Company may experience uninsured or underinsured losses related to casualty or liability.

The Company generally requires its tenants to maintain comprehensive liability and property insurance that covers the Company as well as the tenants. The Company also carries comprehensive liability insurance and property insurance covering its owned and managed properties. In addition, tenants under long-term master leases are required to carry property insurance covering the Company's interest in the buildings. Some types of losses, however, either may be uninsurable or too expensive to insure against. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital it has invested in a property, as well as the anticipated future revenue from the property. In such an event, the Company might remain obligated for any mortgage debt or other financial obligation related to the property. The Company cannot give assurance that material losses in excess of insurance proceeds will not occur in the future.

The Company owns facilities that are occupied by tenants that may experience regulatory and legal problems.

The Company's tenants and sponsors are subject to a complex system of federal and state regulations relating to the delivery of healthcare services. If a tenant or sponsor experiences regulatory or legal problems, the Company could be at risk for amounts owed to it by the tenant under leases or financial support agreements.

Failure to maintain its status as a REIT, even in one taxable year, could cause the Company to reduce its dividends dramatically.

The Company intends to qualify at all times as a REIT under the Code. If in any taxable year the Company does not qualify as a REIT, it would be taxed as a corporation. As a result, the Company could not deduct its distributions to the stockholders in computing its taxable income. Depending upon the circumstances, a REIT that loses its qualification in one year may not be eligible to re-qualify during the four succeeding years. Further, certain transactions or other events could lead to the Company being taxed at rates ranging from four to 100 percent on certain income or gains. For more information about the Company's status as a REIT, see "Federal Income Tax Information" in Item 1 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

In addition to the properties described under Item 1, "Business," in Note 9 to the Consolidated Financial Statements, and in Schedule III of Item 15 of this Annual Report on Form 10-K, the Company leases office space for its headquarters. The Company's headquarters, located in offices at 3310 West End Avenue in Nashville, Tennessee, are leased from an unrelated third party. The Company's current lease agreement, which commenced on November 1, 2003, covers approximately 30,934 square feet of rented space and expires on October 31, 2010, with two five-year renewal options. Annual base rent was approximately \$656,883 in 2009 with increases of approximately 3.25% annually.

ITEM 3. LEGAL PROCEEDINGS

The Company is, from time to time, involved in litigation arising in the ordinary course of business and which is expected to be covered by insurance. 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 consolidated financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of stockholders during the fourth quarter of 2009.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Shares of the Company's common stock are traded on the New York Stock Exchange under the symbol HR. As of December 31, 2009, there were approximately 1,322 stockholders of record. The following table sets forth the high and low sales prices per share of common stock and the dividend declared and paid per share of common stock related to the periods indicated.

	High	Low	Dividends Declared and Paid per Share
2009			
First Quarter	\$ 23.59	\$ 12.06	\$ 0.385
Second Quarter	18.35	13.93	0.385
Third Quarter	23.26	15.78	0.385
Fourth Quarter (Payable on March 4, 2010)	22.77	19.75	0.300
2008			
First Quarter	\$ 27.07	\$ 22.02	\$ 0.385
Second Quarter	29.89	23.55	0.385
Third Quarter	32.00	23.45	0.385
Fourth Quarter	29.75	14.29	0.385

Future dividends will be declared and paid at the discretion of the Board of Directors. The Company's ability to pay dividends is dependent upon its ability to generate funds from operations, cash flows, and to make accretive new investments.

Equity Compensation Plan Information

The following table provides information as of December 31, 2009 about the Company's common stock that may be issued upon grants of restricted stock and the exercise of options, warrants and rights under all of the Company's existing compensation plans, including the 2007 Employees Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
	335,608		1,882,074

Equity compensation plans approved by security holders

Equity compensation plans not approved by security holders

Total	335,608	1,882,074
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(1) The Company is unable to ascertain with specificity the number of securities to be used upon exercise of outstanding rights under the 2000 Employee Stock Purchase Plan or the weighted average exercise price of outstanding rights under that plan. The 2000 Employee Stock Purchase Plan provides that shares of common stock may be purchased at a per share price equal to 85% of the fair market value of the common stock at the beginning of the offering period or a purchase date applicable to such offering period, whichever is lower.

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The following table sets forth financial information for the Company, which is derived from the Consolidated Financial Statements of the Company:

<i>(Dollars in thousands except per share data)</i>	Years Ended December 31,				
	2009	2008 (1) (2)	2007 (1) (2) (3)	2006 (1) (2)	2005 (1) (2)
Statement of Income Data:					
Total revenues	\$ 253,304	\$ 213,931	\$ 197,081	\$ 197,899	\$ 191,901
Total expenses	\$ 185,877	\$ 160,148	\$ 139,190	\$ 137,214	\$ 133,144
Other income (expense)	\$ (39,206)	\$ (35,585)	\$ (46,848)	\$ (49,747)	\$ (44,907)
Income from continuing operations	\$ 28,221	\$ 18,198	\$ 11,043	\$ 10,938	\$ 13,850
Discontinued operations	\$ 22,927	\$ 23,562	\$ 49,037	\$ 28,858	\$ 38,900
Net income	\$ 51,148	\$ 41,760	\$ 60,080	\$ 39,796	\$ 52,750
Less: Net income attributable to noncontrolling interests	\$ (57)	\$ (68)	\$ (18)	\$ (77)	\$ (82)
Net income attributable to common stockholders	\$ 51,091	\$ 41,692	\$ 60,062	\$ 39,719	\$ 52,668
Per Share Data:					
Basic earnings per common share:					
Income from continuing operations	\$ 0.48	\$ 0.35	\$ 0.23	\$ 0.24	\$ 0.30
Discontinued operations	\$ 0.40	\$ 0.46	\$ 1.03	\$ 0.61	\$ 0.83
Net income attributable to common stockholders	\$ 0.88	\$ 0.81	\$ 1.26	\$ 0.85	\$ 1.13
Diluted earnings per common share:					
Income from continuing operations	\$ 0.48	\$ 0.35	\$ 0.23	\$ 0.23	\$ 0.29
Discontinued operations	\$ 0.39	\$ 0.44	\$ 1.01	\$ 0.61	\$ 0.82
Net income attributable to common stockholders	\$ 0.87	\$ 0.79	\$ 1.24	\$ 0.84	\$ 1.11
Weighted average common shares outstanding Basic	58,199,592	51,547,279	47,536,133	46,527,857	46,465,215
Weighted average common shares outstanding Diluted	59,047,314	52,564,944	48,291,330	47,498,937	47,406,798
Balance Sheet Data (as of the end of the period):					
Real estate properties, net	\$ 1,791,693	\$ 1,634,364	\$ 1,351,173	\$ 1,554,620	\$ 1,513,247
Mortgage notes receivable	\$ 31,008	\$ 59,001	\$ 30,117	\$ 73,856	\$ 105,795

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Assets held for sale and discontinued operations, net	\$ 17,745	\$ 90,233	\$ 15,639	\$	\$ 21,415
Total assets	\$ 1,935,764	\$ 1,864,780	\$ 1,495,492	\$ 1,736,603	\$ 1,747,652
Notes and bonds payable	\$ 1,046,422	\$ 940,186	\$ 785,289	\$ 849,982	\$ 778,446
Total stockholders' equity	\$ 786,766	\$ 794,820	\$ 631,995	\$ 825,672	\$ 912,468
Noncontrolling interests	\$ 3,382	\$ 1,427	\$	\$	\$
Total equity	\$ 790,148	\$ 796,247	\$ 631,995	\$ 825,672	\$ 912,468

Other Data:

Funds from operations Basic and Diluted (4)	\$ 97,882	\$ 85,437	\$ 73,156	\$ 101,106	\$ 107,943
Funds from operations per common share Basic (4)	\$ 1.68	\$ 1.66	\$ 1.54	\$ 2.17	\$ 2.32
Funds from operations per common share Diluted (4)	\$ 1.66	\$ 1.63	\$ 1.51	\$ 2.13	\$ 2.28
Quarterly dividends declared and paid per common share	\$ 1.54	\$ 1.54	\$ 2.09	\$ 2.64	\$ 2.63
Special dividend declared and paid per common share	\$	\$	\$ 4.75	\$	\$

(1) The years ended December 31, 2008, 2007, 2006 and 2005 are restated to conform to the discontinued operations presentation for 2009. See Note 5 to the Consolidated Financial Statements for more information on the Company's discontinued operations at December 31, 2009.

(2) The years ended December 31, 2008, 2007, 2006 and 2005 are restated to retroactively apply the provisions of FAS ASC No. 810

(previously
SFAS No. 160,
Noncontrolling
Interests in
Consolidated
Financial
Statements.) See
Note 1 to the
Consolidated
Financial
Statements.

(3) The Company
completed the
sale of its senior
living assets in
2007 and paid a
\$4.75 per share
special dividend
with a portion of
the proceeds.

(4) See
Management's
Discussion and
Analysis of
Financial
Condition and
Results of
Operations for a
discussion of
funds from
operations
(FFO),
including why
the Company
presents FFO
and a
reconciliation of
net income
attributable to
common
stockholders to
FFO.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosure Regarding Forward-Looking Statements

This report and other materials Healthcare Realty 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, 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 that could significantly affect the Company's current plans and expectations and future financial condition and results.

Such risks and uncertainties include, among other things, the following:

The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company's debt ratings;

The financial health of the Company's tenants and sponsors and their ability to make loan and rent payments to the Company;

The ability and willingness of the Company's lenders to make their funding commitments to the Company;

The Company's long-term master leases and financial support agreements may expire and not be extended;

Restrictions under ground leases through which the Company holds many of its medical office properties could limit the Company's ability to lease, sell or finance these properties;

The ability of the Company to re-let properties on favorable terms as leases expire;

The Company may incur impairment charges on its assets;

The Company may be required to sell certain assets through purchase options held by tenants or sponsors and may not be able to reinvest the proceeds from such sales at equal rates of return;

The construction of properties generally requires various government and other approvals which may not be received;

Unsuccessful development opportunities could result in the recognition of direct expenses which could impact the Company's results of operations;

Construction costs of a development property may exceed original estimates, which could impact its profitability to the Company;

Time required to lease up a completed development property may be greater than originally anticipated, thereby adversely affecting the Company's cash flow and liquidity;

Occupancy rates and rents of a completed development property may not be sufficient to make the property profitable to the Company; and

Changes in the Company's dividend policy.

Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are detailed in Item 1A Risk Factors of this report and in other reports filed by the Company with the SEC from time to time.

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.

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Overview

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 mostly 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.

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.

Executive Overview

During 2009, the Company acquired approximately \$106.4 million in real estate assets and funded a \$9.9 million mortgage note receivable. On the development front, the Company began construction of a 206,000 square foot medical office building in Washington with a budget of approximately \$92.2 million, completed the construction of three medical office buildings, located in Texas and Illinois, totaling 342,153 square feet with aggregate budgets of approximately \$88.0 million, and continued construction of a 133,000 square foot medical office building in Hawaii with a budget of approximately \$86.0 million. The Company believes that its construction projects will provide solid, long-term investment returns and high quality buildings. See Notes 4 and 14 to the Consolidated Financial Statements for more details of the Company's acquisition and development activities during 2009.

Management also focused on financing activities during 2009, successfully completing the refinancing of the unsecured credit facility, as well as issuing \$300.0 million of unsecured senior notes due 2017 (the Senior Notes due 2017) and \$80.0 million of mortgage debt. With the completion of these financing transactions, the Company was able to replenish its capacity on its unsecured credit facility, as well as provide additional capacity by increasing its unsecured credit facility from \$400.0 million to \$550.0 million.

At December 31, 2009, the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 46.5%, with 72.4% of its debt portfolio maturing after 2011. The Company had borrowings outstanding under its unsecured credit facility due 2012 (the Unsecured Credit Facility) totaling \$50.0 million at December 31, 2009, with a remaining borrowing capacity of \$500.0 million.

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and REIT industry in order to gauge the potential impact on the operations of the Company. Discussed below are some of the factors and trends that management believes may impact future operations of the Company.

As of December 31, 2009, approximately 30.4% of the Company's real estate investments consisted of properties leased to unaffiliated lessees pursuant to long-term net lease agreements or subject to financial support agreements; approximately 66.7% were multi-tenanted properties with shorter-term occupancy leases; and the remaining 2.9% of investments were related to land held for development, corporate property, mortgage notes receivable and one investment in an unconsolidated joint venture which is invested in real estate properties. The Company's long-term net leases and financial support agreements are generally designed to ensure the continuity of revenues and coverage of costs and expenses relating to the properties by the tenants and the sponsoring healthcare operators. There is no assurance that the Company's leases and financial support agreements will be extended past their expiration dates, which could impact the Company's operating results as described in more detail below in Expiring Leases.

Cost of Capital

During 2009, the Company refinanced its unsecured credit facility due 2010 and subsequently repaid most of the outstanding balance on the facility with \$300.0 million of the Senior Notes due 2017 and \$80.0 million of mortgage debt issued during the fourth quarter of 2009. The cost of the Company's short-term borrowings increased upon refinancing the unsecured credit facility on September 30, 2009. The rate of the facility increased from 0.90% over

LIBOR with a 0.20% facility fee to 2.80% over LIBOR with a 0.40% facility fee. Also, the Senior Notes due 2017, issued on December 4, 2009, bear interest at a fixed rate of 6.50% per annum, and the mortgage debt

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due 2016, entered into on November 25, 2009, bears interest at a fixed rate of 7.25%. The additional interest expense that the Company will incur related to the new debt will have a negative impact on its future net income attributable to common stockholders, funds from operations, and cash flows.

Acquisition Activity

During 2009, the Company acquired approximately \$106.4 million in real estate assets and funded a \$9.9 million mortgage note receivable. Four of the properties, aggregating approximately \$43.9 million, were acquired by a joint venture in which the Company has an 80% controlling interest. These acquisitions were funded with borrowings on the Company's unsecured credit facilities, the assumption of existing mortgage debt, proceeds from real estate dispositions, and proceeds from various capital market financings. See Note 4 to the Consolidated Financial Statements for more information on these acquisitions.

Development Activity

During 2009, three medical office buildings that were previously under construction with aggregate budgets of approximately \$88.0 million commenced operations, and construction began on one medical office building with a budget of approximately \$92.2 million, resulting in two medical office buildings remaining in construction in progress at December 31, 2009 with budgets totaling approximately \$178.2 million. The Company expects completion of the core and shell of one project with a budget of approximately \$86.0 million during the second quarter of 2010 and expects completion of the core and shell of the second project with a budget of approximately \$92.2 million during the third quarter of 2011. The three medical office buildings that commenced operations during 2009 are currently in lease-up, which generally takes two to three years before reaching stabilization.

In addition to the projects currently under construction, the Company is financing the development of a six-facility outpatient campus with a budget totaling approximately \$72 million. The Company has funded \$56.4 million towards the construction of four of the buildings. The Company's consolidated joint venture acquired three of the buildings and the fourth building was sold to a third party during 2009. These acquisitions are discussed in more detail in Note 4 to the Consolidated Financial Statements. Construction of the remaining two buildings has not yet begun, but the Company expects to fund the remaining \$15.6 million during 2010 and 2011. The Company's consolidated joint venture will have an option to purchase the two remaining buildings at a market price upon completion and full occupancy.

The Company's ability to complete, lease-up and operate these facilities in a given period of time will impact the Company's results of operations and cash flows. More favorable completion dates, lease-up periods and rental rates will result in improved results of operations and cash flows, while lagging completion dates, lease-up periods and rental rates will likely result in less favorable results of operations and cash flows. The Company's disclosures regarding projections or estimates of completion dates and leasing may not reflect actual results. See Note 14 to the Consolidated Financial Statements for more information on the Company's development activities.

Dispositions

During 2009, the Company disposed of seven real estate properties for approximately \$85.7 million in net proceeds. Also, one mortgage note receivable totaling approximately \$12.6 million was repaid. Proceeds from these dispositions were used to repay amounts under the Unsecured Credit Facility and to fund additional real estate investments. See Note 4 to the Consolidated Financial Statements for more information on these dispositions.

2010 Disposition

In January 2010, pursuant to a purchase option with an operator, the Company disposed of five properties in Virginia. The Company's aggregate net investment in the buildings was approximately \$16.0 million at December 31, 2009. The Company received approximately \$19.2 million in net proceeds and \$0.8 million in lease termination fees. The Company expects to recognize a gain on sale of approximately \$2.7 million, including the write-off of approximately \$0.5 million of straight-line rent receivables.

Purchase Options

As discussed in Liquidity and Capital Resources, certain of the Company's leases include purchase option provisions, which if exercised, could require the Company to sell a property to a lessee or operator, which could have a negative impact on the Company's future results of operations and cash flows.

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Expiring Leases

Master leases on seven of the Company's properties will expire during 2010. The Company expects to extend the master lease on one of the properties. For the remaining six properties, the Company expects that it will not renew the master leases but will assume any tenant leases in the buildings and will manage the operations of those buildings.

The Company also has 331 leases in its multi-tenanted buildings that will expire during 2010, with each of the tenants occupying an average of approximately 3,088 square feet. Approximately 78% of these leases, with each tenant occupying on average approximately 2,535 square feet, are related to leases located in on-campus buildings, which traditionally have a high probability of renewal. The 2010 expirations are widely distributed throughout the portfolio and are not concentrated with one tenant, health system or location.

With the expirations discussed above, the Company expects there could be a short-term negative impact to its results of operations, but anticipates that over time it will be able to re-lease the properties or increase tenant rents to offset any short-term decline in revenue.

Discontinued Operations

As discussed in more detail in Note 1 to the Consolidated Financial Statements, a company must present the results of operations of real estate assets disposed of or held for sale as discontinued operations. Therefore, the results of operations from such assets are classified as discontinued operations for the current period, and all prior periods presented are restated to conform to the current period presentation. Readers of the Company's Consolidated Financial Statements should be aware that each future disposal will result in a change to the presentation of the Company's operations in the historical Consolidated Statements of Income as previously filed. Such reclassifications to the Consolidated Statements of Income will have no impact on previously reported net income attributable to common stockholders.

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 attributable to common stockholders in calculating FFO, which have the effect of decreasing FFO in the period recorded.

The comparability of FFO for the three years ended December 31, 2009 was affected by the various acquisitions and dispositions of the Company's real estate portfolio and the results of operations of the portfolio from period to period, as well as from the commencement of operations of properties that were previously under construction. The comparability of FFO was also impacted by certain unusual items. FFO for 2009 was favorably impacted by a re-measurement gain totaling \$2.7 million, or \$0.05 per diluted common share, recognized in connection with the acquisition of the remaining interests in a joint venture. FFO for 2008 was favorably impacted by the recognition of a net gain from certain repurchases of its Senior Notes due 2011 and its unsecured senior notes due 2014 (the Senior Notes due 2014) totaling approximately \$4.1 million, or \$0.08 per diluted common share. FFO for 2008 and 2007 was reduced by impairment charges recorded totaling \$2.5 million and \$7.1 million, or \$0.05 and \$0.15, respectively, which reduced FFO for each of those years.

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 generally accepted accounting principles (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 attributable to common

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stockholders as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

The table below reconciles net income attributable to common stockholders to FFO for the three years ended December 31, 2009.

<i>(Dollars in thousands, except per share data)</i>	Year Ended December 31,		
	2009	2008	2007
Net income attributable to common stockholders	\$ 51,091	\$ 41,692	\$ 60,062
Gain on sales of real estate properties	(20,136)	(10,227)	(40,405)
Real estate depreciation and amortization	66,927	53,972	53,499
Total adjustments	46,791	43,745	13,094
Funds from Operations Basic and Diluted	\$ 97,882	\$ 85,437	\$ 73,156
Funds from Operations per Common Share Basic	\$ 1.68	\$ 1.66	\$ 1.54
Funds from Operations per Common Share Diluted	\$ 1.66	\$ 1.63	\$ 1.51
Weighted Average Common Shares Outstanding Basic	58,199,592	51,547,279	47,536,133
Weighted Average Common Shares Outstanding Diluted	59,047,314	52,564,944	48,291,330

Table of Contents**Results of Operations*****2009 Compared to 2008***

The Company's income from continuing operations and net income attributable to common stockholders for 2009 compared to 2008 was significantly impacted by the Company's acquisitions of real estate properties in the latter half of 2008 of approximately \$337.1 million and in 2009 of approximately \$106.4 million. The acquisition of the real estate properties were initially funded at a relatively low interest rate on the Company's unsecured credit facility until the Company completed its capital financing transactions in the latter part of 2009, which were previously at higher interest rates.

<i>(Dollars in thousands)</i>	2009	2008	Change	
			\$	%
REVENUES				
Master lease rent	\$ 57,648	\$ 58,073	\$ (425)	(0.7)%
Property operating	180,024	136,745	43,279	31.6%
Straight-line rent	2,027	651	1,376	211.4%
Mortgage interest	2,646	2,207	439	19.9%
Other operating	10,959	16,255	(5,296)	(32.6)%
	253,304	213,931	39,373	18.4%
EXPENSES				
General and administrative	22,493	23,514	(1,021)	(4.3)%
Property operating	95,141	82,223	12,918	15.7%
Impairment		1,600	(1,600)	
Bad debts, net of recoveries	537	1,833	(1,296)	(70.7)%
Depreciation	62,447	48,129	14,318	29.7%
Amortization	5,259	2,849	2,410	84.6%
	185,877	160,148	25,729	16.1%
OTHER INCOME (EXPENSE)				
Gain on extinguishment of debt, net		4,102	(4,102)	
Re-measurement gain of equity interest upon acquisition	2,701		2,701	
Interest expense	(43,080)	(42,126)	(954)	2.3%
Interest and other income, net	1,173	2,439	(1,266)	(51.9)%
	(39,206)	(35,585)	(3,621)	10.2%
INCOME FROM CONTINUING OPERATIONS	28,221	18,198	10,023	55.1%
DISCONTINUED OPERATIONS				
Income from discontinued operations	2,813	14,605	(11,792)	(80.7)%
Impairments	(22)	(886)	864	(97.5)%
Gain on sales of real estate properties	20,136	9,843	10,293	104.6%
INCOME FROM DISCONTINUED OPERATIONS	22,927	23,562	(635)	(2.7)%

NET INCOME	51,148	41,760	9,388	22.5%
Less: Net income attributable to noncontrolling interests	(57)	(68)	11	(16.2)%
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 51,091	\$ 41,692	\$ 9,399	22.5%
EARNINGS PER COMMON SHARE				
Net income attributable to common stockholders				
Basic	\$ 0.88	\$ 0.81	\$ 0.07	8.6%
Net income attributable to common stockholders				
Diluted	\$ 0.87	\$ 0.79	\$ 0.08	10.1%

Total revenues from continuing operations for the year ended December 31, 2009 increased \$39.4 million, or 18.4%, compared to 2008 mainly for the reasons discussed below:

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Master lease rental income decreased \$0.4 million, or 0.7%, from 2008 to 2009. Master lease income decreased approximately \$4.5 million due to properties whose master leases have expired and the Company began recognizing the underlying tenant rents in property operating income. Partially offsetting this decrease, the Company recognized approximately \$2.7 million of additional master lease rental income in 2009 related to its 2009 acquisitions, with the remaining \$1.4 million increase related mainly to annual contractual rent increases.

Property operating income increased \$43.3 million, or 31.6%, from 2008 to 2009. The Company's acquisitions of real estate properties during 2009 and 2008 resulted in additional property operating income in 2009 compared to 2008 of approximately \$36.4 million. Also, properties previously under construction that commenced operations during 2008 and 2009 resulted in approximately \$1.4 million in additional property operating income from 2008 to 2009, and for properties whose master leases had expired, the Company began recognizing the underlying tenant rents totaling approximately \$3.2 million. The remaining increase of approximately \$2.3 million was mainly related to annual contractual rent increases, rental increases related to lease renewals and new leases executed with various tenants.

Straight-line rent increased \$1.4 million from 2008 to 2009. Additional straight-line rent recognized on leases subject to straight-lining from properties acquired in 2008 and 2009 was approximately \$2.6 million, partially offset by reductions in straight-line rent on leases with contractual rent increases of approximately \$1.2 million.

Mortgage interest income increased \$0.4 million, or 19.9%, from 2008 to 2009 due mainly to additional fundings on construction mortgage notes.

Other operating income decreased \$5.3 million, or 32.6%, from 2008 to 2009. The decrease is due primarily to the expirations in 2008 and 2009 of five property operating agreements totaling approximately \$3.7 million with one operator and the expiration of replacement rent received from an operator of approximately \$1.2 million.

Total expenses for the year ended December 31, 2009 compared to the year ended December 31, 2008 increased \$25.7 million, or 16.1%, mainly for the reasons discussed below:

General and administrative expenses decreased \$1.0 million, or 4.3%, from 2008 to 2009. This decrease was mainly attributable to lower pension costs in 2009 of approximately \$1.5 million, net of additional pension expense recorded in 2009 related to the partial settlement of an officer's pension benefit, and a decrease in acquisition and development costs of approximately \$0.7 million. These amounts were partially offset by an increase in other compensation related items of approximately \$1.3 million. See Note 11 to the Consolidated Financial Statements for more details on the Company's pension plans.

Property operating expenses increased \$12.9 million, or 15.7%, from 2008 to 2009. The Company's real estate acquisitions during 2008 and 2009 resulted in additional property operating expense in 2009 of approximately \$13.7 million. Also, the Company recognized additional expense in 2009 of approximately \$2.1 million related to properties that were previously under construction and commenced operations during 2008 and 2009 and approximately \$1.6 million related to properties whose master leases have expired and the Company began incurring the underlying operating expenses. Partially offsetting these increases were reductions in legal expenses of approximately \$3.5 million in 2009 compared to 2008 and in real estate taxes of approximately \$0.8 million.

An impairment charge totaling \$1.6 million was recognized in 2008 on patient accounts receivable assigned to the Company as part of a lease termination and debt restructuring in late 2005 related to a physician clinic owned by the Company.

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Bad debt expense decreased \$1.3 million from 2008 to 2009 mainly due to a reserve recorded by the Company in 2008 related to additional rental income due from an operator on four properties.

Depreciation expense increased \$14.3 million, or 29.7%, from 2008 to 2009 mainly due to increases of approximately \$9.8 million related to the Company's real estate acquisitions, approximately \$1.6 million related to the commencement of operations during 2008 and 2009 of buildings that were previously under construction, as well as approximately \$2.9 million related to additional building and tenant improvement expenditures during 2008 and 2009.

Amortization expense increased \$2.4 million, or 84.6% from 2008 to 2009, mainly due to the amortization of lease intangibles associated with properties acquired during 2008 and 2009, partially offset by a decrease in amortization of lease intangibles becoming fully amortized on properties acquired during 2003 and 2004.

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Other income (expense) for the year ended December 31, 2009 compared to the year ended December 31, 2008 changed unfavorably by \$3.6 million, or 10.2%, mainly for the reasons discussed below:

The Company recognized a net gain on extinguishment of debt in 2008 of approximately \$4.1 million related to repurchases of the Senior Notes due 2011 and 2014, which is discussed in more detail in Note 9 to the Consolidated Financial Statements.

The Company recognized a \$2.7 million gain in 2009 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.

Interest expense increased \$1.0 million, or 2.3%, from 2008 to 2009. The increase was mainly attributable to additional interest expense of approximately \$3.8 million related to mortgage notes payable assumed in the 2008 and 2009 real estate acquisitions, a higher average outstanding balance on the unsecured credit facility of approximately \$0.4 million, as well as interest incurred on the Senior Notes due 2017 of approximately \$1.5 million and interest on the mortgage debt entered into during 2009 of approximately \$0.6 million. These amounts are partially offset by interest savings of approximately \$1.9 million related to the repurchases of the Senior Notes due 2011 and 2014 in 2008, as well as an increase in capitalized interest of approximately \$3.4 million on development projects during 2009.

Interest and other income decreased \$1.3 million, or 51.9%, from 2008 to 2009. The decrease is primarily a result of additional equity income recognized in 2008 of approximately \$1.0 million related to a joint venture investment that the Company accounted for under the equity method until it acquired the remaining interests in the joint venture in 2009, at which time the Company began to consolidate the accounts of the joint venture.

Income from discontinued operations totaled \$22.9 million and \$23.6 million for the years ended December 31, 2009 and 2008, respectively, which includes the results of operations, net gains and impairments related to property disposals and properties classified as held for sale. The Company disposed of seven properties in 2009 and seven properties and two parcels of land in 2008. Six properties were classified as held for sale at December 31, 2009. Income from discontinued operations for 2008 also included a \$7.2 million fee received from an operator to terminate its financial support agreement with the Company in connection with the disposition of the property.

Table of Contents***2008 Compared to 2007***

The Company's net income attributable to common stockholders and net income attributable to common stockholders per share for 2008 compared to 2007 was impacted by senior living asset dispositions in 2007 and the resulting gain on sale. Included in the sale were 56 real estate properties in which the Company had investments totaling approximately \$328.4 million (\$259.9 million, net), 16 mortgage notes and notes receivable totaling approximately \$63.2 million, and certain other assets and liabilities related to the assets. The Company received cash proceeds from the sale totaling approximately \$369.4 million, recorded a deferred gain of approximately \$5.7 million and recognized a net gain of approximately \$40.2 million. The sale also included the 21 properties associated with all of the Company's variable interest entities (VIEs), including the six VIEs that the Company consolidated.

<i>(Dollars in thousands)</i>	2008	2007	Change	
			\$	%
REVENUES				
Master lease rent	\$ 58,073	\$ 56,086	\$ 1,987	3.5%
Property operating	136,745	121,644	15,101	12.4%
Straight-line rent	651	959	(308)	(32.1)%
Mortgage interest	2,207	1,752	455	26.0%
Other operating	16,255	16,640	(385)	(2.3)%
	213,931	197,081	16,850	8.5%
EXPENSES				
General and administrative	23,514	20,619	2,895	14.0%
Property operating	82,223	71,680	10,543	14.7%
Impairment	1,600		1,600	
Bad debts, net of recoveries	1,833	222	1,611	725.7%
Depreciation	48,129	42,141	5,988	14.2%
Amortization	2,849	4,528	(1,679)	(37.1)%
	160,148	139,190	20,958	15.1%
OTHER INCOME (EXPENSE)				
Gain on extinguishment of debt, net	4,102		4,102	
Interest expense	(42,126)	(48,307)	6,181	(12.8)%
Interest and other income, net	2,439	1,459	980	67.2%
	(35,585)	(46,848)	11,263	(24.0)%
INCOME FROM CONTINUING OPERATIONS	18,198	11,043	7,155	64.8%
DISCONTINUED OPERATIONS				
Income from discontinued operations	14,605	15,721	(1,116)	(7.1)%
Impairments	(886)	(7,089)	6,203	(87.5)%
Gain on sales of real estate properties	9,843	40,405	(30,562)	(75.6)%
INCOME FROM DISCONTINUED OPERATIONS	23,562	49,037	(25,475)	(52.0)%

NET INCOME	41,760	60,080	(18,320)	(30.5)%
Less: Net income attributable to noncontrolling interests	(68)	(18)	(50)	277.8%
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 41,692	\$ 60,062	\$ (18,370)	(30.6)%
EARNINGS PER COMMON SHARE				
Net income attributable to common stockholders				
Basic	\$ 0.81	\$ 1.26	\$ (0.45)	(35.7)%
Net income attributable to common stockholders				
Diluted	\$ 0.79	\$ 1.24	\$ (0.45)	(36.3)%

Total revenues from continuing operations for the year ended December 31, 2008 increased \$16.9 million, or 8.5%, compared to 2007, mainly for the reasons discussed below:

Master lease rental income increased \$2.0 million, or 3.5%, from 2007 to 2008. The majority of the increase was due to annual contractual rent increases from 2007 to 2008 of approximately \$1.3 million. During 2008, the Company also

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recognized additional master lease rental income totaling approximately \$0.2 million related to its 2008 acquisitions and a \$0.8 million lease termination fee, offset partially by prior year rental income of the property of approximately \$0.3 million.

Property operating income increased \$15.1 million, or 12.4%, from 2007 to 2008. The Company's acquisitions of real estate properties during 2008 and 2007 resulted in additional property operating income in 2008 compared to 2007 of approximately \$6.7 million. Also, properties previously under construction that commenced operations during 2007 and 2008 resulted in approximately \$2.9 million in additional property operating income from 2007 to 2008. The remaining increase of approximately \$5.5 million was related generally to annual contractual rent increases, rental increases related to lease renewals and new leases executed with various tenants.

Mortgage interest income increased \$0.5 million, or 26.0%, from 2007 to 2008 due mainly to additional fundings on construction mortgage notes.

Total expenses for the year ended December 31, 2008 compared to the year ended December 31, 2007 increased \$21.0 million, or 15.1%, mainly for the reasons discussed below:

General and administrative expenses increased \$2.9 million, or 14.0%, from 2007 to 2008. This increase was attributable mainly to higher compensation-related expenses in 2008 of approximately \$1.8 million related to annual salary increases and amortization of restricted shares, an increase in pension expense recorded of approximately \$0.7 million and expenses recognized related to acquisition and development efforts of approximately \$1.8 million. Also, the Company recorded a charge in 2007 of approximately \$1.5 million related to the retirement of an officer and the termination of five employees.

Property operating expenses increased \$10.5 million, or 14.7%, from 2007 to 2008. The Company recognized expense of approximately \$2.7 million related to properties that were previously under construction and commenced operations during 2007 and 2008. Also, the Company's acquisitions of real estate properties during 2008 and 2007 resulted in additional property operating expense in 2008 compared to 2007 of approximately \$2.7 million. In addition, legal expense increased approximately \$3.5 million in 2008 compared to 2007 mainly due to legal fee reimbursements received in 2007 and a litigation settlement of \$1.0 million in 2008. Also, utility and real estate tax rate increases in 2008 resulted in additional expenses of approximately \$1.3 million and \$0.6 million, respectively.

An impairment charge totaling \$1.6 million was recognized in 2008 on patient accounts receivable assigned to the Company as part of a lease termination and debt restructuring in late 2005 related to a physician clinic owned by the Company. See Note 6 to the Consolidated Financial Statements.

Bad debt expense increased \$1.6 million from 2007 to 2008 mainly due to a reserve recorded by the Company in 2008 related to additional rental income due from an operator on four properties.

Depreciation expense increased \$6.0 million, or 14.2%, from 2007 to 2008 mainly due to increases related to the acquisitions of real estate properties of approximately \$1.4 million, the commencement of operations of buildings during 2007 and 2008 that were previously under construction of approximately \$1.0 million, as well as approximately \$3.6 million related to additional building and tenant improvement expenditures during 2007 and 2008.

Amortization expense decreased \$1.7 million, or 37.1% from 2007 to 2008, mainly due to a decrease in amortization of lease intangibles associated with properties acquired during 2003 and 2004 becoming fully amortized, offset partially by amortization of lease intangibles related to properties acquired during 2007 and 2008.

Other income (expense) for the year ended December 31, 2008 compared to the year ended December 31, 2007 improved \$11.3 million, or 24.0%, mainly for the reasons discussed below:

The Company recognized a net gain on extinguishment of debt in 2008 of approximately \$4.1 million related to repurchases of the Company's Senior Notes due 2011 and 2014 which is discussed in more detail in Note 9 to the Consolidated Financial Statements.

Interest expense decreased \$6.2 million, or 12.8%, from 2007 to 2008. The decrease was mainly attributable to an increase in the capitalization of interest of approximately \$2.7 million related to the Company's construction projects, interest savings of approximately \$1.0 million related to repurchases of the Senior Notes due 2011 and 2014 and a reduction of interest expense of approximately \$3.1 million related mainly to a decrease in interest rates in 2008 compared to 2007 on the unsecured credit facility.

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Interest and other income increased \$1.0 million, or 67.2%, from 2007 to 2008. In connection with the Company's acquisition of the remaining interest in a joint venture in which it previously had an equity interest and the related transition of accounting from the joint venture to the Company, the joint venture recorded an adjustment to straight-line rent on the properties. As such, the Company recognized its portion of the adjustment through equity income on the joint venture of approximately \$1.1 million (of which \$0.8 million was related to prior years). Also, the Company recorded a gain on the sale of a land parcel of approximately \$0.4 million. These amounts are partially offset by a reduction in income recognized on one joint venture of approximately \$0.4 million due to the partial repurchase of the Company's preferred equity investment.

Income from discontinued operations totaled \$23.6 million and \$49.0 million for the years ended December 31, 2008 and 2007, respectively, which includes the results of operations, net gains and impairments related to property disposals and properties classified as held for sale. The Company disposed of seven properties and two parcels of land in 2008 and 59 properties in 2007, and had six properties classified as held for sale at December 31, 2009. Income from discontinued operations for 2008 also included a \$7.2 million fee received from an operator to terminate its financial support agreement with the Company in connection with the disposition of the property.

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 the Unsecured Credit Facility, secured debt borrowings, or from other private debt or equity offerings. For the year ended December 31, 2009, the Company generated approximately \$103.2 million in cash from operations and used \$101.5 million in total cash for investing and financing activities, including dividend payments, as detailed in the Company's Consolidated Statements of Cash Flows.

Cost of Capital

On September 30, 2009, the Company refinanced its Unsecured Credit Facility and repaid most of the outstanding balance on the Unsecured Credit Facility with the \$300.0 million of Senior Notes due 2017 and the \$80.0 million of mortgage debt entered into during the fourth quarter of 2009. The cost of the Company's short-term borrowings increased upon refinancing the Unsecured Credit Facility. The rate of the facility increased from 0.90% over LIBOR with a 0.20% facility fee to 2.80% over LIBOR with a 0.40% facility fee. Also, the unsecured notes due 2017, issued on December 4, 2009, bear interest at a fixed rate of 6.50% per annum and the mortgage debt due 2016, entered into on November 25, 2009, bears interest at a fixed rate of 7.25%.

The additional interest expense that the Company will incur related to the new debt will have a negative impact on its future consolidated net income attributable to common stockholders, funds from operations, and cash flows.

Key Indicators

The Company monitors its liquidity and capital resources and relies on several key indicators in its assessment of capital markets for financing acquisitions and other operating activities as needed, including the following:

Debt metrics;

Dividend payout percentage; and

Interest rates, underlying treasury rates, debt market spreads and equity markets.

The Company uses these indicators and others to compare its operations to its peers and to help identify areas in which the Company may need to focus its attention.

Table of Contents***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 at December 31, 2009, including interest payments due where applicable. At December 31, 2009, the Company had no long-term capital lease or purchase obligations.

<i>(Dollars in thousands)</i>	Total	Payments Due by Period			
		Less than 1 Year	1 -3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations, including interest (1)	\$ 1,438,767	\$ 61,427	\$ 438,995	\$ 349,017	\$ 589,328
Operating lease commitments (2)	269,104	4,107	7,183	7,235	250,579
Construction in progress (3)	100,442	57,036	36,577	6,829	
Tenant improvements (4)					
Pension obligations (5)	2,581	2,581			
Total contractual obligations	\$ 1,810,894	\$ 125,151	\$ 482,755	\$ 363,081	\$ 839,907

(1) The amounts shown include estimated interest on total debt other than the Unsecured Credit Facility. Excluded from the table above are the premium on the Senior Notes due 2011 of \$0.4 million, the discount on the Senior Notes due 2014 of \$0.6 million, and the discount on the Senior Notes due 2017 of \$2.0 million which are included in notes and bonds payable on the Company's Consolidated Balance Sheet as of

December 31, 2009. Also excluded from the table above are discounts on five mortgage notes payable, totaling approximately \$7.7 million. The Company's long-term debt principal obligations are presented in more detail in the table below.

	Principal Balance at December 31, 2009	Principal Balance at December 31, 2008	Maturity Date	Contractual Interest Rates at December 31, 2009	Principal Payments At maturity	Interest Payments Quarterly
<i>(In thousands)</i>						
Unsecured Credit Facility due 2010 (a)	\$	\$ 329.0	1/10	LIBOR + 0.90%	At maturity	Quarterly
Unsecured Credit Facility due 2012 (a)	50.0		9/12	LIBOR + 2.80%	At maturity	Quarterly
Senior Notes due 2011	286.3	286.3	5/11	8.125%	At maturity	Semi-Annual
Senior Notes due 2014	264.7	264.7	4/14	5.125%	At maturity	Semi-Annual
Senior Notes due 2017	300.0		1/17	6.500%	At maturity	Semi-Annual
Mortgage Notes Payable	155.4	67.7	5/15-10/30	5.000%-7.765%	Monthly	Monthly
	\$ 1,056.4	\$ 947.7				

(a) In September 2009, the Company entered into a \$550.0 million amended and restated Unsecured Credit Facility due in 2012 and incurred an annual facility fee of 0.40%. The new credit facility replaced the Company's \$400.0 million

Unsecured Credit
Facility due 2010
in which it
incurred an
annual facility
fee of 0.20%.

- (2) Includes primarily the corporate office and ground leases, with expiration dates through 2101, related to various real estate investments for which the Company is currently making payments.
- (3) Includes cash flow projections related to the construction of two buildings, a portion of which relates to tenant improvements that will generally be funded after the core and shell of the building is substantially completed.
- (4) The Company has various first-generation tenant improvements budgeted as of December 31, 2009 totaling approximately \$31.3 million related to properties that were developed by the Company

that the Company may fund for tenant improvements as leases are signed. The Company has not included these budgeted amounts in the table above.

- (5) At December 31, 2009, one employee, the Company's chief executive officer, was eligible to retire under the Executive Retirement Plan. If the chief executive officer retired and received full retirement benefits based upon the terms of the plan, the future benefits to be paid are estimated to be approximately \$29.9 million as of December 31, 2009. In 2008, the Company froze the maximum annual benefit payable under the Executive Retirement Plan at \$896,000, which resulted in a reduction of benefits payable to the Company's chief executive officer. In consideration of the curtailment

and as a partial settlement of the plan, the Company made a one-time cash payment of \$2.3 million to its chief executive officer in early 2009.

Because the Company does not know when its chief executive officer will retire, it has not projected when the retirement benefits would be paid in this table. At December 31, 2009, the Company had recorded a \$16.1 million liability, included in other liabilities, related to its pension plan obligations.

Also, in November 2009, the Company terminated its Retirement Plan for Outside Directors. As a result, lump sum payments totaling approximately \$2.6 million will be paid in November 2010, or earlier upon retirement, to the outside directors that participated in the plan,

which are
included in the
table above.

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The Company has a \$550.0 million Unsecured Credit Facility with a syndicate of 16 lenders. Loans outstanding under the Unsecured Credit Facility will bear interest at a rate equal to (x) LIBOR or the base rate (defined as the highest of (i) the Federal Funds Rate plus 0.5%; (ii) the Bank of America prime rate and (iii) LIBOR) plus (y) a margin ranging from 2.15% to 3.20% (currently 2.80%) for LIBOR-based loans and 0.90% to 1.95% for base rate loans (currently 1.55%), based upon the Company's unsecured debt ratings. In addition, the Company pays a facility fee per annum on the aggregate amount of commitments. The facility fee is 0.40% per annum, unless the Company's credit rating falls below a BBB-/Baa3, at which point the facility fee would be 0.50%. As of December 31, 2009, the Company had \$50.0 million outstanding on the Unsecured Credit Facility with a remaining borrowing capacity of \$500.0 million. At December 31, 2009, 72.4% of the Company's debt balances were due after 2011, and the Unsecured Credit Facility, the Company's only variable rate debt, was approximately 4.8% of total outstanding debt. The Unsecured Credit Facility contains certain representations, warranties, and financial and other covenants customary in such loan agreements.

Moody's Investors Service, Standard and Poor's, and Fitch Ratings rate the Company's senior debt Baa3, BBB-, and BBB, respectively. For the year ended December 31, 2009, the Company's earnings from continuing operations covered fixed charges at a ratio of 1.33 to 1.00; the Company's stockholders' equity totaled approximately \$786.8 million; and the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 46.5%.

As of December 31, 2009, the Company was in compliance with its financial covenant provisions under its various debt instruments.

At-The-Market Equity Offering Program

On December 31, 2008, the Company entered into a sales agreement with Cantor Fitzgerald & Co. to sell up to 2,600,000 shares of its common stock through an at-the-market equity offering program under which Cantor Fitzgerald acts as agent and/or principal. During 2009, the Company sold 1,201,600 shares of common stock, at prices ranging from \$21.62 per share to \$22.50 per share, generating approximately \$25.7 million in net proceeds. In January 2010, the Company sold an additional 698,700 shares of common stock under the plan for net proceeds totaling approximately \$14.9 million. On February 22, 2010, the Company entered into a new sales agreement with Cantor Fitzgerald to sell up to 5,000,000 shares of its common stock through the at-the-market equity offering program. The 5,000,000 shares include 699,700 shares that remained unsold under the prior sales agreement and 4,300,300 new shares. This agreement supersedes the prior sales agreement.

Security Deposits and Letters of Credit

As of December 31, 2009, the Company held approximately \$6.2 million in letters of credit, security deposits, and capital replacement reserves for the benefit of the Company in the event the obligated lessee or borrower fails to perform under the terms of its 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.

Acquisition Activity

During 2009, the Company acquired approximately \$106.4 million in real estate assets and funded a \$9.9 million mortgage note receivable. Four of the properties, aggregating approximately \$43.9 million, were acquired by a joint venture in which the Company has an 80% controlling interest. These acquisitions were funded with borrowings on the Company's unsecured credit facilities, the assumption of existing mortgage debt, proceeds from real estate dispositions, and proceeds from various capital market financings. See Note 4 to the Consolidated Financial Statements for more information on these acquisitions.

Dispositions

During 2009, the Company disposed of seven real estate properties for approximately \$85.7 million in net proceeds. Also, one mortgage note receivable totaling approximately \$12.6 million was repaid. Proceeds from these dispositions were used to repay amounts under the Unsecured Credit Facility and to fund additional real estate investments. See Note 4 to the Consolidated Financial Statements for more information on these dispositions.

2010 Disposition

In January 2010, pursuant to a purchase option with an operator, the Company disposed of five properties in Virginia. The Company's aggregate net investment in the buildings was approximately \$16.0 million at December 31, 2009. The Company received approximately \$19.2 million in net proceeds and \$0.8 million in lease termination fees. The Company expects to recognize a gain on sale of approximately \$2.7 million, including the write-off of approximately \$0.5 million of straight-line rent receivables.

Table of Contents***Purchase Options***

Excluding the five properties located in Virginia that were classified as held for sale, the Company had approximately \$111.1 million in real estate properties at December 31, 2009 that were subject to exercisable purchase options held by the respective operators and lessees that had not been exercised. On a probability-weighted basis, the Company currently estimates that approximately \$32.0 million of these options might be exercised in the future. During 2010, an additional purchase option becomes exercisable on a property in which the Company had a gross investment of approximately \$3.1 million at December 31, 2009. The Company does not believe it is likely that the operator will exercise the purchase option in the near future. Other properties may have purchase options exercisable in 2011 and beyond, but the Company does not believe it can reasonably estimate the probability of exercise of these purchase options.

Construction in Progress and Other Commitments

As of December 31, 2009, the Company had two medical office buildings under construction with budgets totaling \$178.2 million and estimated completion dates in the second quarter of 2010 and the third quarter of 2011. At December 31, 2009, the Company had \$95.1 million invested in construction in progress, including two parcels of land totaling \$17.3 million in land held for future development, and expects to fund \$57.0 million, \$31.4 million, and \$5.2 million in 2010, 2011 and 2012, respectively, on the two projects currently under construction. See Note 14 to the Consolidated Financial Statements for more details on the Company's construction in progress at December 31, 2009.

The Company also had various remaining first-generation tenant improvement obligations budgeted as of December 31, 2009 totaling approximately \$31.3 million related to properties that were developed by the Company.

In addition to the projects currently under construction, the Company is financing the development of a six-facility outpatient campus with a budget totaling approximately \$72 million. The Company has funded \$56.4 million towards the construction of four of the buildings. The Company's consolidated joint venture acquired three of the buildings and the fourth building was sold to a third party during 2009. These acquisitions are discussed in more detail in Note 4 to the Consolidated Financial Statements. Construction of the remaining two buildings has not yet begun, but the Company expects to fund the remaining \$15.6 million during 2010 and 2011. The Company's consolidated joint venture will have an option to purchase the two remaining buildings at a market price upon completion and full occupancy.

The Company intends to fund these commitments with internally generated cash flows, proceeds from the Unsecured Credit Facility, proceeds from the sale of real estate properties, proceeds from repayments of mortgage notes receivable, proceeds from secured debt, capital market financings, or private debt or equity offerings.

Operating Leases

As of December 31, 2009, the Company was obligated under operating lease agreements consisting primarily of the Company's corporate office lease and ground leases related to 42 real estate investments, excluding leases the Company has prepaid. These operating leases have expiration dates through 2101. Rental expense relating to the operating leases for the years ended December 31, 2009, 2008 and 2007 was \$3.8 million, \$3.3 million, and \$3.0 million, respectively.

Dividends

The Company is 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. Common stock cash dividends paid during 2009 or related to 2009 are shown in the table below:

Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/*Payable
4th Quarter 2008	\$0.385	February 3, 2009	February 20, 2009	March 5, 2009
1st Quarter 2009	\$0.385	May 11, 2009	May 22, 2009	June 5, 2009

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2nd Quarter 2009	\$0.385	August 10, 2009	August 21, 2009	September 4, 2009
3rd Quarter 2009	\$0.385	November 9, 2009	November 20, 2009	December 4, 2009
4th Quarter 2009	\$0.300	February 2, 2010	February 18, 2010	*March 4, 2010

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.

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Liquidity

Net cash provided by operating activities was \$103.2 million, \$105.3 million and \$90.9 million for 2009, 2008 and 2007, respectively. 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 plans to continue to meet its liquidity needs, including funding additional investments in 2010, paying dividends, and funding debt service, with cash flows from operations, borrowings under the Unsecured Credit Facility, proceeds of mortgage notes receivable repayments, proceeds from sales of real estate investments, proceeds from secured debt borrowings, or additional capital market financings. The Company also had unencumbered real estate assets of approximately \$1.9 billion at December 31, 2009, which could serve as collateral for secured mortgage financing. 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 be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

The Company has some exposure to variable interest rates and its stock price has been impacted by the volatility in the stock markets. However, 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 lease rates that generally increase on an annual basis at fixed rates or based on consumer price indices.

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 to 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 to 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.

New Accounting Pronouncements

Note 1 to the Consolidated Financial Statements provides a discussion of new accounting standards. The Company does not believe these new standards will have a significant impact on the Company's Consolidated Financial Statements or results of operations.

Market Risk

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk.

At December 31, 2009, approximately \$996.4 million, or 95.2%, of the Company's total debt, bore interest at fixed rates. Additionally, \$30.0 million of the Company's mortgage notes and other notes receivable bore interest at fixed rates.

The following table provides information regarding the sensitivity of certain of the Company's financial instruments, as described above, to market conditions and changes resulting from changes in interest rates. For purposes of this analysis, sensitivity is demonstrated based on hypothetical 10% changes in the underlying market interest rates.

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	Outstanding		Impact on Earnings and Cash Flows	
			Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates
<i>(Dollars in thousands)</i>	Principal Balance As of 12/31/09	Calculated Annual Interest Expense (1)		
Variable Rate Debt:				
Unsecured Credit Facility	\$ 50,000	\$ 1,515	\$ (12)	\$ 12
Variable Rate Receivables:				
Mortgage Notes Receivable	\$ 4,290	\$ 267	\$ 1	\$ (1)

	Carrying Value at		Fair Value		December 31, 2008 (2)
			Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates	
<i>(Dollars in thousands)</i>	December 31, 2009	December 31, 2009	Market Interest Rates	Market Interest Rates	
Fixed Rate Debt:					
Senior Notes due 2011, including premium	\$ 286,655	\$ 307,568	\$ 307,231	\$ 307,883	\$ 320,269
Senior Notes due 2014, net of discount	264,090	282,883	280,328	285,497	298,025
Senior Notes due 2017, net of discount	297,988	297,988	292,779	304,680	
Mortgage Notes Payable	147,689	150,115	146,151	154,352	94,590
	\$ 996,422	\$ 1,038,554	\$ 1,026,489	\$ 1,052,412	\$ 712,884
Fixed Rate Receivables:					
Mortgage Notes Receivable	\$ 26,718	\$ 26,485	\$ 25,547	\$ 27,463	\$ 16,597
Other Notes Receivable	3,276	3,276	3,225	3,328	487
	\$ 29,994	\$ 29,761	\$ 28,772	\$ 30,791	\$ 17,084

(1) Annual interest expense on the variable rate debt and variable

rate receivables was calculated using a constant principal balance and the December 31, 2009 market rates of 3.03% and 6.23%, respectively. The increase or decrease in market interest rate is based on the variable LIBOR portion of the interest rate which is 0.23% as of December 31, 2009.

- (2) Fair values as of December 31, 2008 represent fair values of obligations or receivables that were outstanding as of that date, and do not reflect the effect of any subsequent changes in principal balances and/or additions or extinguishments of instruments. Mortgage notes payable for 2008 include four mortgage notes classified as held for sale with an aggregate fair value at December 31, 2008 of approximately

\$28.7 million.

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 its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Application of Critical Accounting Policies to Accounting Estimates

The Company's Consolidated Financial Statements are prepared in accordance with GAAP and the rules and regulations of the Securities and Exchange Commission. In preparing the Consolidated Financial Statements, management is required to exercise judgment and make assumptions that impact the carrying amount of assets and liabilities and the reported amounts of revenues and expenses reflected in the Consolidated Financial Statements.

Management routinely evaluates the estimates and assumptions used in the preparation of its Consolidated Financial Statements. These regular evaluations consider historical experience and other reasonable factors and use the seasoned judgment of management personnel. Management has reviewed the Company's critical accounting policies with the Audit Committee of the Board of Directors.

Management believes the following paragraphs in this section describe the application of critical accounting policies by management to arrive at the critical accounting estimates reflected in the Consolidated Financial Statements. The Company's accounting policies are more fully discussed in Note 1 to the Consolidated Financial Statements.

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Valuation of Long-Lived and Intangible Assets and Goodwill

The Company assesses the potential for impairment of identifiable intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the recorded value might not be fully recoverable. Important factors that could cause management to review for impairment include significant underperformance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company reviews for possible impairment those assets subject to purchase options and those impacted by casualties, such as hurricanes. If management determines that the carrying value of the Company's assets may not be fully recoverable based on the existence of any of the factors above, or others, management would measure and record an impairment charge based on the estimated fair value of the property. The Company recorded impairments of \$0.02 million, \$2.5 million, and \$7.1 million, respectively, for the years ended December 31, 2009, 2008 and 2007 related to real estate properties and other long-lived assets. The impairment charge in 2009 was recorded in connection with the sale of a property in Washington. The impairment charges in 2008 included \$1.6 million related to a long-lived asset, \$0.1 million related to two properties sold in 2008, and \$0.8 million related to two properties classified as held for sale in 2008, reducing the Company's carrying values on the properties to the estimated fair values of the properties less costs to sell. The impairment charges in 2007 included \$4.1 million recorded in connection with the sale of a property in Texas and \$3.0 million related to six properties classified as held for sale as of December 31, 2007, reducing the Company's carrying values on the properties to the estimated fair values of the properties less costs to sell.

The Company also performs an annual goodwill impairment review. The Company's reviews are performed as of December 31 of each year. The Company's 2009 and 2008 reviews indicated that no impairment had occurred with the respect to the Company's \$3.5 million goodwill asset.

Capitalization of Costs

GAAP generally allows for the capitalization of various types of costs. The rules and regulations on capitalizing costs and the subsequent depreciation or amortization of those costs versus expensing them in the period incurred vary depending on the type of costs and the reason for capitalizing the costs.

Direct costs of a development project generally include construction costs, professional services such as architectural and legal costs, travel expenses, land acquisition costs as well as other types of fees and expenses. These costs are capitalized as part of the basis of an asset to which such costs relate. Indirect costs include capitalized interest and overhead costs. The Company's overhead costs are based on overhead load factors that are charged to a project based on direct time incurred. The Company computes the overhead load factors annually for its acquisition and development departments, which have employees who are involved in the projects. The overhead load factors are computed to absorb that portion of indirect employee costs (payroll and benefits, training, occupancy and similar costs) that are attributable to the productive time the employee incurs working directly on projects. The employees in the Company's acquisitions and development departments who work on these projects maintain and report their hours daily, by project. Employee costs that are administrative, such as vacation time, sick time, or general and administrative time, are expensed in the period incurred.

Acquisition-related costs of an existing building include finder's fees, advisory, legal, accounting, valuation, other professional or consulting fees, and certain general and administrative costs. These costs are also expensed in the period incurred.

Management's judgment is also exercised in determining whether costs that have been previously capitalized to a project should be reserved for or written off if or when the project is abandoned or circumstances otherwise change that would call the project's viability into question. The Company follows a standard and consistently applied policy of classifying pursuit activity as well as reserving for these types of costs based on their classification.

The Company classifies its pursuit projects into four categories, of which three relate to development and one relates to acquisitions. The first category includes pursuits of developments that have a remote chance of producing new business. Costs for these projects are expensed in the period incurred. The second category includes pursuits of developments that might reasonably be expected to produce new business opportunities although there can be no

assurance that they will result in a new project or contract. Costs for these projects are capitalized but, due to the uncertainty of projects in this category, these costs are reserved at 50%, which means that 50% of the costs are expensed in the period incurred. The third category includes those pursuits of developments that are either highly probable to result in a project or contract or already have resulted in a project or contract in which the contract requires the operator to reimburse the Company's costs. Many times, these are pursuits involving operators with which the Company is already doing business. Since the Company believes it is probable that these pursuits will result in a project or contract, it capitalizes these costs in full and records no reserve. The fourth category includes pursuits that involve the acquisition of existing buildings. As discussed above, costs related to acquisitions of existing buildings are expensed in the period incurred.

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Each quarter, all capitalized pursuit costs are again reviewed carefully for viability or a change in classification, and a management decision is made as to whether any additional reserve is deemed necessary. If necessary and considered appropriate, management would record an additional reserve at that time. Capitalized pursuit costs, net of the reserve, are carried in other assets in the Company's Consolidated Balance Sheets, and any reserve recorded is charged to general and administrative expenses on the Consolidated Statements of Income. All pursuit costs will ultimately be written off to expense or capitalized as part of the constructed real estate asset.

As of December 31, 2009 and 2008, the Company had capitalized pursuit costs totaling \$2.2 million and \$2.5 million, respectively, and had provided reserves against its capitalized pursuit costs of \$2.1 million and \$0.6 million, respectively.

Depreciation of Real Estate Assets and Amortization of Related Intangible Assets

As of December 31, 2009, the Company had investments of approximately \$2.3 billion in depreciable real estate assets and related intangible assets. When real estate assets and related intangible assets are acquired or placed in service, they must be depreciated or amortized. Management's judgment involves determining which depreciation method to use, estimating the economic life of the building and improvement components of real estate assets, and estimating the value of intangible assets acquired when real estate assets are purchased that have in-place leases.

As described in more detail in Note 1 to the Consolidated Financial Statements, when the Company acquires real estate properties with in-place leases, the cost of the acquisition must be allocated between the acquired tangible real estate assets as if vacant and any acquired intangible assets. Such intangible assets could include above- (or below-) market in-place leases and at-market in-place leases, which could include the opportunity costs associated with absorption period rentals, direct costs associated with obtaining new leases such as tenant improvements, and customer relationship assets. Any remaining excess purchase price is then allocated to goodwill. The identifiable tangible and intangible assets are then subject to depreciation and amortization. Goodwill is evaluated for impairment on an annual basis unless circumstances suggest that a more frequent evaluation is warranted.

If assumptions used to estimate the as if vacant value of the building or the intangible asset values prove to be inaccurate, the pro-ration of the purchase price between building and intangibles and resulting depreciation and amortization could be incorrect. The amortization period for the intangible assets is the average remaining term of the actual in-place leases as of the acquisition date. To help prevent errors in its estimates from occurring, management applies consistent assumptions with regard to the elements of estimating the as if vacant values of the building and the intangible assets, including the absorption period, occupancy increases during the absorption period, and tenant improvement amounts. The Company uses the same absorption period and occupancy assumptions for similar building types, adding the future cash flows expected to occur over the next 10 years as a fully occupied building. The net present value of these future cash flows, discounted using a market rate of return, becomes the estimated as if vacant value of the building.

With respect to the building components, there are several depreciation methods available under GAAP. Some methods record relatively more depreciation expense on an asset in the early years of the asset's economic life, and relatively less depreciation expense on the asset in the later years of its economic life. The straight-line method of depreciating real estate assets is the method the Company follows because, in the opinion of management, it is the method that most accurately and consistently allocates the cost of the asset over its estimated life. The Company assigns a useful life to its owned buildings based on many factors, including the age of the property when acquired.

Allowance for Doubtful Accounts and Credit Losses

Many of the Company's investments are subject to long-term leases or other financial support arrangements with hospital systems and healthcare providers affiliated with the properties. Due to the nature of the Company's agreements, the Company's accounts receivable, notes receivable and interest receivables result mainly from monthly billings of contractual tenant rents, lease guaranty amounts, principal and interest payments due on notes and mortgage notes receivable, late fees and additional rent.

Accounts Receivable

Payments on the Company's accounts receivable are normally collected within 30 days of billing. When receivables remain uncollected, management must decide whether it believes the receivable is collectible and whether to provide an allowance for all or a portion of these receivables. Unlike a financial institution with a large volume of

homogeneous retail receivables such as credit card loans or automobile loans that have a predictable loss pattern over time, the Company's receivable losses have historically been infrequent and are tied to a unique or specific event. The Company's allowance for doubtful accounts is generally based on specific identification and is recorded for a specific receivable amount once determined that such an allowance is needed.

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Management monitors the age and collectibility of receivables on an ongoing basis. At least monthly, a report is produced whereby all receivables are aged or placed into groups based on the number of days that have elapsed since the receivable was billed. Management reviews the aging report for evidence of deterioration in the timeliness of payments from tenants, sponsors or borrowers. Whenever deterioration is noted, management investigates and determines the reason(s) for the delay, which may include discussions with the delinquent tenant, sponsor or borrower. Considering all information gathered, management's judgment must be exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining uncollectibility are the following:

type of contractual arrangement under which the receivable was recorded, e.g., a mortgage note, a triple net lease, a gross lease, a sponsor guaranty agreement or some other type of agreement;

tenant's or debtor's reason for slow payment;

industry influences and healthcare segment under which the tenant or debtor operates;

evidence of willingness and ability of the tenant or debtor to pay the receivable;

credit-worthiness of the tenant or debtor;

collateral, security deposit, letters of credit or other monies held as security;

tenant's or debtor's historical payment pattern;

other contractual agreements between the tenant or debtor and the Company;

relationship between the tenant or debtor and the Company;

state in which the tenant or debtor operates; and

existence of a guarantor and the willingness and ability of the guarantor to pay the receivable.

Considering these factors and others, management must conclude whether all or some of the aged receivable balance is likely uncollectible. If management determines that some portion of a receivable is likely uncollectible, the Company records a provision for bad debt expense for the amount expected to be uncollectible. There is a risk that management's estimate is over- or under-stated; however, management believes that this risk is mitigated by the fact that it re-evaluates the allowance at least once each quarter and bases its estimates on the most current information available. As such, any over- or under-stated estimates in the allowance should be adjusted for as soon as new and better information becomes available.

Mortgage Notes and Notes Receivable

The Company also evaluates collectibility of its mortgage notes and notes receivable. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. The Company did not record any provisions for doubtful accounts on its mortgage notes or notes receivable during 2009 or 2008. However, in connection with the sale of the senior living assets in 2007, the Company forgave approximately \$2.6 million in notes receivable which was reflected in the gain on sale in 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Market Risk in Management's Discussion and Analysis of Financial Condition and Results of Operations, incorporated herein by reference to Item 7 of this Annual Report on Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Report of
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders
Healthcare Realty Trust Incorporated
Nashville, Tennessee

We have audited the accompanying consolidated balance sheets of Healthcare Realty Trust Incorporated as of December 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Healthcare Realty Trust Incorporated at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the Consolidated Financial Statements, effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (which was later codified in ASC No. 810-10-45).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Healthcare Realty Trust Incorporated's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 22, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 22, 2010

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BALANCE SHEETS

	December 31,	
	2009	2008
<i>(Dollars in thousands, except per share amounts)</i>		
ASSETS		
Real estate properties:		
Land	\$ 135,495	\$ 107,555
Buildings, improvements and lease intangibles	1,977,264	1,792,402
Personal property	17,509	16,985
Construction in progress	95,059	84,782
	2,225,327	2,001,724
Less accumulated depreciation	(433,634)	(367,360)
Total real estate properties, net	1,791,693	1,634,364
Cash and cash equivalents	5,851	4,138
Mortgage notes receivable	31,008	59,001
Assets held for sale and discontinued operations, net	17,745	90,233
Other assets, net	89,467	77,044
Total assets	\$ 1,935,764	\$ 1,864,780
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	\$ 1,046,422	\$ 940,186
Accounts payable and accrued liabilities	55,043	45,937
Liabilities held for sale and discontinued operations	251	32,821
Other liabilities	43,900	49,589
Total liabilities	1,145,616	1,068,533
Commitments and contingencies		
Equity:		

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Preferred stock, \$.01 par value; 50,000,000 shares authorized; none issued and outstanding

Common stock, \$.01 par value; 150,000,000 shares authorized; 60,614,931 and 59,264,284 shares issued and outstanding at December 31, 2009 and December 31, 2008, respectively

	606	592
Additional paid-in capital	1,520,893	1,490,535
Accumulated other comprehensive loss	(4,593)	(6,461)
Cumulative net income attributable to common stockholders	787,965	736,874
Cumulative dividends	(1,518,105)	(1,426,720)
Total stockholders' equity	786,766	794,820
Noncontrolling interests	3,382	1,427
Total equity	790,148	796,247
Total liabilities and equity	\$ 1,935,764	\$ 1,864,780

See accompanying notes.

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Consolidated
STATEMENTS OF INCOME

	Year Ended December 31,		
<i>(Dollars in thousands, except per share data)</i>	2009	2008	2007
REVENUES			
Master lease rent	\$ 57,648	\$ 58,073	\$ 56,086
Property operating	180,024	136,745	121,644
Straight-line rent	2,027	651	959
Mortgage interest	2,646	2,207	1,752
Other operating	10,959	16,255	16,640
	253,304	213,931	197,081
EXPENSES			
General and administrative	22,493	23,514	20,619
Property operating	95,141	82,223	71,680
Impairment		1,600	
Bad debts, net of recoveries	537	1,833	222
Depreciation	62,447	48,129	42,141
Amortization	5,259	2,849	4,528
	185,877	160,148	139,190
OTHER INCOME (EXPENSE)			
Gain on extinguishment of debt, net		4,102	
Re-measurement gain of equity interest upon acquisition	2,701		
Interest expense	(43,080)	(42,126)	(48,307)
Interest and other income, net	1,173	2,439	1,459
	(39,206)	(35,585)	(46,848)
INCOME FROM CONTINUING OPERATIONS	28,221	18,198	11,043
DISCONTINUED OPERATIONS			
Income from discontinued operations	2,813	14,605	15,721
Impairments	(22)	(886)	(7,089)
Gain on sales of real estate properties	20,136	9,843	40,405
INCOME FROM DISCONTINUED OPERATIONS	22,927	23,562	49,037
NET INCOME	51,148	41,760	60,080
Less: Net income attributable to noncontrolling interests	(57)	(68)	(18)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 51,091	\$ 41,692	\$ 60,062

BASIC EARNINGS PER COMMON SHARE:

Income from continuing operations	\$	0.48	\$	0.35	\$	0.23
Discontinued operations		0.40		0.46		1.03
Net income attributable to common stockholders	\$	0.88	\$	0.81	\$	1.26

DILUTED EARNINGS PER COMMON SHARE:

Income from continuing operations	\$	0.48	\$	0.35	\$	0.23
Discontinued operations		0.39		0.44		1.01
Net income attributable to common stockholders	\$	0.87	\$	0.79	\$	1.24

**WEIGHTED AVERAGE COMMON SHARES
OUTSTANDING BASIC**

58,199,592 51,547,279 47,536,133

**WEIGHTED AVERAGE COMMON SHARES
OUTSTANDING DILUTED**

59,047,314 52,564,944 48,291,330

See accompanying notes.

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Consolidated
STATEMENTS OF STOCKHOLDERS' EQUITY

			Accumulated						
	Preferred	Common	Additional	Other	Cumulative		Total	Non-	Total
(Dollars in thousands, except per share data)	Stock	Stock	Paid-In	Comprehensive	Net	Cumulative	Stockholders'	Controlling	Equity
			Capital	Loss	Income	Dividends	Equity	Interests	
Balance at December 31, 2006	\$	\$ 478	\$ 1,211,234	\$ (4,035)	\$ 635,120	\$ (1,017,125)	\$ 825,672	\$	\$ 825,672
Issuance of stock, net of costs		29	70,545				70,574		70,574
Common stock redemption			(386)				(386)		(386)
Stock-based compensation			4,678				4,678		4,678
Net income					60,062		60,062	18	60,080
Other comprehensive loss				(311)			(311)		(311)
Other comprehensive income									59,769
Special dividend to common stockholders (\$0.75 per share)						(227,157)	(227,157)		(227,157)
Dividends to common stockholders (\$2.09 per share)						(101,137)	(101,137)		(101,137)
Distributions to noncontrolling interests								(18)	(18)
Balance at December 31, 2007		507	1,286,071	(4,346)	695,182	(1,345,419)	631,995		631,995
Issuance of stock, net of costs		83	201,966				202,049		202,049
Common stock redemption			(282)				(282)		(282)
Stock-based compensation		2	2,780				2,782		2,782
Net income					41,692		41,692	68	41,760
Other comprehensive loss				(2,115)			(2,115)		(2,115)
Other comprehensive income									39,600
Dividends to common stockholders (\$1.54 per share)						(81,301)	(81,301)		(81,301)
Distributions to noncontrolling interests								(110)	(110)
Proceeds from noncontrolling interests								1,469	1,469
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, net of costs		13	26,655				26,668		26,668
Common stock redemption			(8)				(8)		(8)
Stock-based compensation		1	3,711				3,712		3,712
Net income					51,091		51,091	57	51,148
Other comprehensive loss				1,868			1,868		1,868
Other comprehensive income									53,000
Dividends to common stockholders (\$1.54 per share)						(91,385)	(91,385)		(91,385)
Distributions to noncontrolling interests								(330)	(330)
Proceeds from noncontrolling interests								2,228	2,228

ance at December 31, 2009

\$ \$ 606 \$ 1,520,893 \$ (4,593) \$ 787,965 \$ (1,518,105) \$ 786,766 \$ 3,382 \$ 790,1

See accompanying notes.

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STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2009	2008	2007
OPERATING ACTIVITIES			
Net income	\$ 51,148	\$ 41,760	\$ 60,080
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	70,921	54,748	53,924
Stock-based compensation	3,711	2,780	4,678
Straight-line rent receivable	(1,925)	(643)	(1,043)
Straight-line rent liability	444	423	954
Gain on sales of real estate properties	(20,136)	(9,843)	(40,405)
Gain on sales of land		(384)	
Gain on extinguishment of debt		(4,102)	
Re-measurement gain of equity interest upon acquisition	(2,701)		
Impairments	22	2,486	7,089
Equity in (income) losses from unconsolidated joint ventures	2	(1,021)	309
Provision for bad debts, net of recoveries	517	1,904	198
State income taxes paid, net of refunds	(674)	(612)	(137)
Payment of partial pension settlement	(2,300)		
Changes in operating assets and liabilities:			
Other assets	(1,017)	6,794	(94)
Accounts payable and accrued liabilities	5,127	3,097	(2,065)
Other liabilities	75	7,864	7,450
Net cash provided by operating activities	103,214	105,251	90,938
INVESTING ACTIVITIES			
Acquisition and development of real estate properties	(170,520)	(383,702)	(130,799)
Funding of mortgages and notes receivable	(23,391)	(36,970)	(14,759)
Investments in unconsolidated joint venture	(184)		
Distributions from unconsolidated joint ventures		882	1,414
Partial redemption of preferred equity investment in an unconsolidated joint venture		5,546	
Proceeds from sales of real estate	83,441	37,133	311,927
Proceeds from mortgages and notes receivable repayments	12,893	8,236	65,572
Net cash provided by (used in) investing activities	(97,761)	(368,875)	233,355
FINANCING ACTIVITIES			
Net borrowings (repayments) on unsecured credit facilities	(279,000)	193,000	(54,000)
Borrowings on notes and bonds payable	377,969		1,840
Repayments on notes and bonds payable	(28,433)	(3,813)	(7,440)
Repurchase of notes payable		(45,460)	
Special dividend paid			(227,157)
Quarterly dividends paid	(91,385)	(81,301)	(101,137)
Proceeds from issuance of common stock	26,467	197,255	70,780

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Common stock redemptions	(8)	(282)	(386)
Capital contributions received from noncontrolling interests	2,228	1,469	
Distributions to noncontrolling interest holders	(282)	(110)	(18)
Credit facility amendment and extension fees		(1,126)	
Equity issuance costs	(3)	(389)	(206)
Debt issuance costs	(11,293)		
Net cash provided by (used in) financing activities	(3,740)	259,243	(317,724)
Increase (decrease) in cash and cash equivalents	1,713	(4,381)	6,569
Cash and cash equivalents, beginning of year	4,138	8,519	1,950
Cash and cash equivalents, end of year	\$ 5,851	\$ 4,138	\$ 8,519
Supplemental Cash Flow Information:			
Interest paid	\$ 50,052	\$ 49,997	\$ 53,233
Capitalized interest	\$ 10,087	\$ 6,679	\$ 4,022
Capital expenditures included in accounts payable and accrued liabilities	\$ 16,266	\$ 12,500	\$ 6,699
Mortgage notes payable assumed upon acquisition of a joint venture interest (adjusted to fair value)	\$ 11,716	\$ 50,825	\$
Mortgage note payable disposed of upon sale of joint venture interest	\$ 5,425	\$	\$
Forgiveness of notes receivable upon sale of certain senior living assets	\$	\$	\$ 2,640

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated is a real estate investment trust 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. As of December 31, 2009, excluding assets classified as held for sale and including an investment in one unconsolidated joint venture, the Company had investments of approximately \$2.3 billion in 204 real estate properties and mortgages. The Company's 199 owned real estate properties, excluding assets classified as held for sale, are located in 28 states, totaling approximately 12.3 million square feet. In addition, the Company provided property management services to approximately 9.3 million square feet nationwide. Square footage disclosures in this Annual Report on Form 10-K are unaudited.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, joint ventures and partnerships where the Company controls the operating activities. The Company's Consolidated Statement of Income for 2007 also includes the results of operations of six VIEs of which the Company had concluded it was the primary beneficiary. The real estate properties associated with these VIEs were sold in 2007.

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 Consolidated Financial Statements. The Company also consolidates one joint venture in which it has an 80% controlling interest. Included in the Company's Consolidated Financial Statements related to this consolidated joint venture was approximately \$91.4 million in real estate investments, including mortgage notes receivable, at December 31, 2009. The Company reports noncontrolling (minority) interests in subsidiaries as equity and the related net income attributable to the noncontrolling interests as part of consolidated net income in its financial statements.

All significant intercompany accounts, transactions and balances have been eliminated in the Consolidated Financial Statements. The Company evaluated subsequent events for recognition or disclosure through February 22, 2010, which is the date the Consolidated Financial Statements were issued.

Use of Estimates in the Consolidated Financial Statements

Preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the 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

Certain reclassifications have been made in the Consolidated Financial Statements for the years ended December 31, 2008 and 2007 to conform to the 2009 presentation.

Discontinued Operations

Certain amounts in the Company's 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 Consolidated Balance Sheets, and the operating results of those assets have been reclassified from continuing to discontinued operations for all periods presented.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Noncontrolling interests***

Upon adoption of Statement of Financial Accounting Standard (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, on January 1, 2009, codified in Accounting Standards Codification (ASC) No. 805, all prior period noncontrolling interests on the Company's Consolidated Balance Sheets have been reclassified from liabilities to equity, and all prior period noncontrolling interests' net income on the Company's Consolidated Statements of Income have been reclassified to specifically identify net income or loss attributable to the noncontrolling interests. The components of noncontrolling interests for prior years have also been reclassified on the Company's Consolidated Statements of Cash Flows.

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. The Company's gross real estate assets, on a book-basis, including at-market in-place lease intangibles and assets held for sale, totaled approximately \$2.3 billion and \$2.1 billion, respectively, as of December 31, 2009 and 2008.

Depreciation and amortization of real estate assets and liabilities in place as of December 31, 2009, is provided for on a straight-line basis over the asset's estimated useful life:

Land improvements	9.5 to 15 years
Buildings and improvements	3.0 to 39 years
Lease intangibles (including ground lease intangibles)	1.3 to 93 years
Personal property	3 to 15 years

Land Held for Development

Included in construction in progress on the Company's Consolidated Balance Sheets are two parcels of land held for future development. As of December 31, 2009 and 2008, the Company's investment in land held for development totaled approximately \$17.3 million.

Accounting for Acquisitions of Real Estate Properties with In-Place Leases

When a building is acquired with in-place leases, the cost of the acquisition must be allocated between the tangible real estate assets and the intangible real estate assets related to in-place leases based on their fair values. Where appropriate, the intangible assets recorded could include goodwill or customer relationship assets. The values related to above- or below-market in-place lease intangibles are amortized to rental income where the Company is the lessor, are amortized to property operating expense where the Company is the lessee, and are amortized over the average remaining term of the leases upon acquisition. The values of at-market in-place leases and other intangible assets, such as customer relationship assets, are amortized and reflected in amortization expense in the Company's Consolidated Statements of Income.

The Company's approach to estimating the value of in-place leases is a multi-step process.

First, the Company considers whether any of the in-place lease rental rates are above- or below-market. An asset (if the actual rental rate is above-market) or a liability (if the actual rental rate is below-market) is calculated and recorded in an amount equal to the present value of the future cash flows that represent the difference between the actual lease rate and the average market rate.

Second, the Company estimates an absorption period assuming the building is vacant and must be leased up to the actual level of occupancy when acquired. During that absorption period the owner would incur direct costs, such as tenant improvements, and would suffer lost rental income. Likewise, the owner would have acquired a measurable asset in that, assuming the building was vacant, certain fixed costs would be avoided because the actual in-place lessees would reimburse a certain portion of fixed costs through expense reimbursements during the absorption period. All of these assets (tenant improvement costs avoided, rental income lost, and fixed costs recovered through in-place lessee reimbursements) are estimated and recorded in amounts equal to the present value of future cash flows.

Third, the Company estimates the value of the building as if vacant. The Company uses the same absorption period and occupancy assumptions used in step two, adding to those the future cash flows expected in a fully occupied building. The net present value of these future cash flows, discounted at a market rate of return, becomes the estimated as if vacant value of the building.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fourth, the actual purchase price is allocated based on the various asset fair values described above. The building and tenant improvement components of the purchase price are depreciated over the useful life of the building or the average remaining term of the in-place leases. The above- or below-market rental rate assets or liabilities are amortized to rental income or property operating expense over the remaining term of the leases. The at-market, in-place leases are amortized to amortization expense over the average remaining term of the leases, customer relationship assets are amortized to amortization expense over terms applicable to each acquisition, and any goodwill recorded would be reviewed for impairment at least annually.

See Note 8 for more details on the Company's intangible assets as of December 31, 2009 and 2008.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. In calculating fair value, a company must 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.

A hierarchy of valuation techniques is defined to determine 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.

In connection with its acquisition of real estate assets during 2009, the Company assumed mortgage notes payable. The valuation of the mortgage notes payable was determined using level two inputs.

Cash and Cash Equivalents

Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased.

Allowance for Doubtful Accounts and Credit Losses

Accounts Receivable

Management monitors the aging and collectibility of its accounts receivable balances on an ongoing basis. At least monthly, a report is produced.