

HEALTHCARE REALTY TRUST INC

Form 10-Q

August 09, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11852

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

Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2010, 63,640,783 shares of the Registrant's Common Stock were outstanding.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
June 30, 2010
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Healthcare Realty Trust Incorporated
Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Real estate properties:		
Land	\$ 136,776	\$ 135,495
Buildings, improvements and lease intangibles	2,000,784	1,977,264
Personal property	18,057	17,509
Construction in progress	125,021	95,059
	2,280,638	2,225,327
Less accumulated depreciation	(468,476)	(433,634)
Total real estate properties, net	1,812,162	1,791,693
Cash and cash equivalents	4,455	5,851
Mortgage notes receivable	23,423	31,008
Assets held for sale and discontinued operations, net	1,049	17,745
Other assets, net	89,360	89,467
Total assets	\$ 1,930,449	\$ 1,935,764
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	\$ 1,007,725	\$ 1,046,422
Accounts payable and accrued liabilities	53,879	55,043
Liabilities of discontinued operations	737	251
Other liabilities	43,082	43,900
Total liabilities	1,105,423	1,145,616
Commitments and contingencies		

Equity:

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

Common stock, \$.01 par value; 150,000,000 shares authorized; 63,291,020 and 60,614,931 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively

	633	606
Additional paid-in capital	1,581,572	1,520,893
Accumulated other comprehensive loss	(4,628)	(4,593)
Cumulative net income attributable to common stockholders	799,033	787,965
Cumulative dividends	(1,555,475)	(1,518,105)
Total stockholders' equity	821,135	786,766
Noncontrolling interests	3,891	3,382
Total equity	825,026	790,148
Total liabilities and equity	\$ 1,930,449	\$ 1,935,764

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For the Three Months Ended June 30, 2010 and 2009
(Dollars in thousands, except per share data)
(Unaudited)

	2010	2009
REVENUES		
Master lease rent	\$ 14,752	\$ 14,023
Property operating	47,350	45,866
Straight-line rent	733	345
Mortgage interest	469	978
Other operating	2,102	3,006
	65,406	64,218
EXPENSES		
General and administrative	3,545	5,329
Property operating	24,710	23,566
Bad debt, net	(258)	127
Depreciation	16,817	15,418
Amortization	1,332	1,346
	46,146	45,786
OTHER INCOME (EXPENSE)		
Interest expense	(15,569)	(9,985)
Interest and other income, net	1,356	228
	(14,213)	(9,757)
INCOME FROM CONTINUING OPERATIONS	5,047	8,675
DISCONTINUED OPERATIONS		
Income (loss) from discontinued operations	(58)	696
Gain on sales of real estate properties	1,525	7,443
INCOME FROM DISCONTINUED OPERATIONS	1,467	8,139
NET INCOME	6,514	16,814
Less: Net income attributable to noncontrolling interests	(40)	(62)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 6,474	\$ 16,752

BASIC EARNINGS PER COMMON SHARE:

Income from continuing operations	\$	0.08	\$	0.15
Discontinued operations		0.03		0.14
Net income attributable to common stockholders	\$	0.11	\$	0.29

DILUTED EARNINGS PER COMMON SHARE:

Income from continuing operations	\$	0.08	\$	0.15
Discontinued operations		0.02		0.13
Net income attributable to common stockholders	\$	0.10	\$	0.28

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC	61,340,739	58,128,489
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING DILUTED	62,382,409	58,899,618
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DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	\$	0.300	\$	0.385
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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For the Six Months Ended June 30, 2010 and 2009
(Dollars in thousands, except per share data)
(Unaudited)

	2010	2009
REVENUES		
Master lease rent	\$ 29,683	\$ 28,742
Property operating	93,496	88,771
Straight-line rent	1,315	715
Mortgage interest	1,107	1,468
Other operating	4,272	6,515
	129,873	126,211
EXPENSES		
General and administrative	8,276	12,295
Property operating	49,381	46,919
Bad debt, net	(457)	562
Depreciation	33,387	30,559
Amortization	2,633	2,827
	93,220	93,162
OTHER INCOME (EXPENSE)		
Loss on extinguishment of debt	(480)	
Re-measurement gain of equity interest upon acquisition		2,701
Interest expense	(31,880)	(19,996)
Interest and other income, net	1,793	383
	(30,567)	(16,912)
INCOME FROM CONTINUING OPERATIONS	6,086	16,137
DISCONTINUED OPERATIONS		
Income from discontinued operations	866	1,528
Impairment		(22)
Gain on sales of real estate properties	4,221	20,051
INCOME FROM DISCONTINUED OPERATIONS	5,087	21,557
NET INCOME	11,173	37,694
Less: Net income attributable to noncontrolling interests	(105)	(77)

NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$	11,068	\$	37,617
BASIC EARNINGS PER COMMON SHARE:				
Income from continuing operations	\$	0.10	\$	0.28
Discontinued operations		0.08		0.37
Net income attributable to common stockholders	\$	0.18	\$	0.65
DILUTED EARNINGS PER COMMON SHARE:				
Income from continuing operations	\$	0.10	\$	0.27
Discontinued operations		0.08		0.37
Net income attributable to common stockholders	\$	0.18	\$	0.64
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC		60,654,907		58,153,637
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING DILUTED		61,690,322		58,897,895
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	\$	0.600	\$	0.770

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2010 and 2009

(Dollars in thousands)
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 11,173	\$ 37,694
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	37,924	35,218
Stock-based compensation	1,320	2,301
Straight-line rent receivable	(1,319)	(672)
Straight-line rent liability	206	224
Gain on sales of real estate properties	(4,221)	(20,051)
Loss on extinguishment of debt	480	
Re-measurement gain of equity interest upon acquisition		(2,701)
Impairment		22
Provision for bad debt, net	(457)	566
State income taxes paid, net of refunds	(491)	(569)
Payment of partial pension settlement	(342)	(2,300)
Changes in operating assets and liabilities:		
Other assets	(162)	134
Accounts payable and accrued liabilities	5,678	(3,200)
Other liabilities	(248)	(872)
Net cash provided by operating activities	49,541	45,794
INVESTING ACTIVITIES		
Acquisition and development of real estate properties	(54,057)	(61,791)
Funding of mortgages and notes receivable	(2,890)	(8,816)
Investments in unconsolidated joint venture		(149)
Proceeds from sales of real estate	23,623	82,878
Proceeds from mortgages and notes receivable repayments	69	98
Net cash provided by (used in) investing activities	(33,255)	12,220
FINANCING ACTIVITIES		
Net borrowings (repayments) on unsecured credit facilities	(30,000)	9,000
Repayments on notes and bonds payable	(1,111)	(21,569)
Repurchase of notes payable	(8,556)	
Quarterly dividends paid	(37,370)	(45,678)
Proceeds from issuance of common stock	59,469	348
Capital contributions received from noncontrolling interests	670	529
Distributions to noncontrolling interest holders	(249)	(75)
Equity issuance costs	(20)	
Debt issuance costs	(515)	
Net cash used in financing activities	(17,682)	(57,445)

Increase (decrease) in cash and cash equivalents	(1,396)	569
Cash and cash equivalents, beginning of period	5,851	4,138
Cash and cash equivalents, end of period	\$ 4,455	\$ 4,707

Supplemental Cash Flow Information:

Interest paid	\$ 24,458	\$ 24,221
Capitalized interest	\$ 5,050	\$ 4,613
Invoices accrued for construction, tenant improvement and other capitalized costs	\$ 9,913	\$ 13,892
Mortgage notes payable assumed upon acquisition of a joint venture interest (adjusted to fair value)	\$	\$ 11,716
Mortgage note payable disposed of upon sale of joint venture interest	\$	\$ 5,425

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

Form 10-K for the year ended December 31, 2009, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Notes to Condensed Consolidated Financial Statements
June 30, 2010
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the Company) is a real estate investment trust (REIT) that owns, acquires, manages, finances, and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately \$2.3 billion in 206 real estate properties and mortgages as of June 30, 2010, excluding assets classified as held for sale and including an investment in one unconsolidated joint venture. The Company's 201 owned real estate properties, excluding assets classified as held for sale, are comprised of six facility types, located in 28 states, totaling approximately 12.6 million square feet. As of June 30, 2010, the Company provided property management services to approximately 8.8 million square feet nationwide.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, partnerships, and joint ventures where the Company controls the operating activities. The Company has an investment in an unconsolidated joint venture that is included in other assets with its related income recognized in other income (expense) on the Company's Condensed Consolidated Financial Statements. The Company also consolidates two joint ventures, with the same joint venture partner, in which it has a controlling interest. Included in the Company's Condensed Consolidated Financial Statements related to these two consolidated joint ventures was approximately \$101.4 million in real estate investments, including notes receivable from the noncontrolling interest holder, at June 30, 2010. The Company reports non-controlling interests as equity and reports the related net income attributable to the non-controlling interests as part of consolidated net income in its Condensed Consolidated Financial Statements.

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

This interim financial information should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2010 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends and uncertainties.

Use of Estimates in the Condensed Consolidated Financial Statements

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

Segment Reporting

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

Reclassifications

Certain amounts in the Company's Condensed Consolidated Financial Statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held for sale, and related liabilities, have been

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

Revenue Recognition

General

The Company recognizes revenue when it is realized or realizable and earned. There are four criteria that must be met before a company may recognize revenue, including: persuasive evidence that an arrangement exists; delivery has occurred or services have been rendered (i.e., the tenant has taken possession of and controls the physical use of the leased asset); the price has been fixed or is determinable; and collectibility is reasonably assured. Income received but not yet earned is deferred until such time it is earned. Deferred revenue is included in other liabilities on the Company's Condensed Consolidated Balance Sheets.

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

Rental Income

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

Interest Income

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

Property Operating Income

As of June 30, 2010, the Company had eight real estate properties subject to property operating agreements that obligate the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the sponsor is responsible to the Company for the shortfall under the terms of these agreements. The Company recognizes any shortfall income in other operating income on the Company's Condensed Consolidated Statements of Income.

Accumulated Other Comprehensive Loss

A company must include certain items in comprehensive income (loss), such as foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains or losses on available-for-sale securities. The Company's accumulated other comprehensive loss includes pension liability adjustments, which are generally recognized in the fourth quarter of each year. Also, during the second quarter of 2010, the Company recorded a \$35,000 adjustment to record the effect of the settlement with one non-employee director who retired in May 2010.

Income Taxes

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

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

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

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Incentive Plans

The Company has various outstanding employee and non-employee stock-based awards, including restricted stock issued under its incentive plans, and options granted to employees pursuant to its employee stock purchase plan. The Company recognizes compensation expense for these awards based on the grant date fair value of the awards over the requisite service period.

Accounting for Defined Benefit Pension Plans

The Company has a pension plan under which certain designated employees may receive benefits upon retirement and the completion of five years of service with the Company. The plan is unfunded and benefits will be paid from earnings of the Company. The Company recognizes pension expense on an accrual basis over an estimated service period. The Company calculates pension expense and the corresponding liability annually on the measurement date (December 31) which requires certain assumptions, such as a discount rate and the recognition of actuarial gains and losses.

The Company also had a pension plan under which the Company's non-employee directors would receive retirement benefits upon normal retirement (defined to be when the director reached age 65 and had completed at least five years of service or when the director reached age 60 and had completed at least 15 years of service). The Company terminated the pension plan for these directors in November 2009. As a result, the Company will make lump sum payments in November 2010, or earlier upon retirement, to each director who participated in the plan. In May 2010, one non-employee director retired and received a final settlement payment of approximately \$0.3 million representing her accumulated pension benefit. The accumulated pension benefits due to the remaining seven non-employee directors total approximately \$2.2 million at June 30, 2010.

Operating Leases

As described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company is obligated under operating lease agreements consisting primarily of its corporate office lease and various ground leases related to the Company's real estate investments where the Company is the lessee.

Discontinued Operations and Assets Held for Sale

The Company sells properties from time to time due to a variety of factors, including among other things, market conditions or the exercise of purchase options by tenants. The operating results of properties that have been sold or are held for sale are reported as discontinued operations in the Company's Condensed Consolidated Statements of Income. A company must report discontinued operations when a component of an entity has either been disposed of or is deemed to be held for sale if (i) both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Long-lived assets classified as held for sale on the Company's Condensed Consolidated Balance Sheets are reported at the lower of their carrying amount or their estimated fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Losses resulting from the sale of such properties are characterized as impairment losses relating to discontinued operations in the Company's Condensed Consolidated Statements of Income.

Land Held for Development

Land held for development, which is included in construction in progress on the Company's Condensed Consolidated Balance Sheets, includes parcels of land owned by the Company, upon which the Company intends to develop and own outpatient healthcare facilities. See Note 6 for a detail of the Company's land held for development.

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Fair Value Measurements

Fair value is defined as the exit price, which is 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:

- o *Level 1* quoted prices for identical instruments in active markets;
- o *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
- o *Level 3* fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Real Estate Properties

Real estate properties are recorded at fair value at the acquisition date. The fair value of real estate properties acquired is allocated between land, buildings, tenant improvements, lease and other intangibles, and personal property based upon estimated fair values at the time of acquisition.

The Company also capitalizes direct construction and development costs to all consolidated real estate properties that are under construction and substantive activities are ongoing to prepare the asset for its intended use. The Company considers a building as substantially complete and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred.

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The Company had investments of approximately \$2.3 billion in 206 real estate properties and mortgage notes receivable as of June 30, 2010, excluding assets classified as held for sale and including an investment in one unconsolidated joint venture. The Company's 201 owned real estate properties, excluding assets classified as held for sale, are located in 28 states and comprise approximately 12.6 million total square feet. The table below details the Company's investments.

<i>(Dollars and Square Feet in thousands)</i>	Number of Investments	Gross Investment Amount	%	Square Feet Footage	%
Owned properties:					
<i>Master leases</i>					
Medical office	11	\$ 100,229	4.3%	548	4.3%
Physician clinics	16	123,724	5.4%	705	5.6%
Ambulatory care/surgery	5	33,351	1.4%	133	1.1%
Specialty outpatient	2	4,852	0.2%	23	0.2%
Specialty inpatient	13	234,628	10.2%	916	7.3%
Other	9	35,847	1.6%	372	2.9%
	56	532,631	23.1%	2,697	21.4%
<i>Property operating agreements</i>					
Medical office	8	83,986	3.6%	625	5.0%
	8	83,986	3.6%	625	5.0%
<i>Multi-tenanted with occupancy leases</i>					
Medical office	103	1,254,798	54.5%	7,247	57.4%
Medical office stabilization in progress	8	168,325	7.3%	823	6.5%
Medical office construction in progress	4	106,749	4.6%	538	4.3%
Physician clinics	15	50,850	2.2%	327	2.6%
Ambulatory care/surgery	4	34,972	1.5%	212	1.7%
Specialty outpatient	2	5,221	0.2%	22	0.2%
Other	1	10,101	0.5%	126	0.9%
	137	1,631,016	70.8%	9,295	73.6%
<i>Land held for development</i>					
<i>Corporate property</i>		18,272	0.8%		
		14,733	0.6%		
		33,005	1.4%		
Total owned properties	201	2,280,638	98.9%	12,617	100.0%
Mortgage loans:					
Medical office	2	6,621	0.3%		
Physician clinics	2	16,802	0.7%		

	4	23,423	1.0%		
Unconsolidated joint venture:					
Other	1	1,266	0.1%		
	1	1,266	0.1%		
Total real estate investments	206	\$2,305,327	100.0%	12,617	100.0%

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In February 2010, the Company acquired, through a consolidated joint venture, a 68,534 square foot medical office building in Iowa for \$13.8 million from the joint venture's non-controlling interest holder. The Company had provided \$9.9 million in mortgage financing on the building prior to acquisition by the joint venture. Upon acquisition, this mortgage financing was refinanced with a permanent mortgage note payable to the Company which is eliminated in consolidation.

In June 2010, the Company began funding a \$2.7 million loan to provide partial funding for the construction of a \$3.2 million medical office building in Iowa by its consolidated joint venture partner. At June 30, 2010, the Company had funded approximately \$2.3 million of the loan. The Company anticipates that the loan balance will be repaid in full during 2010 upon completion of construction.

Asset Dispositions

In January 2010, pursuant to purchase options exercised by an operator, the Company disposed of five properties in Virginia in which the Company had an aggregate net investment of approximately \$16.0 million. The Company received approximately \$19.2 million in net proceeds and \$0.8 million in lease termination fees. The Company recognized a gain on sale of approximately \$2.7 million, net of approximately \$0.5 million of straight-line rent receivables written-off.

In April 2010, the Company sold a 14,563 square foot specialty outpatient facility in Florida in which the Company had an aggregate net investment of approximately \$2.4 million. The Company received approximately \$4.0 million in net cash proceeds and recognized a gain on sale of approximately \$1.5 million, net of closing costs.

Discontinued Operations and Assets Held for Sale

The tables below detail the assets, liabilities, and results of operations included in discontinued operations on the Company's Condensed Consolidated Statements of Income and in assets and liabilities of discontinued operations on the Company's Condensed Consolidated Balance Sheets. At June 30, 2010 and December 31, 2009, the Company had one and six properties, respectively, classified as held for sale. Five of the properties held for sale at December 31, 2009 were sold in January 2010.

<i>(Dollars in thousands)</i>	June 30, 2010	December 31, 2009
Balance Sheet data (as of the period ended):		
Land	\$ 587	\$ 3,374
Buildings, improvements and lease intangibles	1,021	22,178
	1,608	25,552
Accumulated depreciation	(708)	(8,697)
Assets held for sale, net	900	16,855
Other assets, net (including receivables)	149	890
Assets of discontinued operations, net	149	890
	149	890
Assets held for sale and discontinued operations, net	\$ 1,049	\$ 17,745

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Accounts payable and accrued liabilities	\$	10	\$	
Other liabilities		727		251
Liabilities of discontinued operations	\$	737	\$	251

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(Dollars in thousands, except per share data)</i>				
Statements of Income data (for the period ended):				
Revenues				
Master lease rent	\$ 15	\$ 1,153	\$ 1,003	\$ 2,735
Property operating		2		828
Straight-line rent	1	(26)	4	(43)
Other operating				216
	16	1,129	1,007	3,736
Expenses				
Property operating	69	76	157	718
Other operating		9		
Bad debt, net		2		4
Depreciation	7	288	28	901
	76	375	185	1,623
Other Income (Expense)				
Interest expense		(58)		(584)
Interest and other income, net	2		44	(1)
	2	(58)	44	(585)
Discontinued Operations				
Income (loss) from discontinued operations	(58)	696	866	1,528
Impairment				(22)
Gain on sales of real estate properties	1,525	7,443	4,221	20,051
Income from Discontinued Operations	\$ 1,467	\$ 8,139	\$ 5,087	\$ 21,557
Income from Discontinued Operations per common share basic	\$ 0.03	\$ 0.14	\$ 0.08	\$ 0.37
Income from Discontinued Operations per common share diluted	\$ 0.02	\$ 0.13	\$ 0.08	\$ 0.37

Note 4. Notes and Bonds Payable

The table below details the Company's notes and bonds payable as of June 30, 2010 and December 31, 2009.

	June 30,	Dec. 31,	Maturity	Contractual	Principal Interest
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<i>(Dollars in thousands)</i>	2010	2009	Dates	Interest Rates	Payments	Payments
Unsecured Credit Facility due 2012	\$ 20,000	\$ 50,000	9/12	LIBOR + 2.80%	At maturity	Quarterly
Senior Notes due 2011, including premium	278,441	286,655	5/11	8.125%	At maturity	Semi-Annual
Senior Notes due 2014, net of discount	264,158	264,090	4/14	5.125%	At maturity	Semi-Annual
Senior Notes due 2017, net of discount	298,102	297,988	1/17	6.500%	At maturity	Semi-Annual
Mortgage notes payable, net of discounts	147,024	147,689	5/15-10/30	5.00%-7.625%	Monthly	Monthly
	\$1,007,725	\$1,046,422				

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth (as defined in the agreement) and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At June 30, 2010, the Company was in compliance with the financial covenant provisions under its various debt instruments.

Unsecured Credit Facility due 2012

On September 30, 2009, the Company entered into an amended and restated \$550.0 million unsecured credit facility (the "Unsecured Credit Facility") that matures on September 30, 2012 with a syndicate of 16 lenders. Amounts outstanding under the Unsecured Credit Facility 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

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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%. At June 30, 2010, the Company had \$20.0 million outstanding under the Unsecured Credit Facility with a weighted average interest rate of approximately 3.15% and had borrowing capacity remaining, under its financial covenants, of approximately \$530.0 million.

Senior Notes due 2011

In 2001, the Company publicly issued \$300.0 million of unsecured senior notes due 2011 (the Senior Notes due 2011). The Senior Notes due 2011 bear interest at 8.125% per annum, payable semi-annually on May 1 and November 1, and are due on May 1, 2011, unless redeemed earlier by the Company. The notes were originally issued at a discount of approximately \$1.5 million, which yielded an 8.202% interest rate per annum upon issuance. The original discount is combined with the premium resulting from the termination of interest rate swaps in 2006 that were entered into to offset changes in the fair value of \$125.0 million of the notes. The net premium is combined with the principal balance of the Senior Notes due 2011 on the Company's Condensed Consolidated Balance Sheets and is being amortized against interest expense over the remaining term of the notes. Also, during 2010 and 2008, the Company repurchased \$8.1 million and \$13.7 million, respectively, of the Senior Notes due 2011 and amortized a pro-rata portion of the premium. The Company recognized an expense of approximately \$0.5 million related to its 2010 repurchases, which will be offset by interest savings over the remaining term of the Senior Notes due 2011. At June 30, 2010, the Senior Notes due 2011 yielded an effective interest rate of 7.896%. The following table reconciles the balance of the Senior Notes due 2011 on the Company's Condensed Consolidated Balance Sheets.

<i>(Dollars in thousands)</i>	June 30, 2010	December 31, 2009
Senior Notes due 2011 face value	\$278,221	\$286,300
Unamortized net gain (net of discount)	220	355
Senior Notes due 2011 carrying amount	\$278,441	\$286,655

Senior Notes due 2014

In 2004, the Company publicly issued \$300.0 million of unsecured senior notes due 2014 (the Senior Notes due 2014). The Senior Notes due 2014 bear interest at 5.125% per annum, payable semi-annually on April 1 and October 1, and are due on April 1, 2014, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$1.5 million, yielding an effective interest rate of 5.19% per annum. During 2008, the Company repurchased approximately \$35.3 million of the Senior Notes due 2014 and amortized a pro-rata portion of the discount. At June 30, 2010, the Senior Notes due 2014 yielded an effective interest rate of 5.190%. The following table reconciles the balance of the Senior Notes due 2014 on the Company's Condensed Consolidated Balance Sheets.

<i>(Dollars in thousands)</i>	June 30, 2010	December 31, 2009
Senior Notes due 2014 face value	\$264,737	\$264,737
Unaccreted discount	(579)	(647)
Senior Notes due 2014 carrying amount	\$264,158	\$264,090

Senior Notes due 2017

On December 4, 2009, the Company publicly issued \$300.0 million of unsecured senior notes due 2017 (the Senior Notes due 2017). The Senior Notes due 2017 bear interest at 6.50% per annum, payable semi-annually on January 17 and July 17, and are due on January 17, 2017, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$2.0 million, yielding an effective interest rate of 6.618% per annum. The following table

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reconciles the balance of the Senior Notes due 2017 on the Company's Condensed Consolidated Balance Sheets.

<i>(Dollars in thousands)</i>	June 30, 2010	December 31, 2009
Senior Notes due 2017 face value	\$300,000	\$300,000
Unaccreted discount	(1,898)	(2,012)
Senior Notes due 2017 carrying amount	\$298,102	\$297,988

Table of Contents**Mortgage Notes Payable**

The following table details the Company's mortgage notes payable, with related collateral, at June 30, 2010.

	Original Balance	Effective	Maturity Date	Number of Notes Payable (11)	Collateral (12)	Investment	Balance at	
		Interest Rate (10)				Collateral at June 30, 2010	June 30, 2010	Dec. 31, 2009
<i>(Dollars in millions)</i>								
Life Insurance Co. (1)	\$ 4.7	7.765%	1/17	1	MOB	\$ 11.4	\$ 2.4	\$ 2.5
Commercial Bank (2)	1.8	5.550%	10/30	1	OTH	7.8	1.7	1.7
Life Insurance Co. (3)	15.1	5.490%	1/16	1	MOB	32.5	13.7	13.9
Commercial Bank (4)	17.4	6.480%	5/15	1	MOB	19.9	14.4	14.4
Commercial Bank (5)	12.0	6.110%	7/15	1	2 MOBs	19.5	9.7	9.7
Commercial Bank (6)	15.2	7.650%	7/20	1	MOB	20.2	12.8	12.8
Life Insurance Co. (7)	1.5	6.810%	7/16	1	SOP	2.2	1.1	1.2
Commercial Bank (8)	12.8	6.430%	2/21	1	MOB	20.5	11.6	11.6
					15			
Investment Fund (9)	80.0	7.250%	12/16	1	MOBs	153.4	79.6	79.9
				9		\$287.4	\$147.0	\$147.7

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

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

(3)

Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity.

- (4) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and recorded the note at its fair value, resulting in a \$2.7 million discount which is included in the balance above.
- (5) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and recorded the

note at its fair value, resulting in a \$2.1 million discount which is included in the balance above.

(6) Payable in monthly installments of interest only for 24 months and then installments of principal and interest based on an 11-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and recorded the note at its fair value, resulting in a \$2.4 million discount which is included in the balance above.

(7) Payable in monthly installments of principal and interest based on a 9-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and

recorded the note at its fair value, resulting in a \$0.2 million discount which is included in the balance above.

- (8) Payable in monthly installments of principal and interest based on a 12-year amortization with the final payment due at maturity. The Company acquired this mortgage note during 2009 and recorded the note at its fair value, resulting in a \$1.0 million discount which is included in the balance above.

- (9) Payable in monthly installments of principal and interest based on a 30-year amortization with a 7-year initial term (maturity 12/01/16) and the option to extend the initial term for two, one-year floating rate extension terms.

(10)

The contractual interest rates ranged from 5.00% to 7.625% at June 30, 2010.

(11) Number of mortgage notes payable outstanding at June 30, 2010.

(12) MOB-Medical office building; SOP-Specialty outpatient; OTH-Other.

Long-Term Debt Maturities

Future maturities of the Company's notes and bonds payable as of June 30, 2010 were as follows:

	Principal	Net	Total	
	Maturities	Accretion/ Amortization	Notes and Bonds Payable	%
<i>(Dollars in thousands)</i>		(2)		
2010 (remaining)	\$ 1,204	\$ (497)	\$ 707	0.1%
2011	280,759	(1,262)	279,497	27.7%
2012 (1)	22,701	(1,433)	21,268	2.1%
2013	2,884	(1,519)	1,365	0.1%
2014	267,811	(1,497)	266,314	26.4%
2015 and thereafter	441,842	(3,268)	438,574	43.5%
	\$ 1,017,201	\$ (9,476)	\$ 1,007,725	100.0%

(1) Includes \$20.0 million outstanding on the Unsecured Credit Facility.

(2) Includes discount accretion and premium amortization related to the Company's Senior Notes

due 2011,
Senior Notes
due 2014, and
Senior Notes
due 2017 and
discount
accretion related
to five mortgage
notes payable.

Table of Contents**Note 5. Other Assets**

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

<i>(Dollars in millions)</i>	June 30, 2010	December 31, 2009
Straight-line rent receivables	\$26.4	\$ 25.2
Prepaid assets	24.8	24.7
Above-market intangible assets, net	12.0	12.0
Deferred financing costs, net	10.2	12.1
Accounts receivable	6.2	9.0
Notes receivable	3.8	3.3
Goodwill	3.5	3.5
Investment in joint venture – cost method	1.3	1.3
Customer relationship intangible assets, net	1.2	1.2
Allowance for uncollectible accounts	(2.6)	(3.7)
Other	2.6	0.9
	\$89.4	\$ 89.5

Equity investment in joint ventures

At June 30, 2010 and December 31, 2009, the Company had an investment in one unconsolidated joint venture, which the Company accounts for under the cost method since the Company does not exert significant influence. The joint venture, which invests in real estate properties, is included in other assets on the Company's Condensed Consolidated Balance Sheets, and the related distributions received are included in interest and other income, net on the Company's Condensed Consolidated Statements of Income.

The table below details the Company's investment in its unconsolidated joint ventures.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net joint venture investments, beginning of period	\$ 1,266	\$ 1,082	\$ 1,266	\$ 2,784
Equity in losses recognized during the period				(2)
Acquisition of remaining equity interest in a joint venture				(1,700)
Additional investment in a joint venture		149		149
Net joint venture investments, end of period	\$ 1,266	\$ 1,231	\$ 1,266	\$ 1,231

Note 6. Commitments and Contingencies*Construction in Progress*

As of June 30, 2010, the Company had four medical office buildings under construction with an estimated completion date for one of the buildings in the third quarter of 2010 and the remaining three properties in the third quarter of 2011. The table below details the Company's construction in progress and land held for development as of June 30, 2010. The information included in the table below represents management's estimates and expectations at June 30, 2010 which are subject to change. The Company's disclosures regarding certain projections or estimates of

completion dates may not reflect actual results.

In June 2010, the Company entered into another joint venture with its existing joint venture partner that will develop two medical office buildings and a parking garage in Colorado with a budget totaling \$54.9 million, which is included in the four properties in construction in progress. The Company, as the managing member with a 98.75% ownership interest, consolidates the joint venture. The developer of the project holds the remaining 1.25% non-controlling interest in the joint venture.

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State	Estimated Completion Date	Property Type (1)	Properties	Approximate Square Feet	CIP at June 30, 2010	Estimated Remaining Funding	Estimated Total Investment
<i>(Dollars in thousands)</i>							
<i>Under construction:</i>							
Hawaii	3Q 2010	MOB	1	133,000	\$ 77,478	\$ 8,522	\$ 86,000
Washington	3Q 2011	MOB	1	206,000	25,564	66,636	92,200
Colorado	3Q 2011	MOB	2	199,000	3,707	51,193	54,900
<i>Land held for development:</i>							
Texas					10,155		
Texas					8,117		
			4	538,000	\$ 125,021	\$ 126,351	\$ 233,100

(1) MOB-Medical office building.

Other Construction

The Company had first-generation tenant improvement budgeted amounts remaining as of June 30, 2010 of approximately \$28.1 million related to properties that were developed by the Company.

Legal Proceedings

The Company and two affiliates, HR Acquisition of Virginia Limited Partnership and HRT Holdings, Inc., are defendants in a lawsuit brought by Fork Union Medical Investors Limited Partnership, Goochland Medical Investors Limited Partnership, and Life Care Centers of America, Inc., as plaintiffs, in the Circuit Court of Davidson County, Tennessee. The plaintiffs allege that they overpaid rent between 1991 and 2003 under leases for two skilled nursing facilities in Virginia and seek a refund of such overpayments. Plaintiffs have not specified their damages in the complaint, but based on written discovery responses, the Company estimates the plaintiffs are seeking up to \$2.0 million, plus pre- and post-judgment interest. The two leases were terminated by agreement with the plaintiffs in 2003. The Company denies that it is liable to the plaintiffs for any refund of rent paid and will continue to defend the case vigorously. A trial is scheduled for April 2011.

The Company is, from time to time, involved in litigation arising out of the ordinary course of business or which is expected to be covered by insurance. The Company is not aware of any other pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Note 7. Stockholders Equity

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

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<i>(Dollars in thousands, except per share data)</i>	Common Stock	Accumulated			Cumulative Dividends	Total Stockholders' Equity	Non-controlling Interests	Total Equity
		Additional Paid-In Capital	Other Comprehensive Loss	Net Income				
Balance at Dec. 31, 2009	\$606	\$1,520,893	\$(4,593)	\$787,965	\$(1,518,105)	\$786,766	\$3,382	\$790,148
Issuance of common stock	26	59,360				59,386		59,386
Stock-based compensation	1	1,319				1,320		1,320
Net income				11,068		11,068	105	11,173
Other comprehensive income			(35)			(35)		(35)
Comprehensive income								11,138
Dividends to common stockholders (\$0.60 per share)					(37,370)	(37,370)		(37,370)
Distributions to noncontrolling interests							(266)	(266)
Proceeds from noncontrolling interests							670	670
Balance at June 30, 2010	\$633	\$1,581,572	\$(4,628)	\$799,033	\$(1,555,475)	\$821,135	\$3,891	\$825,026

Common Stock

The following table provides a reconciliation of the beginning and ending common stock outstanding for the six months ended June 30, 2010 and year ended December 31, 2009:

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Balance, beginning of period	60,614,931	59,246,284
Issuance of stock	2,574,486	1,244,914
Restricted stock-based awards, net of forfeitures	101,603	123,733
Balance, end of period	63,291,020	60,614,931

At-The-Market Equity Offering Program

The Company has in place an at-the-market equity offering program with an investment bank under which the Company sells shares of its common stock from time to time. At June 30, 2010, the Company had approximately 3.1 million shares available for issuance under the program.

During the first six months ended June 30, 2010, the Company sold 2,559,200 shares of common stock through its at-the-market equity offering program, generating approximately \$59.2 million in net proceeds. Subsequent to June 30, 2010, the Company sold an additional 412,000 shares of common stock, generating approximately \$9.5 million in net proceeds.

The proceeds from these sales are generally used to fund the Company's development activities and are used to repay balances outstanding under the Unsecured Credit Facility.

Common Stock Dividends

During the first and second quarters of 2010, the Company declared and paid in each quarter a common stock dividend in the amount of \$0.30 per share.

In August 2010, the Company declared a quarterly common stock dividend in the amount of \$0.30 per share payable on September 2, 2010 to stockholders of record on August 19, 2010.

Earnings Per Share

The table below sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009.

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<i>(Dollars in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average Common Shares				
Weighted average Common Shares outstanding	62,648,117	59,311,222	61,961,051	59,327,266
Unvested restricted stock	(1,307,378)	(1,182,733)	(1,306,144)	(1,173,629)
Weighted average Common Shares Outstanding Basic	61,340,739	58,128,489	60,654,907	58,153,637
Weighted average Common Shares Basic	61,340,739	58,128,489	60,654,907	58,153,637
Dilutive effect of restricted stock	975,990	714,667	958,973	681,373
Dilutive effect of employee stock purchase plan	65,680	56,462	76,442	62,885
Weighted average Common Shares Outstanding Diluted	62,382,409	58,899,618	61,690,322	58,897,895
Net income				
Income from continuing operations	\$ 5,047	\$ 8,675	\$ 6,086	\$ 16,137
Noncontrolling interests share in earnings	(40)	(62)	(105)	(77)
Income from continuing operations attributable to common shareholders	5,007	8,613	5,981	16,060
Discontinued operations	1,467	8,139	5,087	21,557
Net income attributable to common stockholders	\$ 6,474	\$ 16,752	\$ 11,068	\$ 37,617
Basic Earnings Per Common Share				
Income from continuing operations	\$ 0.08	\$ 0.15	\$ 0.10	\$ 0.28
Discontinued operations	0.03	0.14	0.08	0.37
Net income attributable to common stockholders	\$ 0.11	\$ 0.29	\$ 0.18	\$ 0.65
Diluted Earnings Per Common Share				
Income from continuing operations	\$ 0.08	\$ 0.15	\$ 0.10	\$ 0.27
Discontinued operations	0.02	0.13	0.08	0.37
Net income attributable to common stockholders	\$ 0.10	\$ 0.28	\$ 0.18	\$ 0.64

Incentive Plans

The Company has various stock-based incentive plans for its employees and directors. Awards under these plans include restricted stock issued to employees and the Company's directors and options granted to employees pursuant to its employee stock purchase plan. In May 2010, an annual restricted stock grant was made to each non-employee

director equal to a market value of approximately \$76,000.

Under the Company's employee stock purchase plan, in January of each year each eligible employee is given an option to purchase up to \$25,000 of Common Stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option. The number of shares subject to each year's option becomes fixed on the date of grant. Options granted under the employee stock purchase plan expire if not exercised 27 months after each such option's date of grant. During the first quarter of 2010, the Company recorded approximately \$0.2 million to general and administrative expenses relating to the annual grant of options to its employees under the employee stock purchase plan. On April 1, 2010, 136,536 employee stock options that had not been exercised expired.

A summary of the activity under the employee stock purchase plan for the three and six months ended June 30, 2010 and 2009 is included in the table below.

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Outstanding and exercisable, beginning of period	576,660	461,033	335,608	250,868
Granted			256,080	219,184
Exercised	(2,074)	(1,539)	(5,442)	(5,387)
Forfeited	(7,819)	(6,131)	(19,479)	(11,302)
Expired	(136,536)	(82,609)	(136,536)	(82,609)
Outstanding and exercisable, end of period	430,231	370,754	430,231	370,754

Note 8. Defined Benefit Pension Plans

The Company has a retirement plan (the Executive Retirement Plan) under which three of the Company's founding officers may receive certain benefits upon retirement. The plan is unfunded and benefits will be paid from cash flows of the Company. The maximum annual benefits payable under the Executive Retirement Plan have been frozen at \$896,000, subject to cost-of-living adjustments, which resulted in a curtailment of benefits for the Company's chief executive officer. In consideration of the curtailment and as partial settlement of benefits, the Company made a one-time cash payment of \$2.3 million to its chief executive officer in January 2009. As of June 30, 2010, only the Company's chief executive officer was eligible to retire under the Executive Retirement Plan.

The Company's retirement plan for its non-employee directors was terminated in November 2009. As a result, the Company will make lump sum payments in November 2010, or earlier upon retirement, to each director who participated in the plan. In May 2010, one non-employee director retired and received payment of approximately \$0.3 million representing her accumulated pension benefit. The accumulated pension benefits due to the remaining seven non-employee directors total approximately \$2.2 million.

Net periodic benefit cost recorded related to the Company's pension plans for the three and six months ended June 30, 2010 and 2009 is detailed in the following table.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Dollars in thousands)</i>	2010	2009	2010	2009
Service costs	\$ 13	\$ 77	\$ 26	\$ 154
Interest costs	229	234	471	467
Effect of settlement	(35)		(35)	1,017
Amortization of net gain/loss	145	171	332	343
Total recognized in net periodic benefit cost	\$352	\$482	\$794	\$1,981

Note 9. Other Operating Income

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Dollars in thousands)</i>	2010	2009	2010	2009

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Property operating agreement guaranty revenue	\$1,819	\$2,156	\$3,710	\$4,810
Interest income on notes receivable	205	122	378	247
Management fee income	46	37	90	82
Replacement rent		641	8	1,266
Other	32	50	86	110
	\$2,102	\$3,006	\$4,272	\$6,515

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Table of Contents**Note 10. Taxable Income***Taxable Income*

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

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

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

The following table reconciles the Company's consolidated net income to taxable income for the three and six months ended June 30, 2010 and 2009.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income attributable to common stockholders	\$ 6,474	\$16,752	\$11,068	\$37,617
Reconciling items to taxable income:				
Depreciation and amortization	5,088	5,143	10,140	9,502
Gain/loss on disposition of depreciable assets	809	3,494	7,084	9,083
Straight-line rent	(631)	(208)	(1,112)	(448)
Receivable allowances	61	195	(594)	684
Stock-based compensation	184	2,282	1,359	5,662
Other	(1,787)	(3,043)	(1,062)	(3,378)
Taxable income (1)	\$10,198	\$24,615	\$26,883	\$58,722
Dividends paid	\$18,953	\$22,849	\$37,370	\$45,678

(1) Before REIT dividend paid deduction.

State Income Taxes

State income tax expense and state income tax payments for the three and six months ended June 30, 2010 and 2009 are detailed in the table below.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
State income tax expense:				

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Texas gross margin tax	\$ 117	\$ 112	\$ 228	\$ 221
Other	48	29	96	70
Total state income tax expense	\$ 165	\$ 141	\$ 324	\$ 291
State income tax payments, net of refunds	\$ 497	\$ 503	\$ 491	\$ 569

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The Texas gross margin tax is a tax on gross receipts from operations in Texas. It is the Company's understanding that the Securities and Exchange Commission views this tax as an income tax. As such, the Company has disclosed the gross margin tax in the table above.

Note 11. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables and payables are reasonable estimates of their fair value as of June 30, 2010 and December 31, 2009 due to their short-term nature. The fair value of notes and bonds payable is estimated using cash flow analyses, based on the Company's current interest rates for similar types of borrowing arrangements. The fair value of mortgage notes and notes receivable is estimated either based on cash flow analyses at an assumed market rate of interest or at a rate consistent with the rates on mortgage notes acquired by the Company recently or notes receivable entered into by the Company recently. The table below details the fair value and carrying values for notes and bonds payable, mortgage notes receivable and notes receivable at June 30, 2010 and December 31, 2009.

<i>(Dollars in millions)</i>	June 30, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Notes and bonds payable	\$1,007.7	\$1,083.9	\$1,046.4	\$1,088.6
Mortgage notes receivable	\$ 23.4	\$ 22.4	\$ 31.0	\$ 30.8
Notes receivable, net of allowances	\$ 3.8	\$ 3.8	\$ 3.3	\$ 3.3
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Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Disclosure Regarding Forward-Looking Statements**

This report and other materials the Company has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures that are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as may, will, expect, believe, anticipate, target, intend, plan, estimate, project, continue, should, could and other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties, including the risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 that could significantly affect the Company's current plans and expectations and future financial condition and results.

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

For a detailed discussion of the Company's risk factors, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2009.

Business Overview

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

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

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 and reimbursement patterns.

Executive Overview

The Company has seen some improvements in investment opportunities across the country. Hospitals appear to be implementing previously shelved plans for expansion, albeit at a measured pace, and the Company is working on several on-campus development opportunities related to such expansions. In addition, the Company is seeing numerous acquisition opportunities, some of which are hospital sales of MOB's and others involving third-parties or developers monetizing their holdings.

Interest expense for the Company has increased significantly in 2010. In the third quarter of 2009, the Company amended and restated its Unsecured Credit Facility and then, subsequently, in the fourth quarter of 2009 repaid most of the outstanding balance on the Unsecured Credit Facility with proceeds from the issuance of \$300.0 million of Senior Notes due 2017 and \$80.0 million of mortgage debt due December 2016. The variable rate of the Unsecured Credit Facility increased to 2.80% over LIBOR with a 0.40% facility fee from 0.90% over LIBOR with a 0.20% facility fee (rate at June 30, 2010 was 3.15%). Also contributing to the higher interest expense are the Senior Notes due 2017 that bears interest at a fixed rate of 6.50% per annum and the mortgage debt due December 2016 that bears interest at a fixed rate of 7.25%. This additional interest expense has resulted in lower consolidated net income attributable to common stockholders, funds from operations, and cash flows compared to the prior year.

At June 30, 2010, the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 44.4% and its borrowings outstanding under the Unsecured

Credit Facility totaled \$20.0 million with a capacity remaining under its financial covenants of approximately \$530.0 million.

Table of Contents**Trends and Matters Impacting Operating Results**

Management monitors factors and trends important to the Company and the REIT industry in order to gauge the potential impact on the operations of the Company. In addition to the matters discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, below are some of the factors and trends that management believes may impact future operations of the Company.

Interest Expense

During 2009, the Company refinanced its Unsecured Credit Facility and repaid most of the outstanding balance on the facility with proceeds from the issuance of the Senior Notes due 2017 and \$80.0 million of mortgage debt due December 2016. These three new debt instruments bear interest at rates that are higher than the Company's previous borrowing rates as a result of increases in the market rates for such financings. As such, the additional interest expense incurred negatively impacts the Company's net income attributable to common stockholders, funds from operations, and cash flows.

Acquisitions

During the first quarter of 2010, the Company acquired, through a consolidated joint venture, a 68,534 square foot medical office building in Iowa for \$13.8 million.

Dispositions

During the first quarter of 2010, the Company disposed of five medical office buildings in Virginia for approximately \$19.2 million in net proceeds and \$0.8 million in lease termination fees.

During the second quarter of 2010, the Company disposed of one specialty outpatient facility in Florida for approximately \$4.0 million in net proceeds.

Development Activity

At June 30, 2010, the Company had four construction projects underway. The Company expects completion of the core and shell of one of the projects, with a budget totaling approximately \$86.0 million, during the third quarter of 2010 and expects completion of the remaining three projects with aggregate budgets of approximately \$147.1 million during the third quarter of 2011.

In addition to the projects currently under construction, the Company continues to finance the development of a six-facility outpatient campus with a budget totaling approximately \$72.0 million. At June 30, 2010, the Company had funded \$56.4 million towards the project. Four of the buildings have been constructed. The Company, through its consolidated joint venture, acquired three of the completed buildings and the fourth building was sold to a third party. 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 consolidated joint venture will have an option to purchase the two remaining buildings at a fair market value price upon completion and full occupancy.

Expiring Leases

Master leases on seven of the Company's properties expire in 2010. The Company has extended the master lease on one of these properties. The Company expects that it will not renew the master leases for the remaining six properties but will assume all sub-tenant leases in the buildings and manage the operations of those buildings.

The Company has 331 leases in its multi-tenanted buildings that expire in 2010, with each tenant lessee occupying an average of approximately 3,088 square feet. As of June 30, 2010, of the 188 leases that had expired, approximately 82% had renewed or expressed an intention to renew their leases. Management expects that the majority of the 143 leases remaining that had not expired at June 30, 2010 will be renewed.

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

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unconsolidated partnerships and joint ventures. Impairment charges may not be added back to net income in calculating FFO, which has the effect of decreasing FFO in the period recorded.

Management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. The Company believes that by excluding the effect of depreciation, amortization and gains from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO and FFO per share can facilitate comparisons of operating performance between periods. Management uses FFO and FFO per share to compare and evaluate its own operating results from period to period, and to monitor the operating results of the Company's peers in the REIT industry. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share. However, FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

FFO for the three and six months ended June 30, 2010 was impacted unfavorably by higher interest expense recognized due to the debt refinancings that occurred during the latter half of 2009. As a result, interest expense for the three and six months ended June 30, 2010 compared to the same periods in 2009 was approximately \$6.2 million higher, or \$0.10 per diluted common share, and \$12.5 million higher, or \$0.20 per diluted common share, respectively. Conversely, FFO for the three and six months ended June 30, 2010 was positively impacted from approximately \$1.2 million, or \$0.02 per diluted common share, of proceeds received from the settlement of disputes with former tenants. Also, FFO for the six months ended June 30, 2009 included a re-measurement gain of \$2.7 million, or \$0.05 per diluted common share, recognized in connection with the acquisition of the remaining interests in a joint venture.

The table below reconciles FFO to net income attributable to common stockholders for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Dollars in thousands, except per share data)</i>	2010	2009	2010	2009
Net Income Attributable to Common Stockholders	\$ 6,474	\$ 16,752	\$ 11,068	\$ 37,617
Gain on sales of real estate properties	(1,525)	(7,443)	(4,221)	(20,051)
Real estate depreciation and amortization	17,435	16,703	34,768	33,585
Total adjustments	15,910	9,260	30,547	13,534
Funds from Operations	\$ 22,384	\$ 26,012	\$ 41,615	\$ 51,151
Funds from Operations per Common Share Basic	\$ 0.36	\$ 0.45	\$ 0.69	\$ 0.88

Funds from Operations per Common Share

Diluted	\$	0.36	\$	0.44	\$	0.67	\$	0.87
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Weighted Average Common Shares

Outstanding Basic	61,340,739	58,128,489	60,654,907	58,153,637
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Weighted Average Common Shares

Outstanding Diluted	62,382,409	58,899,618	61,690,322	58,897,895
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Table of Contents**Results of Operations**

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Income from continuing operations for the three months ended June 30, 2010 was \$5.0 million, compared to \$8.7 million for the same period in 2009. Net income attributable to common stockholders for the three months ended June 30, 2010 was \$6.5 million, or \$0.11 per basic common share (\$0.10 per diluted common share), compared to \$16.8 million, or \$0.29 per basic common share (\$0.28 per diluted common share), for the same period in 2009.

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended		Change	
	2010	2009	\$	%
REVENUES				
Master lease rent	\$ 14,752	\$14,023	\$ 729	5.2%
Property operating	47,350	45,866	1,484	3.2%
Straight-line rent	733	345	388	112.5%
Mortgage interest	469	978	(509)	-52.0%
Other operating	2,102	3,006	(904)	-30.1%
	65,406	64,218	1,188	1.8%
EXPENSES				
General and administrative	3,545	5,329	(1,784)	-33.5%
Property operating	24,710	23,566	1,144	4.9%
Bad debt, net	(258)	127	(385)	-303.1%
Depreciation	16,817	15,418	1,399	9.1%
Amortization	1,332	1,346	(14)	-1.0%
	46,146	45,786	360	0.8%
OTHER INCOME (EXPENSE)				
Interest expense	(15,569)	(9,985)	(5,584)	55.9%
Interest and other income, net	1,356	228	1,128	494.7%
	(14,213)	(9,757)	(4,456)	45.7%
INCOME FROM CONTINUING OPERATIONS	5,047	8,675	(3,628)	-41.8%
DISCONTINUED OPERATIONS				
Income (loss) from discontinued operations	(58)	696	(754)	-108.3%
Gain on sales of real estate properties	1,525	7,443	(5,918)	-79.5%
INCOME FROM DISCONTINUED OPERATIONS	1,467	8,139	(6,672)	-82.0%
NET INCOME	6,514	16,814	(10,300)	-61.3%
	(40)	(62)	22	-35.5%

Less: Net income attributable to noncontrolling interests

NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS

\$ 6,474	\$16,752	\$(10,278)	-61.4%
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EARNINGS PER COMMON SHARE

Net income attributable to common stockholders

Basic	\$ 0.11	\$ 0.29	\$ (0.18)	-62.1%
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Net income attributable to common stockholders

Diluted	\$ 0.10	\$ 0.28	\$ (0.18)	-64.3%
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Total revenues from continuing operations for the three months ended June 30, 2010 increased \$1.2 million, or 1.8%, compared to the same period in 2009, mainly for the reasons discussed below:

Master lease rental income increased \$0.7 million, or 5.2%. Master lease rental income increased approximately \$0.9 million as a result of the Company's 2009 acquisitions. The Company also recognized master lease income of \$0.4 million related to a new master lease agreement executed during 2009 on a property whose income was previously reported in property operating income. These increases to master lease rent were partially offset by a reduction of approximately \$0.5 million related to properties whose master leases had expired and the Company began recognizing the underlying tenant rents in property operating income.

Property operating income increased \$1.5 million, or 3.2%, due mainly to the recognition of additional revenue of approximately \$1.7 million resulting from the Company's 2009 and 2010 real estate acquisitions and approximately \$0.2 million resulting from properties that were previously under construction that commenced operations during 2009. Also, the Company began recognizing the underlying tenant rental income on properties whose master leases had expired, resulting in an approximate \$0.1 million in additional property operating income in the second quarter of 2010 compared to the same period in 2009. These increases in property operating income were partially offset by a \$0.6 million decrease to property operating income related to a property whose gross revenues were previously reported in property operating income, but are now reported in master lease income upon execution of a new master lease agreement with the tenant.

Straight-line rent increased \$0.4 million from 2009 to 2010 due to the straight-line rent recognized on leases subject to straight-lining from properties acquired in 2009 and 2010 totaling approximately \$0.1 million, as well as additional straight-line rent recognized on leases with contractual rent increases totaling approximately \$0.3 million.

Mortgage interest income decreased \$0.5 million, or 52.0%, from 2009 to 2010 due mainly to the refinancing of a mortgage note upon the acquisition of the secured property by the Company's consolidated joint venture.

Other operating income decreased \$0.9 million, or 30.1%, due mainly to a decrease in property operating guaranty income of approximately \$0.2 million resulting from the expiration of an agreement on one property. Also, the three months ended June 30, 2009 included \$0.6 million of replacement rent pursuant to an agreement with an operator that expired on June 30, 2009.

Total expenses for the three months ended June 30, 2010 increased \$0.4 million, or 0.8%, compared to the same period in 2009, mainly for the reasons discussed below:

General and administrative expenses decreased \$1.8 million, or 33.5%, due mainly to a decrease of approximately \$0.8 million in expense resulting from a change in the named executive officer benefit arrangements upon retirement. Also, pension and deferred compensation expenses decreased by approximately \$0.6 million due mainly to the Company's chief executive officer's deferred compensation awards becoming fully amortized.

Property operating expense increased \$1.1 million, or 4.9%, due mainly to the recognition of additional expenses of approximately \$0.6 million resulting from the Company's 2009 and 2010 real estate acquisitions. Also, properties previously under construction that commenced operations during 2009 resulted in approximately \$0.4 million in additional property operating expenses in 2010 compared to 2009. Property operating expense also increased approximately \$0.2 million due to properties whose master leases expired, and the Company began incurring the underlying operating expenses of the buildings. These increases were partially offset by a \$0.1 million decrease to property operating income resulting from the execution of a master lease agreement in the fourth quarter of 2009 on a property previously managed by the Company whose expenses were previously reported in property operating expense.

Bad debt expense decreased \$0.4 million due mainly to collections received in 2010 for receivables previously reserved.

Depreciation expense increased \$1.4 million, or 9.1%, due mainly to approximately \$0.5 million in additional depreciation recognized related to the Company's 2009 and 2010 real estate acquisitions and \$0.4 million related to properties previously under construction that commenced operations during 2009. The remaining \$0.5 million increase was due mainly to additional depreciation expense recognized related to various building and tenant improvement expenditures.

Other income (expense) for the three months ended June 30, 2010 changed unfavorably by \$4.5 million, or 45.7%, compared to the same period in 2009. Interest expense increased approximately \$5.0 million due to the issuance of the

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Senior Notes due 2017 and \$1.5 million due to the mortgage debt incurred in December 2009. These increases were offset partially by a decrease in interest expense of approximately \$0.4 million resulting mainly from a lower principal balance on the Unsecured Credit Facility due 2012, as well as increased capitalized interest of approximately \$0.4 million. Also, during the second quarter of 2010, the Company received proceeds of approximately \$1.2 million relating to the settlement of disputes with former tenants.

Income from discontinued operations totaled \$1.5 million and \$8.1 million, respectively, for the three months ended June 30, 2010 and 2009, which includes the results of operations and gains on sale related to assets classified as held for sale or disposed of as of June 30, 2010. The Company disposed of one property during the second quarter of 2010, with one property remaining in held for sale at June 30, 2010.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Income from continuing operations for the six months ended June 30, 2010 was \$6.1 million, compared to \$16.1 million for the same period in 2009. Net income attributable to common stockholders for the six months ended June 30, 2010 was \$11.1 million, or \$0.18 per basic common share (\$0.18 per diluted common share), compared to \$37.7 million, or \$0.65 per basic common share (\$0.64 per diluted common share), for the same period in 2009.

<i>(Dollars in thousands, except per share data)</i>	Six Months Ended		Change	
	2010	2009	\$	%
REVENUES				
Master lease rent	\$ 29,683	\$ 28,742	\$ 941	3.3%
Property operating	93,496	88,771	4,725	5.3%
Straight-line rent	1,315	715	600	83.9%
Mortgage interest	1,107	1,468	(361)	-24.6%
Other operating	4,272	6,515	(2,243)	-34.4%
	129,873	126,211	3,662	2.9%
EXPENSES				
General and administrative	8,276	12,295	(4,019)	-32.7%
Property operating	49,381	46,919	2,462	5.2%
Bad debt, net	(457)	562	(1,019)	-181.3%
Depreciation	33,387	30,559	2,828	9.3%
Amortization	2,633	2,827	(194)	-6.9%
	93,220	93,162	58	0.1%
OTHER INCOME (EXPENSE)				
Loss on extinguishment of debt	(480)		(480)	
Re-measurement gain of equity interest upon acquisition		2,701	(2,701)	-100.0%
Interest expense	(31,880)	(19,996)	(11,884)	59.4%
Interest and other income, net	1,793	383	1,410	368.1%
	(30,567)	(16,912)	(13,655)	80.7%
INCOME FROM CONTINUING OPERATIONS	6,086	16,137	(10,051)	-62.3%

DISCONTINUED OPERATIONS

Income from discontinued operations	866	1,528	(662)	-43.3%
Impairment		(22)	22	-100.0%
Gain on sales of real estate properties	4,221	20,051	(15,830)	-78.9%

INCOME FROM DISCONTINUED OPERATIONS

	5,087	21,557	(16,470)	-76.4%
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NET INCOME

	11,173	37,694	(26,521)	-70.4%
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Less: Net income attributable to noncontrolling interests

	(105)	(77)	(28)	36.4%
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NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS

	\$ 11,068	\$ 37,617	\$ (26,549)	-70.6%
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EARNINGS PER COMMON SHARE

Net income attributable to common stockholders

Basic	\$ 0.18	\$ 0.65	\$ (0.47)	-72.3%
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Net income attributable to common stockholders

Diluted	\$ 0.18	\$ 0.64	\$ (0.46)	-71.9%
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Total revenues from continuing operations for the six months ended June 30, 2010 increased \$3.7 million, or 2.9%, compared to the same period in 2009, mainly for the reasons discussed below:

Master lease income increased \$0.9 million, or 3.3%. Master lease rental income increased approximately \$1.8 million as a result of the Company's 2009 and 2010 real estate acquisitions. The Company also recognized master lease income of \$0.9 million related to a new master lease agreement executed during 2009 on a property whose income was previously reported in property operating income, as well as approximately \$0.5 million recognized due to annual rent and

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additional rent increases. These increases were offset partially by a decrease in master lease income of approximately \$2.1 million from properties whose master leases had expired and the Company began recognizing the underlying tenant rents in property operating income during 2009.

Property operating income increased \$4.7 million, or 5.3%, due mainly to the recognition of additional revenue of approximately \$3.2 million resulting from the Company's 2009 and 2010 real estate acquisitions. Also, the Company began recognizing the underlying tenant rental income on properties whose master leases had expired, resulting in approximately \$0.9 million in additional property operating income in 2010 compared to 2009, with the remainder of the increase of approximately \$1.8 million mainly resulting from new leasing activity and annual rent increases. These increases in property operating income were partially offset by a \$1.2 million decrease related to a property whose gross revenues were previously reported in property operating income, but are now reported in master lease income upon consummation of a master lease agreement with the tenant.

Straight-line rent increased \$0.6 million due mainly to the straight-line rent recognized on leases subject to straight-lining from properties acquired in 2009 and 2010 totaling approximately \$0.2 million, as well as additional straight-line rent recognized on leases with contractual rent increases totaling approximately \$0.3 million.

Mortgage interest decreased \$0.4 million, or 24.6%, due mainly to the refinancing of a mortgage note upon acquisition of the secured property by the Company's consolidated joint venture.

Other operating income decreased \$2.2 million, or 34.4%, due mainly to a decrease in property operating guaranty income of approximately \$0.9 million mainly resulting from the expiration of agreements relating to five properties. Also, the six months ended June 30, 2009 included \$1.3 million of replacement rent pursuant to an agreement with an operator that expired on June 30, 2009.

Total expenses for the six months ended June 30, 2010 increased \$0.1 million, or 0.1%, compared to the same period in 2009, mainly for the reasons discussed below:

General and administrative expenses decreased \$4.0 million, or 32.7%. Approximately \$2.0 million of the decrease resulted from a change in the named executive officer benefit arrangements upon retirement. Also, deferred compensation expense decreased by approximately \$1.0 million due mainly to the Company's chief executive officer's awards becoming fully amortized. Further, certain general and administrative expenses incurred related to recent acquisitions of real estate properties totaling approximately \$0.9 million were classified to the operating expenses of those properties.

Property operating expense increased \$2.5 million, or 5.2%, due mainly to the recognition of additional expenses of approximately \$1.0 million resulting from the Company's 2009 and 2010 real estate acquisitions. Also, properties previously under construction that commenced operations during 2009 resulted in approximately \$1.2 million in additional property operating expenses in 2010 compared to 2009. Property operating expense also increased approximately \$1.0 million due to properties whose master leases expired, and the Company began incurring the underlying operating expenses of the buildings. These amounts were partially offset by a reduction in legal fees of approximately \$0.7 million and a reduction in utilities and maintenance and repair of \$0.9 million. Further, certain general and administrative expenses incurred related to recent acquisitions of real estate properties totaling approximately \$0.8 million were classified to the operating expenses of those properties.

Bad debt expense decreased \$1.0 million due mainly to collections received in 2010 for a receivable that was previously reserved of approximately \$0.4 million and reversal of a tenant receivable and related reserve of approximately \$0.5 million. The remaining decrease relates mainly to various reserves recorded in 2009 totaling approximately \$0.2 million.

Depreciation expense increased \$2.8 million, or 9.3%, due mainly to approximately \$1.0 million in additional depreciation recognized from the Company's 2009 and 2010 real estate acquisitions and \$0.8 million related to properties previously under construction that commenced operations during 2009. The remaining \$1.0 million increase was mainly due to additional depreciation expense recognized related to various building and tenant improvement expenditures.

Other income (expense) for the six months ended June 30, 2010 decreased unfavorably by \$13.7 million, or 80.7%, compared to the same period in 2009, mainly for the reasons discussed below:

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The Company recognized a \$0.5 million loss on the early extinguishment of debt relating to the repurchases of the Senior Notes due 2011 during 2010.

The Company recognized a \$2.7 million gain related to the valuation and re-measurement of the Company's equity interest in a joint venture in connection with the Company's acquisition of the remaining equity interests in the joint venture in 2009.

Interest expense increased \$11.9 million, or 59.4%. Interest expense increased approximately \$10.0 million due to the issuance of the Senior Notes due 2017 and approximately \$3.0 million due to the mortgage debt entered into in December 2009. These increases were offset partially by a decrease in interest expense of approximately \$0.5 million resulting mainly from a lower principal balance and interest rate on the Unsecured Credit Facility due 2012, \$0.2 million due to the early extinguishment of a portion of the Senior Notes due 2011, as well as an increase in capitalized interest of approximately \$0.4 million.

During 2010, the Company received proceeds of approximately \$1.2 million relating to the settlement of disputes with former tenants.

Income from discontinued operations totaled \$5.1 million and \$21.6 million, respectively, for the six months ended June 30, 2010 and 2009, which includes the results of operations, gains on sale, and impairment charges related to assets classified as held for sale or disposed of as of June 30, 2010. The Company disposed of six properties during the first six months of 2010, with one property remaining in held for sale at June 30, 2010.

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, or from other private debt or equity offerings. For the three months ended June 30, 2010, the Company generated approximately \$49.5 million in cash from operations and used approximately \$50.9 million in total cash in investing and financing activities, including dividend payments, as detailed in the Company's Condensed Consolidated Statements of Cash Flows.

Interest Expense

Interest expense for the Company has increased significantly in 2010. In the third quarter of 2009, the Company amended and restated its Unsecured Credit Facility and then in the fourth quarter of 2009 repaid most of the outstanding balance on the Unsecured Credit Facility with proceeds from the issuance of \$300.0 million of Senior Notes due 2017 and \$80.0 million of mortgage debt due December 2016. The variable rate of the Unsecured Credit Facility increased to 2.80% over LIBOR with a 0.40% facility fee from 0.90% over LIBOR with a 0.20% facility fee (rate at June 30, 2010 was 3.15%). Also contributing to the higher interest expense are the Senior Notes due 2017 that bears interest at a fixed rate of 6.50% per annum and the mortgage debt due December 2016 that bears interest at a fixed rate of 7.25%.

Contractual Obligations

The Company monitors its contractual obligations to ensure funds are available to meet obligations when due. The following table represents the Company's long-term contractual obligations for which the Company was making payments as of June 30, 2010, including interest payments due where applicable. The Company is also required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. The Company's material contractual obligations for the remainder of 2010 through 2011 are included in the table below. At June 30, 2010, the Company had no long-term capital lease or purchase obligations.

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<i>(Dollars in thousands)</i>	2010	2011	Total
Long-term debt obligations, including interest (1)	\$35,647	\$335,057	\$370,704
Operating lease commitments (2)	2,149	5,214	7,363
Construction in progress (3)	35,431	61,237	96,668
Tenant improvements (4)			
Construction loan obligation (5)	432		432
Pension obligations (6)	2,240		2,240
Total contractual obligations	\$75,899	\$401,508	\$477,407

(1) Includes estimated interest due on total debt other than on the Unsecured Credit Facility. See Note 4 to the Condensed Consolidated Financial Statements.

(2) Includes primarily two corporate office leases and ground leases related to various properties for which the Company is currently making payments.

(3) Includes cash flow projections for the remainder of 2010 and 2011 related to the construction of four buildings. The table above does not include budgeted amounts designated for

tenant
improvements
which the
Company is not
obligated to fund
until tenant
leases are
executed.

(4) The Company
has various
remaining
first-generation
tenant
improvements
budgeted as of
June 30, 2010
totaling
approximately
\$28.1 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) The Company's
remaining
commitment at
June 30, 2010
related to two
construction
loans.

(6) In
November 2009,
the Company
terminated its
Retirement Plan
for Outside
Directors and
will pay to each

director in the plan a lump sum payment totaling each director's accumulated pension benefit.

In May 2010, one non-employee director retired and received approximately \$0.3 million in pension benefits.

The accumulated pension benefits for the remaining non-employee directors will be paid in November 2010, aggregating approximately \$2.2 million which is reflected in the table above.

Also, at December 31, 2009, the last measurement date, 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. However, because the Company's chief executive officer has no present intention to retire, the Company has not projected when the retirement benefits would be paid to the officer in this table. At June 30, 2010, the Company had recorded a \$16.6 million liability, included in other liabilities, related to its pension plan obligations.

As of June 30, 2010, the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 44.4%, and its earnings (from continuing operations) covered fixed charges at a ratio of 1.03 to 1.00 for the six months ended June 30, 2010. At June 30, 2010, the Company had \$20.0 million outstanding under the Unsecured Credit Facility, with a weighted average interest rate of approximately 3.15%, and had borrowing capacity remaining, under its financial covenants, of approximately \$530.0 million.

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth (as defined in the agreements) and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At June 30, 2010, the Company was in compliance with the financial covenant provisions under its various debt instruments.

Security Deposits and Letters of Credit

As of June 30, 2010, the Company had approximately \$6.6 million in letters of credit, security deposits, debt service reserves or capital replacement reserves for the benefit of the Company in the event the obligated lessee or operator fails to make payments under the terms of their respective lease or mortgage. Generally, the Company may, at its discretion and upon notification to the operator or tenant, draw upon these instruments if there are any defaults under the leases or mortgage notes.

Other Development Activity

In addition to the projects currently under construction, the Company continues to finance the development of a six-facility outpatient campus with a budget totaling approximately \$72.0 million. At June 30, 2010, the Company had funded \$56.4 million towards the project. Four of the buildings have been constructed. The Company, through its consolidated joint venture, acquired three of the completed buildings and the fourth building was sold to a third party. 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 consolidated joint venture will have an option to purchase the two remaining buildings at a fair market value price upon completion and full occupancy.

At-The-Market Equity Offering Program

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The Company has in place an at-the-market equity offering program with an investment bank under which the Company sells shares of its common stock from time to time. At June 30, 2010, the Company had approximately 3.1 million shares available for issuance under the program.

During the first six months ended June 30, 2010, the Company sold 2,559,200 shares of common stock through its at-the-market equity offering program, generating approximately \$59.2 million in net proceeds. Subsequent to June 30, 2010, the Company sold an additional 412,000 shares of common stock, generating approximately \$9.5 million in net proceeds.

The proceeds from these sales are generally used to fund the Company's development activities and are used to repay balances outstanding under the Unsecured Credit Facility.

Dividends

The Company has paid and expects to continue to pay quarterly dividends of \$0.30 per common share during 2010. On August 3, 2010, the Company's Board of Directors declared a common stock cash dividend for the three months ended June 30, 2010 of \$0.30 per share, payable on September 2, 2010. As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 under the heading Risk Factors, the ability of the Company to pay dividends is dependent upon its ability to generate funds from operations and cash flows and to make accretive new investments.

Liquidity

Net cash provided by operating activities was \$49.5 million and \$45.8 million for the six months ended June 30, 2010 and 2009, 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's leases, which provide its main source of income and cash flow, are generally fixed in nature, have terms of approximately one to 20 years and have annual rate increases based generally on consumer price indices.

The Company plans to continue to meet its liquidity needs, including funding additional investments, paying dividends, and funding debt service, with cash flows from operations, borrowings under the Unsecured Credit Facility, proceeds from sales of real estate investments, proceeds from debt borrowings, or additional capital market financings. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will continue to be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

Impact of Inflation

Inflation has not significantly affected the Company's earnings due to the moderate inflation rate in recent years and the fact that most of the Company's leases and property operating agreements require tenants and sponsors to pay all or some portion of the increases in operating expenses, thereby reducing the Company's risk of the adverse effects of inflation. In addition, inflation has the effect of increasing gross revenue the Company is to receive under the terms of certain leases and property operating agreements. Leases and property operating agreements vary in the remaining terms of obligations, further reducing the Company's risk of any adverse effects of inflation. Interest payable under the Unsecured Credit Facility is calculated at a variable rate; therefore, the amount of interest payable under the Unsecured Credit Facility is influenced by changes in short-term rates, which tend to be sensitive to inflation. During periods where interest rate increases outpace inflation, the Company's operating results should be negatively impacted. Conversely, when increases in inflation outpace increases in interest rates, the Company's operating results should be positively impacted.

Off-Balance Sheet Arrangements

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage notes and other notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. During the three months ended June 30, 2010, there were no material changes in the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures.

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and two affiliates, HR Acquisition of Virginia Limited Partnership and HRT Holdings, Inc., are defendants in a lawsuit brought by Fork Union Medical Investors Limited Partnership, Goochland Medical Investors Limited Partnership, and Life Care Centers of America, Inc., as plaintiffs, in the Circuit Court of Davidson County, Tennessee. The plaintiffs allege that they overpaid rent between 1991 and 2003 under leases for two skilled nursing facilities in Virginia and seek a refund of such overpayments. Plaintiffs have not specified their damages in the complaint, but based on written discovery responses, the Company estimates the plaintiffs are seeking up to \$2.0 million, plus pre- and post-judgment interest. The two leases were terminated by agreement with the plaintiffs in 2003. The Company denies that it is liable to the plaintiffs for any refund of rent paid and will continue to defend the case vigorously. A trial is scheduled for April 2011.

The Company is, from time to time, involved in litigation arising out of the ordinary course of business or which is expected to be covered by insurance. The Company is not aware of any other pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Item 1A. Risk Factors.

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

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Item 6. Exhibits.

Exhibit 3.1	Second Articles of Amendment and Restatement of the Company (1)
Exhibit 3.2	Amended and Restated Bylaws of the Company, as amended (2)
Exhibit 4.1	Specimen Stock Certificate (1)
Exhibit 4.2	Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.3	First Supplemental Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.4	Form of 8.125% Senior Note Due 2011 (3)
Exhibit 4.5	Second Supplemental Indenture, dated as of March 30, 2004, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly Wachovia Bank, National Association, as Trustee) (4)
Exhibit 4.6	Form of 5.125% Senior Note Due 2014 (4)
Exhibit 4.7	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Regions Bank, as Trustee (5)
Exhibit 4.8	Form of 6.50% Senior Notes due 2017 (set forth in Exhibit B to the Third Supplemental Indenture filed as Exhibit 4.7 thereto) (5)
Exhibit 10.1	Amendment No. 1, dated as of May 12, 2010, to the Amended and Restated Credit Agreement, dated as of September 30, 2009 by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders named therein (filed herewith)
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 7 to the Condensed Consolidated Financial Statements)
Exhibit 31.1	Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 31.2	Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
Exhibit 101.INS	XBRL Instance Document (furnished herewith)
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith)

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)

Exhibit 101.LAB XBRL Taxonomy Extension Labels Linkbase Document (furnished herewith)

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith)

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

(2) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 2007 and hereby incorporated by reference.

(3) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated by reference.

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- (4) Filed as an exhibit to the Company's Form 8-K filed March 29, 2004 and hereby incorporated by reference.

- (5) Filed as an exhibit to the Company's Form 8-K filed December 4, 2009 and hereby incorporated by reference.

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SIGNATURE

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

HEALTHCARE REALTY TRUST
INCORPORATED

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

Date: August 9, 2010

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