

HEALTHCARE REALTY TRUST INC

Form 10-Q

November 04, 2015

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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: September 30, 2015

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

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(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 October 30, 2015, the Registrant had 100,640,368 shares of Common Stock outstanding.

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HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Healthcare Realty Trust Incorporated

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	(Unaudited)	
	September 30, 2015	December 31, 2014
ASSETS		
Real estate properties:		
Land	\$ 186,108	\$ 183,060
Buildings, improvements and lease intangibles	3,042,367	3,048,251
Personal property	9,833	9,914
Construction in progress	15,455	—
Land held for development	17,475	17,054
	3,271,238	3,258,279
Less accumulated depreciation and amortization	(737,398)	(700,671)
Total real estate properties, net	2,533,840	2,557,608
Cash and cash equivalents	8,497	3,519
Mortgage notes receivable	—	1,900
Assets held for sale and discontinued operations, net	6,380	9,146
Other assets, net	192,969	185,337
Total assets	\$ 2,741,686	\$ 2,757,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$ 1,381,285	\$ 1,403,692
Accounts payable and accrued liabilities	65,839	70,240
Liabilities of discontinued operations	216	372
Other liabilities	65,648	62,152
Total liabilities	1,512,988	1,536,456
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 100,477 and 98,828 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	1,005	988
Additional paid-in capital	2,435,849	2,389,830
Accumulated other comprehensive loss	(1,611)	(2,519)
Cumulative net income attributable to common stockholders	891,027	840,249
Cumulative dividends	(2,097,572)	(2,007,494)
Total stockholders' equity	1,228,698	1,221,054
Total liabilities and stockholders' equity	\$ 2,741,686	\$ 2,757,510

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, 2014, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2015 and 2014
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Rental income	\$95,383	\$92,095	\$285,867	\$267,877
Mortgage interest	29	44	91	3,634
Other operating	1,313	1,474	3,931	4,345
	96,725	93,613	289,889	275,856
EXPENSES				
Property operating	35,247	34,204	103,437	100,671
General and administrative	6,258	5,185	19,709	16,818
Depreciation	26,571	25,345	79,511	73,503
Amortization	2,386	2,656	7,528	8,190
Bad debts, net of recoveries	(21)	) 3	(202)	) 123
	70,441	67,393	209,983	199,305
OTHER INCOME (EXPENSE)				
Gain on sales of properties	5,915	—	47,464	—
Interest expense	(15,113)	) (18,192)	) (50,649)	) (54,176)
Loss on extinguishment of debt	—	—	(27,998)) —
Pension termination	—	—	(5,260)) —
Impairment of real estate assets	(310)	) —	(3,638)) —
Impairment of internally-developed software	—	—	(654)) —
Interest and other income, net	72	409	311	2,545
	(9,436)	) (17,783)	) (40,424)	) (51,631)
INCOME FROM CONTINUING OPERATIONS	16,848	8,437	39,482	24,920
DISCONTINUED OPERATIONS				
Income from discontinued operations	61	221	725	238
Impairments of real estate assets	—	(4,505)	) —	(11,034)
Gain on sale of property	10,571	—	10,571	3
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	10,632	(4,284)	) 11,296	(10,793)
NET INCOME	27,480	4,153	50,778	14,127
Less: Net income attributable to noncontrolling interests	—	(162)	) —	(313)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$27,480	\$3,991	\$50,778	\$13,814
BASIC EARNINGS (LOSS) PER COMMON SHARE:				
Income from continuing operations	\$0.17	\$0.09	\$0.40	\$0.26
Discontinued operations	0.11	(0.05)	) 0.11	(0.11)
Net income attributable to common stockholders	\$0.28	\$0.04	\$0.51	\$0.15
DILUTED EARNINGS (LOSS) PER COMMON SHARE:				
Income from continuing operations	\$0.17	\$0.09	\$0.40	\$0.26
Discontinued operations	0.10	(0.05)) 0.11	(0.12)

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Net income attributable to common stockholders	\$0.27	\$0.04	\$0.51	\$0.14
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC	99,337	95,858	98,994	94,846
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—DILUTED	99,997	97,329	99,694	96,310
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	\$0.30	\$0.30	\$0.90	\$0.90

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, 2014, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Comprehensive Income
 For the Three and Nine Months Ended September 30, 2015 and 2014
 (Dollars in thousands)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
NET INCOME	\$27,480	\$4,153	\$50,778	\$14,127	
Other comprehensive income (loss):					
Defined benefit plans:					
Reclassification adjustment for losses included in net income (Pension termination)	—	—	2,519	—	
Forward starting interest rate swaps:					
Losses arising during the periods	—	—	(1,684) —	
Reclassification adjustment for losses included in net income (Interest expense)	42	—	73	—	
Total other comprehensive income	27,522	4,153	51,686	14,127	
Less: comprehensive income attributable to noncontrolling interests	—	(162) —	(313)
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$27,522	\$3,991	\$51,686	\$13,814	

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, 2014, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$50,778	\$14,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90,000	86,349
Stock-based compensation	4,558	3,400
Straight-line rent receivable	(7,671)	(7,907)
Straight-line rent liability	583	522
Gain on sales of real estate assets	(58,092)	(3)
Loss on extinguishment of debt	27,998	—
Impairments of real estate assets	3,638	11,034
Pension termination	5,260	—
Impairment of internally-developed software	654	—
Provision for bad debts, net	(203)	126
Changes in operating assets and liabilities:		
Other assets	(2,502)	(16,231)
Accounts payable and accrued liabilities	(2,285)	(10,644)
Other liabilities	594	(3,123)
Net cash provided by operating activities	113,310	77,650
INVESTING ACTIVITIES		
Acquisitions of real estate	(70,043)	(37,694)
Development of real estate	(10,165)	—
Acquisition of additional long-lived assets	(35,709)	(54,899)
Funding of mortgages and notes receivable	—	(1,244)
Proceeds from acquisition of real estate upon mortgage note receivable default	—	204
Proceeds from sales of real estate	134,432	6,134
Proceeds from mortgages and notes receivable repayments	1,914	5,618
Net cash provided by (used in) investing activities	20,429	(81,881)
FINANCING ACTIVITIES		
Net borrowings (repayments) on unsecured credit facility	57,000	(154,000)
Borrowings on term loan	—	200,000
Borrowings on notes and bonds payable	249,793	—
Repayments on notes and bonds payable	(49,632)	(4,415)
Redemption of notes and bonds payable	(333,222)	—
Dividends paid	(90,078)	(86,923)
Net proceeds from issuance of common stock	41,757	52,712
Common stock redemptions	(271)	(382)
Settlement of swaps	(1,684)	—
Distributions to noncontrolling interest holders	—	(380)
Purchase of noncontrolling interest	—	(8,189)
Debt issuance and assumption costs	(2,424)	(1,179)
Net cash used in financing activities	(128,761)	(2,756)

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Increase (decrease) in cash and cash equivalents	4,978	(6,987)
Cash and cash equivalents, beginning of period	3,519	8,671
Cash and cash equivalents, end of period	\$8,497	\$1,684

Supplemental Cash Flow Information:

Interest paid	\$55,995	\$59,227
Company-financed real estate property sales	\$—	\$1,900
Invoices accrued for construction, tenant improvement and other capitalized costs	\$8,924	\$4,662
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	\$19,431	\$12,618
Capitalized interest	\$113	\$—

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, 2014, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the “Company”) is a real estate investment trust that integrates owning, managing, financing and developing income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately \$3.2 billion in 195 real estate properties as of September 30, 2015. The Company’s 195 owned real estate properties are located in 30 states and total approximately 14.1 million square feet. The Company provided property management services to approximately 9.6 million square feet nationwide.

Basis of Presentation

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. They do not include all of the information and footnotes required by GAAP for complete financial statements. However, except as disclosed herein, management believes there has been no material change in the information disclosed in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014. 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 included in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. In addition, the interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2015 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends, risks 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.

Fair Value of Derivative Financial Instruments

Derivative financial instruments are recorded at fair value on the Company's Condensed Consolidated Balance Sheets as other assets or other liabilities. The valuation of derivative instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. Fair values of derivatives are estimated by pricing models that consider the forward yield curves and discount rates. The fair value of the Company's forward starting interest rate swap contracts are estimated by pricing models that consider foreign trade rates and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future. See Note 4 for additional information.

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Notes to Condensed Consolidated Financial Statements - Continued

New Accounting Pronouncements

Accounting Standards Update No. 2015-03

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard requires debt issuance costs to be reported in the balance sheet as a direct reduction from the face amount of the note to which it is directly related. In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest" which allowed entities to defer and present debt issuance costs related to line-of-credit arrangements as assets, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

This standard is effective for the Company beginning on January 1, 2016 with early adoption permitted, on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, the Company is required to comply with the applicable disclosures for a change in an accounting principle. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial position or cash flows.

Accounting Standards Update No. 2014-08

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This standard changes the requirements for reporting discontinued operations by raising the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations, and certain other disposals that do not meet the definition of a discontinued operation. The standard limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results.

This standard is effective for the Company on a prospective basis for annual periods beginning on January 1, 2015 and interim periods within that year. Early adoption was permitted but only for disposals (or classifications as held for sale) that had not been reported in financial statements previously issued. The Company adopted this standard on the effective date of January 1, 2015 and does not expect it to have a material impact on the Company's consolidated financial position or cash flows, but it could have a material impact on the presentation of the Consolidated Statements of Operations.

Accounting Standards Update No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", a comprehensive new revenue recognition standard that supersedes most existing revenue recognition guidance, including sales of real estate. This standard's core principle is that a company will recognize revenue when it transfers goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods and services. However, leasing contracts, representing the major source of the Company's revenues, are not within the scope of the new standard and will continue to be accounted for under existing standards.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606); Deferral of the Effective Date." This standard is effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. The Company has not yet determined the effects on the Consolidated Financial Statements and related notes resulting from the adoption of this new standard.

Reclassifications

Certain amounts in the Company's Condensed Consolidated Balance Sheets have been reclassified for the current period presentation of assets held for sale and related liabilities.

Note 2. Real Estate Investments

2015 Acquisitions

Third Quarter

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In September 2015, the Company acquired a 52,813 square foot medical office property in Seattle, Washington for a purchase price of \$28.0 million, including cash consideration of \$18.6 million and the assumption of debt of \$9.4 million (excluding a \$0.3 million fair value premium recorded upon acquisition). The mortgage note payable assumed by the Company bears a contractual annual interest rate of 5.00% and matures on July 10, 2019. The property is located on the campus of Providence Health's Swedish Medical Center, a 624-bed acute care hospital. Upon acquisition, the property was 100% leased by one tenant whose lease expires in 2023.

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Notes to Condensed Consolidated Financial Statements - Continued

Also in September 2015, the Company acquired a 47,508 square foot medical office building in Denver, Colorado for a purchase price of \$6.5 million, including cash consideration of \$6.3 million and purchase price credits of \$0.2 million. The property is located in close proximity to Catholic Health Initiatives' St. Anthony Hospital, a 224-bed acute care hospital. Upon acquisition, the building was 73% leased.

Second Quarter

In June 2015, the Company acquired a 35,558 square foot medical office property in Seattle, Washington for a purchase price of \$14.0 million, including cash consideration of \$4.4 million, a purchase price credit of \$0.1 million, and the assumption of debt of \$9.5 million (excluding a \$0.2 million fair value premium recorded upon acquisition). The mortgage note payable assumed by the Company bears a contractual annual interest rate of 5.75% and matures on March 3, 2020. The property is located on the Catholic Health Initiatives campus of Highline Medical Center, a 177-bed general acute care hospital. Upon acquisition, the property was 93% leased, with leases to the hospital comprising 69% of the rentable square feet.

First Quarter

In January 2015, the Company acquired a 110,679 square foot medical office building in San Jose, California for a purchase price of \$39.3 million, including cash consideration of \$39.0 million and purchase price credits of \$0.3 million. The property is located adjacent to two hospital campuses, Kaiser Permanente, a 106-bed hospital, and Washington Hospital Healthcare System, a 353-bed hospital. Upon acquisition, this property was 97% leased, with leases to the two hospitals comprising 59% of the rentable square feet.

The following table details the Company's acquisitions for the nine months ended September 30, 2015:

(Dollars in millions)	Date Acquired	Purchase Price	Purchase Price Credits	Mortgage Notes Payable Assumed ⁽¹⁾	Cash Consideration ⁽²⁾	Real Estate	Other ⁽³⁾	Square Footage
Real estate acquisitions								
California	1/15/15	\$39.3	\$(0.3)	\$—	\$39.0	\$39.2	\$(0.2)	110,679
Washington	6/26/15	14.0	(0.1)	(9.5)	4.4	13.8	0.1	35,558
Washington	9/1/15	28.0	—	(9.4)	18.6	27.8	0.2	52,813
Colorado	9/14/15	6.5	(0.2)	—	6.3	6.3	—	47,508
		\$87.8	\$(0.6)	\$(18.9)	\$68.3	\$87.1	\$0.1	246,558

(1) The mortgage notes payable assumed in the acquisitions do not reflect the fair value adjustment of \$0.5 million recorded by the Company upon acquisition (included in Other).

(2) Cash consideration excludes proration of revenue and expense due to/from seller at the time of the acquisition.

(3) Includes assets acquired, liabilities assumed, intangibles recognized at acquisition and fair value adjustments on debt assumed.

Subsequent Acquisitions

In October 2015, the Company acquired a 33,169 square foot medical office building in Tacoma, Washington for a purchase price of \$8.8 million, including cash consideration of \$7.5 million. Upon acquisition, this property was 100% leased. As part of this transaction, the Company also acquired a neighboring 12,077 square foot vacant office building that the Company intends to demolish and hold for future development. The buildings are located adjacent to Tacoma General Hospital, a 340-bed hospital owned by MultiCare Health.

In November 2015, the Company acquired a 99,942 square foot medical office building in Oakland, California for a purchase price of \$47.0 million, including cash consideration of \$43.1 million. Upon acquisition, the property was 97% leased with expirations through 2026. The building is located on the Sutter Health's Alta Bates Summit Medical Center campus, a 326-bed acute care hospital.

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Notes to Condensed Consolidated Financial Statements - Continued

2015 Dispositions

Third Quarter

In July 2015, the Company disposed of an on-campus, 63,914 square foot medical office building located in Pennsylvania pursuant to an exercised purchase option. The property was previously classified as held for sale, and the Company had a \$7.4 million net investment. The sales price and net cash proceeds were approximately \$18.4 million. The Company recognized a \$10.6 million gain upon the disposal of this property, net of straight-line rent receivables and other assets.

In September 2015, the Company completed the following dispositions:

an on-campus, 119,903 square foot medical office building located in Florida, in which the Company had a net investment of \$10.5 million. The sales price for the building was approximately \$16.3 million comprised of net cash proceeds of \$15.8 million and closing costs of approximately \$0.5 million. The Company recognized a \$5.1 million gain upon the disposal of this property, net of straight-line rent receivables and other assets;

an on-campus, 40,782 square foot medical office building located in Arizona, in which the Company had a net investment of \$2.0 million. The sales price and cash proceeds were approximately \$3.0 million. The Company recognized a \$0.8 million gain on the disposal, net of straight-line receivables and other assets;

an off-campus, 13,478 square foot medical office building located in Missouri, in which the Company had a net investment of \$2.9 million. The sales price for the building was approximately \$3.0 million comprised of net cash proceeds of \$2.8 million and tenant improvement credits of \$0.2 million. The Company recorded a \$0.3 million impairment on the disposal, net of straight-line rent receivables and other assets; and

a Company-financed mortgage note receivable totaling \$1.9 million was repaid.

Second Quarter

In May 2015, the Company disposed of an off-campus, 5,323 square foot building located in Virginia in which the Company had a \$0.3 million net investment. The sales price and cash proceeds were approximately \$1.0 million. The Company recognized a \$0.7 million gain on the disposal of this property.

In June 2015, the Company disposed of an on-campus, 58,474 square foot medical office building and a 117,525 square foot surgical facility, located in Indiana, in which the Company had an aggregate net investment of \$50.5 million. The sales price for the buildings was approximately \$97.0 million comprised of net cash proceeds of \$93.3 million, closing costs of approximately \$0.6 million, and a tenant improvement allowance credit of \$3.1 million. The Company recognized a \$40.9 million gain on the disposal, net of straight-line rent receivables and other assets.

The following table details the Company's dispositions for the nine months ended September 30, 2015:

(Dollars in millions)	Date Disposed	Sales Price	Closing Adjustments	Company-financed Mortgage Notes	Net Proceeds	Net Real Estate Investment	Other (including receivables)	Gain/ (Impairment)	Square Footage
Real estate dispositions									
Virginia	5/21/2015	\$1.0	\$—	\$ —	\$1.0	\$ 0.3	\$—	\$ 0.7	5,323
Indiana ⁽¹⁾	6/30/2015	97.0	(3.7)	—	93.3	50.5	1.9	40.9	175,999
Pennsylvania ⁽²⁾	7/17/2015	18.4	—	—	18.4	7.4	0.4	10.6	63,914
Florida	9/16/2015	16.3	(0.5)	—	15.8	10.5	0.2	5.1	119,903
Arizona	9/25/2015	3.0	—	—	3.0	2.0	0.2	0.8	40,782
Missouri	9/30/2015	3.0	(0.2)	—	2.8	2.9	0.2	(0.3)	13,478
Total dispositions		138.7	(4.4)	—	134.3	73.6	2.9	57.8	419,399
Mortgage note repayments		—	—	1.9	1.9	—	—	—	—
		\$138.7	\$(4.4)	\$ 1.9	\$136.2	\$ 73.6	\$ 2.9	\$ 57.8	419,399

(1) Includes two properties.

(2) Previously included in assets held for sale.

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Notes to Condensed Consolidated Financial Statements - Continued

Assets Held for Sale

At September 30, 2015 and December 31, 2014, the Company had two properties classified as held for sale. The two properties classified as held for sale as of September 30, 2015 are:

an off-campus medical office building located in Arizona that was reclassified to held for sale in connection with management's decision to sell the property. The Company is under contract to sell the property for \$5.3 million and expects to close the sale in the fourth quarter of 2015. The Company recorded an impairment charge of \$3.3 million in the first quarter of 2015 to record the property at estimated fair value less costs to sell, which was based on a purchase and sale agreement, a level 3 input, that was subsequently terminated; and

an on-campus medical office building located in Georgia.

The table below reflects the assets and liabilities of the properties classified as held for sale as of September 30, 2015 and December 31, 2014.

(Dollars in thousands)	September 30, 2015	December 31, 2014
Balance Sheet data:		
Land	\$2,524	\$422
Buildings, improvements and lease intangibles	10,728	12,822
Personal property	7	13
	13,259	13,257
Accumulated depreciation	(6,928	) (4,464
Assets held for sale, net	6,331	8,793
Other assets, net (including receivables)	49	353
Assets of discontinued operations, net	49	353
Assets held for sale and discontinued operations, net	\$6,380	\$9,146
Accounts payable and accrued liabilities	\$175	\$86
Other liabilities	41	286
Liabilities of discontinued operations	\$216	\$372

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Notes to Condensed Consolidated Financial Statements - Continued

Discontinued Operations

The Company adopted Accounting Standards Update No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") during the first quarter of 2015. As of December 31, 2014, the Company had two properties classified as held for sale and recorded in discontinued operations. One of the properties, which is located in Pennsylvania, was sold in July 2015 and the other property, which is located in Georgia, will remain classified as discontinued operations until the property is sold. See "2015 Dispositions" above. During the nine months ended September 30, 2015, the Company reclassified a property to held for sale upon management's decision to sell the property that did not meet the amended criteria under ASU 2014-08 as a discontinued operation. Therefore, the operating results of the property are not included in the table below which reflects the results of operations of the properties included in discontinued operations on the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Statements of Operations data:				
Revenues				
Rental income	\$62	\$1,357	\$752	\$4,326
Other operating	—	1	—	4
	62	1,358	752	4,330
Expenses				
Property operating	2	724	48	2,631
General and administrative	—	6	—	18
Depreciation	—	419	—	1,449
Bad debts, net of recoveries	(1	) (4	) (1	) 3
	1	1,145	47	4,101
Other Income (Expense)				
Interest and other income, net	—	8	20	9
	—	8	20	9
Discontinued Operations				
Income from discontinued operations	61	221	725	238
Impairments of real estate assets	—	(4,505	) —	(11,034
Gain on sale of properties	10,571	—	10,571	3
Income (Loss) from Discontinued Operations	\$10,632	\$(4,284	) \$11,296	\$(10,793

Note 3. Notes and Bonds Payable

2015 Activity

Third Quarter

On September 1, 2015, upon acquisition of a 52,813 square foot medical office property in Seattle, Washington, the Company assumed a \$9.4 million mortgage note payable (excluding a fair value premium adjustment of \$0.3 million). The mortgage note payable has a contractual interest rate of 5.00% (effective rate of 4.17%).

In September 2015, the Company received a credit rating upgrade. This upgrade, coupled with another upgrade that the Company received earlier in the year, resulted in a decrease in the spread over LIBOR on outstanding borrowings on the unsecured credit facility due 2017 (decreasing from 1.40% to 1.15%) and the unsecured term loan facility due 2019 (decreasing from 1.45% to 1.20%). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments on its unsecured credit facility due 2017 that decreased from 0.3% to 0.2%. The rate decreases were effective on September 14, 2015.

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Notes to Condensed Consolidated Financial Statements - Continued

Second Quarter

On April 24, 2015, the Company issued \$250.0 million of unsecured senior notes due 2025 (the "Senior Notes due 2025") in a registered public offering. The Senior Notes due 2025 bear interest at 3.875%, payable semi-annually on May 1 and November 1, beginning November 1, 2015, and are due on May 1, 2025, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$0.2 million, which yielded a 3.885% interest rate per annum upon issuance. The Company incurred approximately \$2.3 million in debt issuance costs that are included in Other assets, which will be amortized to maturity using the effective interest method. See Note 4 for discussion regarding the concurrent termination of the four forward starting interest rate swaps and the related impact. The Senior Notes due 2025 have various financial covenants that are required to be met on a quarterly and annual basis.

On May 15, 2015, the Company redeemed its unsecured senior notes due 2017 at a redemption price equal to an aggregate of \$333.2 million, consisting of outstanding principal of \$300.0 million, accrued interest of \$6.4 million, and a "make-whole" amount of approximately \$26.8 million for the early extinguishment of debt. The unaccrued discount and unamortized costs on these notes of \$1.2 million was written off upon redemption. The Company recognized a loss on early extinguishment of debt of approximately \$28.0 million related to this redemption.

The following mortgage notes payable were repaid during the second quarter:

On April 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.0% with outstanding principal of \$10.2 million. The mortgage note encumbered a 44,169 square foot medical office building located in the Washington State.

On May 4, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.41% with outstanding principal of \$16.3 million and accrued interest as of the redemption date of \$0.1 million. The mortgage note encumbered a 142,856 square foot medical office building located in Virginia.

On June 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.25% with outstanding principal of \$4.0 million. The mortgage note encumbered a 29,423 square foot medical office building located in Texas.

On June 26, 2015, upon acquisition of a 35,558 square foot medical office property in Seattle, Washington, the Company assumed a \$9.5 million mortgage note payable (excluding a fair value premium adjustment of \$0.2 million). The mortgage note payable has a contractual interest rate of 5.75% (effective rate of 5.07%).

First Quarter

On January 30, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.45% and consisting of outstanding principal of \$15.0 million and accrued interest as of the redemption date of \$0.1 million. The mortgage note encumbered a 73,548 square foot medical office building located in Washington State.

Subsequent Activity

On October 1, 2015, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.4% with outstanding principal of \$10.6 million. The mortgage note encumbered a 88,408 square foot medical office building located in Virginia.

Note 4. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, the Company is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, the Company may enter into derivative

financial instruments such as interest rate swap and interest rate cap agreements to manage interest rate risk exposure arising from variable rate debt transactions that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements on its variable rate debt.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without changing the underlying notional amount.

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Notes to Condensed Consolidated Financial Statements - Continued

During the nine months ended September 30, 2015, the Company entered into four forward starting interest rate swaps with a total notional value of \$225.0 million to hedge the risk of changes in the interest-related cash flows associated with the potential issuance of long-term debt. That debt was issued in April 2015, as discussed in Note 3, and the forward starting interest rate swaps were terminated. As a result, the Company realized a loss at the termination date which was deferred and will be amortized over the term of the Senior Notes due 2025. As of September 30, 2015, the Company did not have any outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in accumulated other comprehensive income or loss ("OCI") and is reclassified into earnings as interest expense in the period that the hedged forecasted transaction affects earnings. The effective portion of the Company's interest rate swaps that was recorded in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2015 was as follows (in thousands):

(Dollars in thousands)	Location	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	
Loss on forward starting interest rate swap agreements recognized in OCI	OCI	\$—	\$(1,684)
Amount of loss reclassified from accumulated OCI into Income (effective portion)	Interest Expense	\$(42	)	\$(73)
Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	—	\$—	\$—	

The Company estimates that an additional \$0.2 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next 12 months. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Company's cash flow hedges during the nine months ended September 30, 2015.

Note 5. Commitments and Contingencies

Legal Proceedings

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

Redevelopment Activity

The Company is in the process of redeveloping two medical office buildings in Tennessee and began constructing an expansion of one of the buildings in the second quarter of 2015. The Company spent approximately \$15.0 million on the redevelopment of these properties through September 30, 2015, including the acquisition of a land parcel for \$5.0 million on which the Company is building a parking garage. The total estimated budget of the redevelopment of these properties is expected to be \$51.8 million and the project is expected to be completed in the first quarter of 2017.

The Company is in the process of redeveloping a medical office building in Alabama, which includes the construction of a parking garage. Construction began in the second quarter of 2015. The total redevelopment budget is expected to be \$15.4 million, of which \$6.1 million has been spent as of September 30, 2015. Construction is expected to be completed in the fourth quarter of 2015.

Development Activity

In the third quarter of 2015, the Company began development of a 12,900 square foot retail center, which is adjacent to two of the Company's existing medical office buildings associated with Baylor Scott & White Health. The total development budget is expected to be \$5.6 million, of which \$1.8 million has been spent as of September 30, 2015. These amounts include \$1.5 million used by the Company to purchase land in 2006 and previously recorded as land held for development. Construction is expected to be completed in the second quarter of 2016.

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The table below details the Company's construction activity as of September 30, 2015. The information included in the table below represents management's estimates and expectations at September 30, 2015, which are subject to change. The Company's disclosures regarding certain projections or estimates of completion dates may not reflect actual results.

(Dollars in thousands)	Number of Properties	Estimated Completion Date	Balance at September 30, 2015		Total Amount Funded	Estimated Remaining Fundings	Estimated Total Investment	Approximate Square Feet
			Construction in Progress Fundings During the Nine Months Ended	Total Funded During the Nine Months Ended				
Construction Activity								
Birmingham, AL	1	Q4 2015	\$4,721	\$6,119	\$6,119	\$9,281	\$15,400	138,000
Austin, TX	1	Q2 2016	1,764	1,764	1,764	3,811	5,575	12,900
Nashville, TN	2	Q1 2017	8,970	10,575	14,959	36,841	51,800	294,000
Total			\$15,455	\$18,458	\$22,842	\$49,933	\$72,775	444,900

Land Held for Development

In August 2015, the Company acquired 0.38 acres of land and a 7,672 square foot medical office building in Tennessee for \$2.0 million. The Company plans to demolish the building and create surface parking. The surface parking will serve as additional parking for the Company's adjacent medical office buildings pending future development.

Casualty Loss

The Company owns a medical office building in Oklahoma that sustained damage from a tornado on May 6, 2015. As of September 30, 2015, the Company estimated its expenditures related to returning the property to its previous operating condition to be approximately \$2.4 million. The Company estimates recoveries for restoration costs of approximately \$2.3 million. In addition, as of September 30, 2015, the Company estimated that it will receive insurance proceeds related to lost rental revenue of approximately \$0.4 million for the period of May 6, 2015 to September 30, 2015. This amount was recognized in rental income on the Company's Condensed Consolidated Statements of Operations. The Company believes that it is probable that it will recover any losses due to business interruption and expects all repairs to be completed and tenants to return to occupancy throughout the remainder of the year.

Note 6. Stockholders' Equity

The following table provides a reconciliation of total stockholders' equity for the nine months ended September 30, 2015:

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Cumulative Net Income Attributable to Common Stockholders	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2014	\$988	\$2,389,830	\$(2,519)	\$840,249	\$(2,007,494)	\$1,221,054
Issuance of common stock	16	41,733	—	—	—	41,749
Common stock redemptions	—	(271)	—	—	—	(271)
Stock-based compensation	1	4,557	—	—	—	4,558
Net income	—	—	—	50,778	—	50,778
Amounts reclassified from accumulated other comprehensive loss arising from loss on defined	—	—	2,519	—	—	2,519

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benefit pension plan

Loss on forward starting interest rate swaps	—	—	(1,611)	—	—	(1,611)
Dividends to common stockholders (\$0.90 per share)	—	—	—	—	(90,078)	(90,078)
Balance at September 30, 2015	\$1,005	\$2,435,849	\$ (1,611)	\$ 891,027	\$(2,097,572)	\$ 1,228,698

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Notes to Condensed Consolidated Financial Statements - Continued

Common Stock

The following table provides a reconciliation of the beginning and ending shares of common stock outstanding for the nine months ended September 30, 2015 and the year ended December 31, 2014:

	September 30, 2015	December 31, 2014
Balance, beginning of period	98,828,098	95,924,339
Issuance of common stock	1,546,601	3,073,445
Nonvested share-based awards, net	102,150	(169,686)
Balance, end of period	100,476,849	98,828,098

At-The-Market Equity Offering Program

During the nine months ended September 30, 2015, the Company sold 1,494,914 shares of common stock under its at-the-market equity offering program, generating \$40.8 million in net proceeds at prices ranging from \$25.00 to \$29.15 per share (weighted average of \$27.69 per share). From January 1, 2015 through October 30, 2015, the Company sold 1,658,335 shares of common stock, generating \$45.0 million in net proceeds at prices ranging from \$25.00 to \$29.15 per share (weighted average of \$27.54 per share).

The Company's existing sales agreements with four investment banks allow sales under this program of up to 9,000,000 shares of common stock, with 723,304 authorized shares remaining available to be sold under the these agreements as of October 30, 2015.

Common Stock Dividends

During the first nine months of 2015, the Company declared and paid common stock dividends totaling \$0.90 per share. On November 3, 2015, the Company declared a quarterly common stock dividend in the amount of \$0.30 per share payable on November 30, 2015 to stockholders of record on November 16, 2015.

Accumulated Other Comprehensive Income (Loss)

During the nine months ended September 30, 2015, the Company reclassified \$2.5 million from accumulated other comprehensive loss, which is included in stockholders' equity on the Consolidated Balance Sheets, to net income as a result of the termination of the defined benefit pension plan. See Note 7 for more information regarding the termination of the defined benefit pension plan. Also, during the nine months ended September 30, 2015, the Company recorded an increase to accumulated other comprehensive loss of \$1.6 million, as a result of the settlement and payment of forward-starting interest rate swaps. This amount will be reclassified out of accumulated other comprehensive loss impacting net income over the 10-year term of the associated senior note issuance. See Note 4 for more information regarding the Company's forward starting interest rate swaps.

The following table represents the changes in balances of each component and the amounts reclassified out of accumulated other comprehensive income (loss) related to the Company during the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Forward-starting Interest Rate Swaps		Defined Benefit Pension Plan	
	2015	2014	2015	2014
Beginning balance	\$—	\$—	\$(2,519)	\$51
Other comprehensive income (loss) before reclassifications	(1,684)	—	—	—
Amounts reclassified from accumulated other comprehensive loss arising from loss on defined benefit pension plan	—	—	2,519	—
Amounts reclassified from accumulated other comprehensive loss	73	—	—	—

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Net accumulated other comprehensive income (loss)	(1,611) —	2,519	—
Ending balance	\$(1,611) \$—	\$—	\$51

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Notes to Condensed Consolidated Financial Statements - Continued

Earnings (Loss) Per Common Share

The following table sets forth the computation of basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2015 and 2014.

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average Common Shares outstanding				
Weighted average Common Shares outstanding	100,440,463	97,651,673	100,101,187	96,677,774
Nonvested shares	(1,103,379)	(1,793,639)	(1,107,585)	(1,832,242)
Weighted average Common Shares outstanding—Basic	99,337,084	95,858,034	98,993,602	94,845,532
Weighted average Common Shares outstanding—Basic	99,337,084	95,858,034	98,993,602	94,845,532
Dilutive effect of restricted stock	595,930	1,369,047	597,713	1,346,032
Dilutive effect of employee stock purchase plan	63,541	101,963	102,355	118,854
Weighted average Common Shares outstanding—Diluted	99,996,555	97,329,044	99,693,670	96,310,418
Net Income (Loss)				
Income from continuing operations	\$ 16,848	\$ 8,437	\$ 39,482	\$ 24,920
Noncontrolling interests' share in net income	—	(162)	—	(313)
Income from continuing operations attributable to common stockholders	16,848	8,275	39,482	24,607
Discontinued operations	10,632	(4,284)	11,296	(10,793)
Net income attributable to common stockholders	\$ 27,480	\$ 3,991	\$ 50,778	\$ 13,814
Basic Earnings (Loss) Per Common Share				
Income from continuing operations	\$ 0.17	\$ 0.09	\$ 0.40	\$ 0.26
Discontinued operations	0.11	(0.05)	0.11	(0.11)
Net income attributable to common stockholders	\$ 0.28	\$ 0.04	\$ 0.51	\$ 0.15
Diluted Earnings (Loss) Per Common Share				
Income from continuing operations	\$ 0.17	\$ 0.09	\$ 0.40	\$ 0.26
Discontinued operations	0.10	(0.05)	0.11	(0.12)
Net income attributable to common stockholders	\$ 0.27	\$ 0.04	\$ 0.51	\$ 0.14

Incentive Plans

In May 2015, the Company's shareholders approved the 2015 Stock Incentive Plan (the "Incentive Plan") which authorized the Company to issue up to 3,500,000 shares of common stock to plan participants. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors and will continue until terminated by the Company's Board of Directors.

A summary of the activity under the stock-based incentive plans for the three and nine months ended September 30, 2015 and 2014 is included in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock-based awards, beginning of period	1,103,379	1,837,855	1,057,732	1,788,168
Granted	520	—	112,789	128,199
Vested	(520)	(4,911)	(67,142)	(83,423)
Forfeited	—	(67,798)	—	(67,798)
Stock-based awards, end of period	1,103,379	1,765,146	1,103,379	1,765,146

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During the nine months ended September 30, 2015 and 2014, the Company withheld 10,119 and 16,170 shares of common stock, respectively, from participants to pay estimated withholding taxes related to shares that vested.

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Notes to Condensed Consolidated Financial Statements - Continued

In addition to the Incentive Plan, the Company provides the 2000 Employee Stock Purchase Plan (the "Purchase Plan"). A summary of the activity under the Purchase Plan for the three and nine months ended September 30, 2015 and 2014 is included in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Outstanding and exercisable, beginning of period	365,219	440,471	393,902	391,108
Granted	—	—	197,640	275,655
Exercised	(3,883	) (11,668	) (39,814	) (40,988
Forfeited	(9,807	) (5,219	) (41,253	) (44,316
Expired	—	—	(158,946	) (157,875
Outstanding and exercisable, end of period	351,529	423,584	351,529	423,584

Note 7. Defined Benefit Pension Plan

Effective May 5, 2015, the Company terminated its Executive Retirement Plan. The Company will pay lump sum amounts to the four plan participants. In accordance with Section 409A of the Internal Revenue Code, these amounts will be paid no earlier than twelve and no later than twenty-four months following the termination date. The Second Amendment to the Second Amended and Restated Executive Retirement Plan (the "Termination Amendment"), which provides for the termination of the plan, is incorporated by reference into this Quarterly Report on Form 10-Q.

Additional information regarding the Executive Retirement Plan can be found in the Company's definitive proxy statement filed with the Securities and Exchange Commission in connection with the Company's annual meeting of shareholders held on May 12, 2015.

At September 30, 2015, the Company recognized a total benefit obligation of \$19.6 million in connection with the termination of the Executive Retirement Plan and recorded a charge in the second quarter of 2015 of approximately \$5.3 million, inclusive of the acceleration of \$2.5 million recorded in accumulated other comprehensive loss on the Company's Condensed Consolidated Balance Sheets that was being amortized. The charge includes amounts resulting from assumed additional years of service for two plan participants who have not reached age 65 and payments associated with FICA and other tax obligations.

The Company's chairman and chief executive officer, Mr. David Emery, is the only named executive officer that is a participant under the plan. As a result of the termination of the plan, Mr. Emery will receive a lump sum amount equal to his accrued benefit under the plan of approximately \$14.4 million in May 2016. The Company expects that Mr. Emery and the other officer participants will take the settlement payments in Company stock, but they can elect to receive cash.

The preceding summary is qualified in its entirety by the full text of the Termination Amendment and, in the event of any discrepancy, the text of the Termination Amendment shall control.

Net periodic benefit cost recorded related to the Company's pension plan for the three and nine months ended September 30, 2015 and 2014 is detailed in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Service cost	\$—	\$22	\$29	\$66
Interest cost	—	172	225	515
Amortization of net gain (loss)	—	117	(198	) 352
Amortization of prior service cost (benefit)	—	(297	) 343	(892
Total recognized in net periodic benefit cost	\$—	\$14	\$399	\$41

Note 8. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value.

Cash and cash equivalents - The carrying amount approximates fair value.

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Notes to Condensed Consolidated Financial Statements - Continued

Mortgage notes receivable - The fair value of mortgage notes receivable is estimated based either 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.

Borrowings under the unsecured credit facility due 2017 - The carrying amount approximates fair value because the borrowings are based on variable market interest rates.

Senior unsecured notes payable - 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.

Mortgage notes payable - The fair value is estimated using cash flow analyses, based on the Company's current interest rates for similar types of borrowing arrangements.

The table below details the fair values and carrying values for notes and bonds payable and mortgage notes receivable at September 30, 2015 and December 31, 2014.

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes and bonds payable ⁽¹⁾	\$1,381.3	\$1,396.5	\$1,403.7	\$1,438.8
Mortgage notes receivable ⁽¹⁾	\$—	\$—	\$1.9	\$1.9

⁽¹⁾ Level 3 - Fair value derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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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 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," 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, 2014, 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, 2014.

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of the Company's consolidated financial condition, results of operations and cash flows by focusing on the changes in certain key measures from year to year. MD&A is provided as a supplement to, and should be read in conjunction with, the Company's Condensed Consolidated Financial Statements and accompanying notes. MD&A is organized in the following sections:

Liquidity and Capital Resources

- Trends and Matters Impacting Operating Results

Results of Operations

Liquidity and Capital Resources

Sources and Uses of Cash

The Company's primary sources of cash include rent and interest receipts from its real estate and mortgage portfolio based on contractual arrangements with its tenants, sponsors and borrowers, borrowings under the unsecured credit facility due 2017 ("Unsecured Credit Facility"), proceeds from the sales of real estate properties, the repayment of mortgage notes receivable, and proceeds from public or private debt or equity offerings.

The Company expects to continue to meet its liquidity needs, including funding additional investments, paying dividends, and funding debt service through cash on hand, cash flows from operations, and the cash flow sources described above. The Company had unencumbered real estate assets with a gross book value of approximately \$2.9 billion at September 30, 2015, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

Investing Activities

Cash flows provided by investing activities for the nine months ended September 30, 2015 were approximately \$20.4 million. Below is a summary of the significant investing activities.

¶The Company acquired four real estate properties during the nine months ended September 30, 2015 as listed below:

In January 2015, the Company acquired a 110,679 square foot medical office building in San Jose, California for a purchase price of \$39.3 million, including cash consideration of \$39.0 million and purchase price credits of \$0.3 million. The property is located adjacent to two hospital campuses, Kaiser Permanente, a 106-bed hospital, and Washington Hospital Healthcare System, a 353-bed hospital. Upon acquisition, this property was 97% leased, with leases to the two hospitals comprising 59% of the rentable square feet.

In June 2015, the Company acquired a 35,558 square foot medical office property in Seattle, Washington for a purchase price of \$14.0 million, including cash consideration of \$4.4 million, a purchase price credit of \$0.1 million, and the assumption of debt of \$9.5 million (excluding a \$0.2 million fair value premium recorded upon acquisition).

¶The mortgage note payable assumed by the Company bears a contractual annual interest rate of 5.75% and matures on March 3, 2020. The property is located on the Catholic Health Initiatives campus of Highline Medical Center, a 177-bed general acute care hospital. Upon acquisition, the property was 93% leased, with leases to the hospital comprising 69% of the rentable square feet.

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In September 2015, the Company acquired a 52,813 square foot medical office property in Seattle, Washington for a purchase price of \$28.0 million, including cash consideration of \$18.6 million and the assumption of debt of \$9.4 million (excluding a \$0.3 million fair value premium recorded upon acquisition). The mortgage note payable assumed by the Company bears a contractual annual interest rate of 5.00% and matures on July 10, 2019. The property is located on the campus of Providence Health's Swedish Medical Center, a 624-bed acute care hospital. Upon acquisition, the property was 100% leased by one tenant whose lease expires in 2023.

Also in September 2015, the Company acquired a 47,508 square foot medical office building in Denver, Colorado for a purchase price of \$6.5 million, including cash consideration of \$6.3 million and purchase price credits of \$0.2 million. The property is located in close proximity to Catholic Health Initiatives' St. Anthony Hospital, a 224-bed acute care hospital. Upon acquisition, the building was 73% leased.

The Company disposed of two properties in Indiana, an on-campus medical office building and a surgical facility, a building in Virginia, a medical office building in Pennsylvania, a medical office building in Florida, a medical office building in Arizona, and a medical office building in Missouri in which the Company had an aggregate net investment of \$73.6 million, generating net cash proceeds of \$134.3 million.

▲ Company-financed mortgage note receivable totaling \$1.9 million was repaid.

The Company is in the process of redeveloping two medical office buildings in Tennessee and began constructing an expansion of one of the buildings in the second quarter of 2015. The Company spent approximately \$15.0 million on the redevelopment of these properties through September 30, 2015, including the acquisition of a land parcel for \$5.0 million on which the Company is building a parking garage. The total estimated budget of the redevelopment of these properties is expected to be \$51.8 million and the project is expected to be completed in the first quarter of 2017.

The Company is in the process of redeveloping a medical office building in Alabama, which includes the construction of a parking garage. Construction began in the second quarter of 2015. The total redevelopment budget is expected to be \$15.4 million, of which \$6.1 million has been spent as of September 30, 2015. Construction is expected to be completed in the fourth quarter of 2015.

In the third quarter of 2015, the Company began development of a 12,900 square foot retail center, which is adjacent to two of the Company's existing medical office buildings associated with Baylor Scott & White Health. The total development budget is expected to be \$5.6 million, of which \$1.8 million has been spent as of September 30, 2015. These amounts include \$1.5 million used by the Company to purchase land in 2006 and previously recorded as land held for development. Construction is expected to be completed in the second quarter of 2016.

The Company acquired 0.38 acres of land and a 7,672 square foot medical office building in Tennessee for \$2.0 million. The Company plans to demolish the building and create surface parking. The surface parking will serve as additional parking for the Company's adjacent medical office buildings pending future development.

Subsequent Acquisition

In October 2015, the Company acquired a 33,169 square foot medical office building in Tacoma, Washington for a purchase price of \$8.8 million, including cash consideration of \$7.5 million. Upon acquisition, this property was 100% leased. As part of this transaction, the Company also acquired a neighboring 12,077 square foot vacant office building that the Company intends to demolish and hold for future development. The buildings are located adjacent to Tacoma General Hospital, a 340-bed hospital owned by MultiCare Health.

In November 2015, the Company acquired a 99,942 square foot medical office building in Oakland, California for a purchase price of \$47.0 million, including cash consideration of \$43.1 million. Upon acquisition, the property was 97% leased with expirations through 2026. The building is located on the Sutter Health's Alta Bates Summit Medical Center campus, a 326-bed acute care hospital.

Financing Activities

Cash flows used in financing activities for the nine months ended September 30, 2015 were approximately \$128.8 million. Inflows from accessing the debt and equity markets totaled \$348.5 million, net of costs incurred. Aggregate cash outflows totaled approximately \$477.3 million primarily associated with dividends paid to common stockholders

and repayments of indebtedness. See Notes 3, 4 and 6 to the Condensed Consolidated Financial Statements for more information on capital markets and financing activities.

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Changes in Debt Structure

On April 24, 2015, the Company issued \$250.0 million of unsecured senior notes due 2025 (the "Senior Notes due 2025") in a registered public offering. The Senior Notes due 2025 bear interest at 3.875%, payable semi-annually on May 1 and November 1, beginning November 1, 2015, and are due on May 1, 2025, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$0.2 million, which yielded a 3.885% interest rate per annum upon issuance. The Company incurred approximately \$2.3 million in debt issuance costs that are included in Other assets, which will be amortized to maturity. Concurrent with this transaction, the Company settled four forward starting swap agreements for \$1.7 million. The Senior Notes due 2025 have various financial covenants that are required to be met on a quarterly and annual basis.

On May 15, 2015, the Company redeemed its unsecured senior notes due 2017 (the "Senior Notes due 2017") at a redemption price equal to an aggregate of \$333.2 million, consisting of outstanding principal of \$300.0 million, accrued interest of \$6.4 million, and a "make-whole" amount of approximately \$26.8 million for the early extinguishment of debt. The unaccreted discount and unamortized costs on these notes of \$1.2 million was written off upon redemption. The Company recognized a loss on early extinguishment of debt of approximately \$28.0 million related to this redemption.

In September 2015, the Company received a credit rating upgrade. This upgrade coupled with another upgrade that the Company received earlier in the year, resulted in a decrease in the spread over LIBOR on outstanding borrowings on the unsecured credit facility due 2017 (decreasing from 1.40% to 1.15%) and the unsecured term loan facility due 2019 (decreasing from 1.45% to 1.20%). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments on its unsecured credit facility due 2017 that decreased from 0.3% to 0.2%. The rate decreases were effective on September 14, 2015.

As of September 30, 2015, the Company's outstanding balance on the Unsecured Credit Facility was \$142.0 million, with a remaining borrowing capacity of approximately \$558.0 million. The Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 41.4%.

The following mortgage notes payable were repaid during the nine months ended September 30, 2015:

- On January 30, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.45% with outstanding principal of \$15.0 million and accrued interest as of the redemption date of \$0.1 million. The mortgage note encumbered a 73,548 square foot medical office building located in Washington State.

On April 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.0% with outstanding principal of \$10.2 million. The mortgage note encumbered a 44,169 square foot medical office building located in Washington State.

On May 4, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.41% with outstanding principal of \$16.3 million and accrued interest as of the redemption date of \$0.1 million. The mortgage note encumbered a 142,856 square foot medical office building located in Virginia.

On June 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.25% with outstanding principal of \$4.0 million. The mortgage note encumbered a 29,423 square foot medical office building located in Texas.

The following mortgage notes payable were assumed during the nine months ended September 30, 2015:

On June 26, 2015, upon acquisition of a 35,558 square foot medical office property in Seattle, Washington, the Company assumed a \$9.5 million mortgage note payable (excluding a fair value premium adjustment of \$0.2 million). The mortgage note payable has a contractual interest rate of 5.75% (effective rate of 5.07%).

On September 1, 2015, upon acquisition of a 52,813 square foot medical office property in Seattle, Washington, the Company assumed a \$9.4 million mortgage note payable (excluding a fair value premium adjustment of \$0.3 million). The mortgage note payable has a contractual interest rate of 5.00% (effective rate of 4.17%).

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such debt agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth, and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At September 30, 2015, the Company was in compliance with the

financial covenant provisions under all of its various debt instruments.

Subsequent Activity

On October 1, 2015, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.4% with outstanding principal of \$10.6 million. The mortgage note encumbered a 88,408 square foot medical office building located in Virginia.

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Common Stock Issuances

During the nine months ended September 30, 2015, the Company sold 1,494,914 shares of common stock under its at-the-market equity offering program, generating \$40.8 million in net proceeds at prices ranging from \$25.00 to \$29.15 per share (weighted average of \$27.69 per share). From January 1, 2015 through October 30, 2015, the Company sold 1,658,335 shares of common stock, generating \$45.0 million in net proceeds at prices ranging from \$25.00 to \$29.15 per share (weighted average of \$27.54 per share).

The Company's existing sales agreements with four investment banks allow sales under this program of up to 9,000,000 shares of common stock, with 723,304 authorized shares remaining available to be sold under the these agreements as of October 30, 2015.

Operating Activities

Cash flows provided by operating activities increased from \$77.7 million for the nine months ended September 30, 2014 to \$113.3 million for the nine months ended September 30, 2015. Several items impact cash flows from operations including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipts of tenant rent.

The Company may from time to time sell additional properties and redeploy cash from property sales and mortgage repayments into new investments. To the extent revenues related to the properties being sold and the mortgages being repaid exceed income from these new investments, the Company's results of operations and cash flows could be adversely affected.

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.

New Accounting Pronouncements

See Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report for information on new accounting standards not yet adopted. The Company is still evaluating the impact of these new standards.

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and the REIT industry 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, 2014, below are some of the factors and trends that management believes may impact future operations of the Company.

Expiring Leases

The Company expects that approximately 10% to 20% of the leases in its multi-tenanted portfolio will expire each year in the ordinary course of business. There are 411 leases that have expired or will expire during 2015, including those in holdover. Approximately 89% of the leases expiring in 2015 are located in buildings on hospital campuses, are distributed throughout the portfolio, and are not concentrated with any one tenant, health system or market area. The Company typically expects 75% to 90% of multi-tenant property leases to renew upon expiration, and the renewals for the first nine months of the year have been within this range.

Operating Expenses

The Company has historically experienced increases in property taxes throughout its portfolio as a result of increasing assessments and tax rates levied across the country. The Company continues its efforts to appeal property tax increases and manage the impact of the increases. In addition, the Company has historically incurred variability in portfolio utilities expense based on seasonality with the first and third quarters usually reflecting greater amounts. The effects of these operating expense increases are mitigated in leases that have provisions for operating expense reimbursement. As of September 30, 2015, 83% of the Company's multi-tenant leased square footage allows for some recovery of operating expenses, with 51% recovering all allowable expenses.

Termination of Defined Benefit Pension Plan

The Company has had a defined benefit pension plan, referred to elsewhere in this report as the "Executive Retirement Plan", since its inception that provides benefits for three founding officers and the surviving spouse of another founding officer. No participants have been added to the plan since 1994. The plan was subject to non-cash valuation fluctuations each year based on changes in mortality assumptions and changing discount rates. Given these fluctuations and the applicability of the plan to only a small number of Company employees, on May 5, 2015, the Company terminated the plan to eliminate a level of volatility and uncertainty to the Company's financial results. See Note 7 to the Condensed Consolidated Financial Statements for additional information regarding the plan termination and the future payments of benefits to the plan participants.

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Casualty Loss

The Company owns a medical office building in Oklahoma that sustained damage from a tornado on May 6, 2015. As of September 30, 2015, the Company estimated its expenditures related to returning the property to its previous operating condition to be approximately \$2.4 million. The Company estimates recoveries for restoration costs of approximately \$2.3 million. In addition, as of September 30, 2015, the Company estimated that it will receive insurance proceeds related to lost rental revenue of approximately \$0.4 million for the period of May 6, 2015 to September 30, 2015. This amount was recognized in rental income on the Company's Condensed Consolidated Statements of Operations. The Company believes that it is probable that it will recover any losses due to business interruption and expects all repairs to be completed and tenants to return to occupancy throughout the remainder of the year.

Non-GAAP Financial Measures

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, management considers certain non-GAAP financial measures to be useful supplemental measures of the Company's operating performance. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Set forth below are descriptions of the non-GAAP financial measures management considers relevant to the Company's business and useful to investors, as well as reconciliations of these measures to the most directly comparable GAAP financial measures.

The non-GAAP financial measures presented herein are not necessarily identical to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. These measures should not be considered as alternatives to net income (determined in accordance with GAAP), as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of the Company's liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of the Company's needs. Management believes that in order to facilitate a clear understanding of the Company's consolidated historical operating results, these measures should be examined in conjunction with net income as presented in the Condensed Consolidated Financial Statements and other financial data included elsewhere in this report.

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 related to real estate properties, leasing commission amortization and after adjustments for unconsolidated partnerships and joint ventures." The Company follows the NAREIT definition in calculating and presenting FFO and FFO per share.

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 or losses 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. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share. However, FFO does not represent cash

generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income attributable to common stockholders as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

FFO for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was primarily impacted by the various acquisitions and dispositions during the period, the effects of capital market transactions and the results of operations of the portfolio from period to period.

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FFO for the nine months ended September 30, 2015 was negatively impacted by \$28.0 million, or \$0.28 per common share, as a result of the loss on extinguishment of debt and \$5.3 million, or \$0.05 per common share, as a result of the termination of the Executive Retirement Plan.

The table below reconciles FFO to net income attributable to common stockholders for the three and nine months ended September 30, 2015 and 2014:

(Amounts in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net Income Attributable to Common Stockholders	\$27,480	\$3,991	\$50,778	\$13,814
Gain on sales of properties	(16,486	) —	(58,035	) (3
Impairments of real estate assets	310	4,505	3,638	11,034
Leasing commission amortization ⁽¹⁾	879	753	2,563	2,190
Real estate depreciation and amortization	28,438	27,697	85,513	80,963
Total adjustments	13,141	32,955	33,679	94,184
Funds from Operations Attributable to Common Stockholders	\$40,621	\$36,946	\$84,457	\$107,998
Funds from Operations per Common Share—Basic	\$0.41	\$0.39	\$0.85	\$1.14
Funds from Operations per Common Share—Diluted	\$0.41	\$0.38	\$0.85	\$1.12
Weighted Average Common Shares Outstanding—Basic	99,337	95,858	98,994	94,846
Weighted Average Common Shares Outstanding—Diluted	99,997	97,329	99,694	96,310

In the third quarter of 2015, the Company began including an add-back for leasing commission amortization in order to provide a better basis for comparing its results of operations with those of others in the industry, consistent with the NAREIT definition of FFO. For the three months ended September 30, 2014, funds from operations per basic and diluted common share was previously reported as \$0.38 and \$0.37, respectively. For the nine months ended September 30, 2014, funds from operations per basic and diluted common share was previously reported as \$1.12 and \$1.10, respectively.

Same Store Net Operating Income

Net operating income ("NOI") and same store NOI are non-GAAP historical financial measures of performance. Management considers same store NOI a supplemental measure because it allows investors, analysts and Company management to measure unlevered property-level operating results. The Company defines NOI as operating revenues (property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue) less property operating expenses related specifically to the property portfolio. NOI excludes straight-line rent, general and administrative expenses, interest expense, depreciation and amortization, gains and losses from property sales, property management fees and other revenues and expenses not specifically related to the property portfolio. Same store NOI is historical and not necessarily indicative of future results.

The following table reflects the Company's same store NOI for the three months ended September 30, 2015 and 2014.

(Dollars in thousands)	Number of Properties	Investment at September 30, 2015	Same Store NOI for the Three Months Ended September 30,	
			2015	2014
Multi-tenant Properties	128	\$2,068,277	\$36,601	\$34,363
Single-tenant Net Lease Properties	32	561,137	13,965	13,515
Total	160	\$2,629,414	\$50,566	\$47,878

Properties included in the same store analysis are generally stabilized properties that have been included in operations and are consistently reported as leased and stabilized properties for the duration of the year-over-year comparison period presented. Accordingly, properties that were recently acquired or disposed of, and properties classified as held for sale are excluded from the same store analysis. In addition, the Company excludes properties that have less than 60% occupancy or that experience a loss of occupancy over 30% in a single quarter that is expected to continue for a period of at least two quarters.

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The following tables reconcile same store NOI to the respective line items in the Condensed Consolidated Statements of Operations and the same store property count to the total owned real estate portfolio:

Reconciliation of Same Store NOI:

(Dollars in thousands)	Three Months Ended September 30,	
	2015	2014
Rental income	\$95,383	\$92,095
Rental lease guaranty income ^(a)	999	1,100
Property operating expense	(35,247	) (34,204
Exclude Straight-line rent revenue ^(b)	(2,309	) (3,046
NOI	58,826	55,945
NOI not included in same store	(8,260	) (8,067
Same store NOI	\$50,566	\$47,878

(a) Other operating income reconciliation:

Rental lease guaranty income	\$999	\$1,100
Interest income	144	246
Management fee income	123	72
Other	47	56
	\$1,313	\$1,474

(b) Rental income reconciliation:

Property operating	\$76,960	\$71,847
Single-tenant net lease	16,114	17,202
Straight-line rent	2,309	3,046
	\$95,383	\$92,095

Reconciliation of Same Store Property Count:

	Property Count as of September 30, 2015
Same Store Properties	160
Acquisitions	17
Reposition	18
Total Owned Real Estate Properties	195

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Results of Operations

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

The Company's results of operations for the three months ended September 30, 2015 compared to the same period in 2014 were significantly impacted by acquisitions, dispositions, impairments recorded, gains on sales of real estate, capital markets transactions and changes due to the Company's adoption of Accounting Standards Update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

Revenues

Rental income increased \$3.3 million, or 3.6%, to approximately \$95.4 million for the three months ended September 30, 2015 compared to \$92.1 million in the prior year period and is comprised of the following:

(Dollars in thousands)	Three Months Ended		Change		
	September 30,				
	2015	2014	\$	%	%
Property operating	\$76,960	\$71,847	\$5,113	7.1	%
Single-tenant net lease	16,114	17,202	(1,088)	(6.3))%
Straight-line rent	2,309	3,046	(737)	(24.2))%
Total rental income	\$95,383	\$92,095	\$3,288	3.6	%

Property operating income increased \$5.1 million, or 7.1%, from the prior year period primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 contributed \$2.8 million.
- Leasing activity including contractual rent increases contributed \$2.4 million.
- Conversion from single-tenant net lease caused an increase of \$0.2 million.
- Conversion to single-tenant net lease caused a decrease of \$0.3 million.

Single-tenant net lease revenue decreased \$1.1 million, or 6.3%, from the prior year period primarily as a result of the following activity:

- Dispositions in 2015 caused a decrease of \$1.5 million.
- Conversion to property operating income caused a decrease of \$0.3 million.
- Conversion from property operating income caused an increase of \$0.5 million.
- Leasing activity including contractual rent increases contributed \$0.2 million.

Straight-line rent decreased \$0.7 million, or 24.2%, from the prior year period primarily as a result of the following activity:

- Net leasing activity including contractual rent increases and the effects of prior year rent abatements that expired resulted in a decrease of \$0.9 million.
- Acquisitions in 2014 and 2015 caused an increase of \$0.1 million.
- Dispositions in 2015 caused an increase of \$0.1 million.

Expenses

Property operating expenses increased \$1.0 million, or 3.0%, for the three months ended September 30, 2015 compared to the prior year period primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 caused an increase of \$1.0 million.

The Company experienced increases in portfolio property tax of approximately \$0.3 million and compensation-related expenses of approximately \$0.1 million.

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The Company experienced overall decreases in utilities of approximately \$0.1 million and maintenance and repair expense of approximately \$0.2 million.

General and administrative expenses increased approximately \$1.1 million, or 20.7%, for the three months ended September 30, 2015 compared to the prior year period primarily due to non-cash compensation-related expenses. Depreciation expense increased \$1.2 million, or 4.8%, for the three months ended September 30, 2015 compared to the prior year period primarily as a result of the following activity:

• Acquisitions in 2014 and 2015 caused an increase of \$0.9 million.

• Dispositions from 2015 caused a decrease of \$0.6 million

• Assets becoming fully depreciated caused a decrease of \$0.6 million.

• The remaining \$1.5 million increase is primarily related to various building and tenant improvement expenditures.

Other income (expense)

In 2015, the Company recorded gains on the sale of two properties of approximately \$5.9 million and an impairment charge related to the sale of one property of approximately \$0.3 million. The gains and impairment charge are included in Income from Continuing Operations in the Company's Condensed Consolidated Statements of Operations. Prior to the Company's January 1, 2015 adoption of ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," these gains and the impairment charge would have been recorded in discontinued operations.

Interest expense decreased \$3.1 million for the three months ended September 30, 2015 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	Three Months Ended September 30,		Change		
	2015	2014	\$	%	
Contractual interest	\$14,445	\$17,178	\$(2,733)	(15.9))%
Net discount/premium accretion	(28)	) 220	(248)	(112.7))%
Deferred financing costs amortization	734	794	(60)	(7.6))%
Interest rate swap amortization	42	—	42	—	%
Interest cost capitalization	(80)	) —	(80)	—	%
Total interest expense	\$15,113	\$18,192	\$(3,079)	(16.9))%

Total interest expense decreased \$3.1 million primarily due to the following activity:

• The redemption of the Senior Notes due 2017 resulted in a decrease in interest expense of approximately \$5.0 million.

• Mortgage notes payable repayments resulted in a decrease in interest expense of approximately \$0.9 million.

• Capitalized interest caused a decrease in interest expense of \$0.1 million due to development activity.

• Deferred financing costs amortization decreased interest expense by \$0.1 million.

• The issuance of the Senior Notes due 2025 caused an increase in interest expense of approximately \$2.5 million.

• Borrowings under the Unsecured Credit Facility caused an increase in interest expense of approximately \$0.2 million.

• Mortgage notes payable assumed as part of the Company's 2014 and 2015 acquisitions resulted in an increase in interest expense of approximately \$0.3 million.

Interest and other income decreased primarily due to a gain recognized on insurance proceeds in 2014 of approximately \$0.3 million.

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Discontinued Operations

Results from discontinued operations for the three months ended September 30, 2015 were income of \$10.6 million compared to a loss of \$4.3 million for the three months ended September 30, 2014. These amounts include the results of operations and a gain on the sale of a real estate property related to assets classified as held for sale or disposed of as of December 31, 2014. See Note 2 to the Company's Condensed Consolidated Financial Statements accompanying this report for more detail regarding the impact of the Company's January 1, 2015 adoption of ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

Results of Operations

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The Company's results of operations for the nine months ended September 30, 2015 compared to the same period in 2014 were significantly impacted by acquisitions, dispositions, impairments recorded, gains on sales of real estate, capital markets transactions and changes due to the Company's adoption of ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

Revenues

Rental income increased \$18.0 million, or 6.7%, to approximately \$285.9 million for the nine months ended September 30, 2015 compared to \$267.9 million in the prior year period and is comprised of the following:

(Dollars in thousands)	Nine Months Ended		Change		
	September 30,				
	2015	2014	\$	%	
Property operating	\$227,084	\$212,151	\$14,933	7.0	%
Single-tenant net lease	51,167	47,879	3,288	6.9	%
Straight-line rent	7,616	7,847	(231)	(2.9))%
Total rental income	\$285,867	\$267,877	\$17,990	6.7	%

Property operating income increased \$14.9 million, or 7.0%, from the prior year period primarily as a result of the following activity:

- ▲ Acquisitions in 2014 and 2015 contributed \$9.9 million.
- Leasing activity including contractual rent increases contributed \$5.4 million.
- Conversion from single-tenant net lease caused an increase of \$0.6 million.
- Conversion to single-tenant net lease caused a decrease of \$1.0 million.

Single-tenant net lease revenue increased \$3.3 million, or 6.9%, from the prior year period primarily as a result of the following activity:

- ▲ An acquisition in 2014 contributed \$2.8 million.
- Leasing activity including contractual rent increases contributed \$1.6 million.
- Conversion from property operating income caused an increase of \$1.4 million.
- Conversion to property operating income caused a decrease of \$0.9 million.
- ◆ Dispositions in 2015 caused a decrease of \$1.6 million.

Straight-line rent decreased \$0.2 million, or 2.9%, from the prior year period primarily as a result of the following activity:

- Net leasing activity including contractual rent increases and the effects of prior year rent abatements that expired resulted in a decrease of \$1.0 million.
- ▲ Acquisitions in 2014 and 2015 caused an increase of approximately \$0.3 million.
- ◆ Dispositions in 2015 caused an increase of approximately \$0.5 million.

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Mortgage interest income decreased \$3.5 million, or 97.5%, from the prior year period primarily as a result of the following activity:

• Mortgage interest income decreased approximately \$1.0 million related to a mortgage note receivable as a result of the Company's receipt of a deed in lieu of foreclosure during the first quarter of 2014.

• The Company's 2014 acquisition of a property in Oklahoma affiliated with Mercy Health previously funded under a construction mortgage note receivable resulted in a decrease of \$2.4 million.

• Other payoffs, offset by fundings, resulted in a decrease of \$0.1 million.

Expenses

Property operating expenses increased \$2.8 million, or 2.7%, for the nine months ended September 30, 2015 compared to the prior year period primarily as a result of the following activity:

• Acquisitions in 2014 and 2015 caused an increase of \$3.6 million.

• The Company experienced increases in leasing costs of approximately \$0.4 million.

• The Company experienced overall decreases in utilities of approximately \$0.2 million and maintenance and repairs expense of approximately \$0.9 million.

• Dispositions in 2015 caused a decrease of \$0.1 million.

General and administrative expenses increased approximately \$2.9 million, or 17.2%, for the nine months ended September 30, 2015 compared to the prior year period primarily due to non-cash compensation-related expenses.

Depreciation expense increased \$6.0 million, or 8.2%, for the nine months ended September 30, 2015 compared to the prior year period primarily as a result of the following activity:

• Properties acquired in 2014 and 2015 contributed an increase of \$4.0 million.

• Dispositions from 2015 caused a decrease of \$0.7 million

• Assets becoming fully depreciated caused a decrease of \$1.6 million.

• The remaining \$4.3 million increase is primarily related to various building and tenant improvement expenditures.

Other income (expense)

In 2015, the Company recorded gains on the sale of five properties of approximately \$47.5 million and impairment charges on the sale of one property of approximately \$0.3 million upon disposition and approximately \$3.3 million to adjust the carrying value less costs to sell on a property that was reclassified to held for sale due to management's decision to sell. The gains and impairment charges are included in Income from Continuing Operations in the Company's Condensed Consolidated Statements of Operations. Prior to the Company's January 1, 2015 adoption of ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," these gains and impairments would have been recorded in discontinued operations.

Interest expense decreased \$3.5 million for the nine months ended September 30, 2015 compared to the prior year period. The components of interest expense are as follows:

	Nine Months Ended September		Change		
	2015	2014	\$	%	
(Dollars in thousands)					
Contractual interest	\$47,938	\$51,117	\$(3,179)	(6.2))%
Net discount/premium accretion	426	717	(291)	(40.6))%
Deferred financing costs amortization	2,325	2,342	(17)	(0.7))%
Interest rate swap amortization	73	—	73	—	%
Interest cost capitalization	(113)	—	(113)	—	%
Total interest expense	\$50,649	\$54,176	\$(3,527)	(6.5))%

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Total interest expense decreased \$3.5 million primarily due to the following activity:

• The redemption of the Senior Notes due 2017 resulted in a decrease in interest expense of approximately \$7.6 million.

• Mortgage notes payable repayments resulted in a decrease in interest expense of approximately \$1.7 million.

• Capitalized interest caused a decrease in interest expense of \$0.1 million due to development activity.

• Deferred financing costs amortization decreased interest expense by approximately \$0.2 million.

• The issuance of the Senior Notes due 2025 caused an increase in interest expense of approximately \$4.4 million.

• Borrowings under the unsecured credit facility and the unsecured term loan facility caused an increase in interest expense of approximately \$0.9 million.

• Mortgage notes payable assumed as part of the Company's 2014 and 2015 acquisitions resulted in an increase in interest expense of approximately \$0.8 million.

Loss on extinguishment of debt of approximately \$28.0 million is associated with the redemption of the Senior Notes due 2017. See Note 3 to the Condensed Consolidated Financial Statements for more information.

Pension termination expense of approximately \$5.3 million represents the effect of the Company's termination of the Executive Retirement Plan in 2015. See Note 7 to the Condensed Consolidated Financial Statements for more information.

The Company recognized an impairment of internally-developed software of approximately \$0.7 million in 2015, which was abandoned for a third party program that was previously unavailable.

Interest and other income decreased approximately \$2.2 million primarily due to a refund received in 2014 of the overpayment of prior year expenses of approximately \$1.9 million.

Discontinued Operations

Results from discontinued operations for the nine months ended September 30, 2015 were income of \$11.3 million compared to a loss of \$10.8 million for the nine months ended September 30, 2014. These amounts include the results of operations, gains on the sales of a real estate properties, and impairments related to assets classified as held for sale or disposed of as of December 31, 2014. See Note 2 to the Company's Condensed Consolidated Financial Statements accompanying this report for more detail, regarding the impact of the Company's January 1, 2015 adoption of ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

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 nine months ended September 30, 2015, 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, 2014.

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 is, from time to time, involved in litigation arising in the ordinary course of business. The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial 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, 2014, 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 for the year ended December 31, 2014, 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	Description
Exhibit 3.1	Second Articles of Amendment and Restatement of the Company, as amended ⁽¹⁾
Exhibit 3.2	Amended and Restated Bylaws of the Company, as amended ⁽¹⁾
Exhibit 4.1	Specimen Stock Certificate ⁽²⁾
Exhibit 4.2	Indenture, dated as of May 15, 2001, by and between the Company and Regions Bank, as trustee ⁽³⁾
Exhibit 4.3	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Regions Bank, as Trustee ⁽⁴⁾
Exhibit 4.4	Form of 6.50% Senior Notes due 2017 (set forth in Exhibit B to the Third Supplemental Indenture filed as Exhibit 4.3 thereto) ⁽⁴⁾
Exhibit 4.5	Fourth Supplemental Indenture, dated December 13, 2010, by and between the Company and Regions Bank, as Trustee ⁽⁵⁾
Exhibit 4.6	Form of 5.750% Senior Notes due 2021 (set forth in Exhibit B to the Fourth Supplemental Indenture filed as Exhibit 4.5 thereto) ⁽⁵⁾
Exhibit 4.7	Fifth Supplemental Indenture, dated March 26, 2013, by and between the Company and Regions Bank, as Trustee ⁽⁶⁾
Exhibit 4.8	Form of 3.75% Senior Notes due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit 4.7 thereto) ⁽⁶⁾
Exhibit 4.9	Sixth Supplemental Indenture, dated April 24, 2015, by and between the Company and Regions Bank, as Trustee ⁽⁷⁾
Exhibit 4.10	Form of 3.875% Senior Notes due 2025 (set forth in Exhibit B to the Sixth Supplemental Indenture filed as Exhibit 4.9 thereto) ⁽⁷⁾
Exhibit 10.1	Second Amendment to Healthcare Realty Trust Incorporated Second Amended and Restated Executive Retirement Plan, dated as of May 5, 2015 ⁽⁸⁾
Exhibit 10.2	Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan ⁽⁹⁾
Exhibit 10.3	Amendment No. 1 to Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan ⁽¹⁾
Exhibit 10.4	Amendment No. 2 to the 2010 Restricted Stock Implementation For Non-Employee Directors ⁽¹⁾
Exhibit 10.5	Amendment No. 1 to the Executive Incentive Program of Healthcare Realty Trust Incorporated ⁽¹⁾
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 5 to the Condensed Consolidated Financial Statements)
Exhibit 31.1	

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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 (filed herewith)

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)

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

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

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

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

(1) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2015 and hereby incorporated by reference.

(2) 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.

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

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

(5) Filed as an exhibit to the Company's Form 8-K filed December 13, 2010 and hereby incorporated by reference.

(6) Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporated by reference.

(7) Filed as an exhibit to the Company's Form 8-K filed April 24, 2015 and hereby incorporated by reference.

(8) Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2015 and hereby incorporated by reference.

(9) Filed as Appendix B to the Company's proxy statement filed March 30, 2015 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: November 4, 2015

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