HEALTHCARE REALTY TRUST INC
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2017
OR
o 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	62 – 1507028
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 31, 2017, the Registrant had 116,545,032 shares of Common Stock outstanding.

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HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
June 30, 2017

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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) June 30, 2017	December 31, 2016
ASSETS		
Real estate properties:		
Land	$ 193,072	$ 199,672
Buildings, improvements and lease intangibles	3,388,734	3,386,480
Personal property	10,155	10,291
Construction in progress	—	11,655
Land held for development	20,123	20,123
	3,612,084	3,628,221
Less accumulated depreciation and amortization	(864,573)	(840,839)
Total real estate properties, net	2,747,511	2,787,382
Cash and cash equivalents	2,033	5,409
Restricted cash	9,151	49,098
Assets held for sale and discontinued operations, net	8,767	3,092
Other assets, net	191,036	195,666
Total assets	$ 2,958,498	$ 3,040,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	$ 1,203,146	$ 1,264,370
Accounts payable and accrued liabilities	62,121	78,266
Liabilities of properties held for sale and discontinued operations	398	614
Other liabilities	46,556	43,983
Total liabilities	1,312,221	1,387,233
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value per share; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value per share; 300,000 and 150,000 shares authorized; 116,545 and 116,417 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,165	1,164
Additional paid-in capital	2,923,519	2,917,914
Accumulated other comprehensive loss	(1,316)	(1,401)
Cumulative net income attributable to common stockholders	1,052,326	995,256
Cumulative dividends	(2,329,417)	(2,259,519)
Total stockholders' equity	1,646,277	1,653,414
Total liabilities and stockholders' equity	$ 2,958,498	$ 3,040,647

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, 2016, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2017 and 2016
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Rental income	$104,869	$101,472	$208,957	$200,212
Other operating	376	1,170	857	2,451
	105,245	102,642	209,814	202,663
EXPENSES				
Property operating	38,184	36,263	76,018	71,668
General and administrative	8,005	7,756	16,699	15,828
Acquisition and pursuit costs	785	373	1,371	2,547
Depreciation and amortization	34,823	31,290	69,274	61,684
Bad debts, net of recoveries	105	78	171	39
	81,902	75,760	163,533	151,766
OTHER INCOME (EXPENSE)				
Gain on sales of real estate assets	16,124	1	39,527	1
Interest expense	(14,315)	(14,815)	(28,587)	(29,753)
Pension termination	—	(4)	—	(4)
Impairment of real estate assets	(5)	—	(328)	—
Interest and other income, net	77	93	189	179
	1,881	(14,725)	10,801	(29,577)
INCOME FROM CONTINUING OPERATIONS	25,224	12,157	57,082	21,320
DISCONTINUED OPERATIONS				
Loss from discontinued operations	—	(19)	(17)	(27)
Gain on sales of real estate properties	—	7	5	7
LOSS FROM DISCONTINUED OPERATIONS	—	(12)	(12)	(20)
NET INCOME	$25,224	$12,145	$57,070	$21,300
BASIC EARNINGS PER COMMON SHARE:				
Income from continuing operations	$0.22	$0.12	$0.50	$0.21
Discontinued operations	0.00	0.00	0.00	0.00
Net income	$0.22	$0.12	$0.50	$0.21
DILUTED EARNINGS PER COMMON SHARE:				
Income from continuing operations	$0.22	$0.12	$0.49	$0.21
Discontinued operations	0.00	0.00	0.00	0.00
Net income	$0.22	$0.12	$0.49	$0.21
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC	114,721	103,988	114,698	102,710
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—DILUTED	115,674	104,770	115,597	103,471
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	$0.30	$0.30	$0.60	$0.60

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, 2016, 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 Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	$25,224	$12,145	$57,070	$21,300
Other comprehensive income:				
Forward starting interest rate swaps:				
Reclassification adjustment for losses included in net income (Interest expense)	42	42	85	84
Total other comprehensive income	42	42	85	84
COMPREHENSIVE INCOME	$25,266	$12,187	$57,155	$21,384

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, 2016, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statement of Equity
(Dollars in thousands, except per share data)
(Unaudited)

	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, 2016	$ 1,164	$2,917,914	$ (1,401)	$ 995,256	$(2,259,519)	$1,653,414
Issuance of common stock	—	1,041	—	—	—	1,041
Common stock redemptions	—	(502)	—	—	—	(502)
Stock-based compensation	1	5,066	—	—	—	5,067
Net income	—	—	—	57,070	—	57,070
Reclassification of loss on forward starting interest rate swaps	—	—	85	—	—	85
Dividends to common stockholders ($0.60 per share)	—	—	—	—	(69,898)	(69,898)
Balance at June 30, 2017	$ 1,165	$2,923,519	$ (1,316)	$ 1,052,326	$(2,329,417)	$1,646,277

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$57,070	$21,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,504	63,280
Stock-based compensation	5,067	3,798
Amortization of straight-line rent receivable	(3,534)	(4,223)
Amortization of straight-line rent liability	316	368
Gain on sales of real estate assets	(39,532)	(8)
Impairment of real estate assets	328	—
Provision for bad debts, net	171	39
Changes in operating assets and liabilities:		
Other assets	536	3,139
Accounts payable and accrued liabilities	(10,236)	(7,927)
Other liabilities	2,281	(20,287)
Net cash provided by operating activities	83,971	59,479
INVESTING ACTIVITIES		
Acquisitions of real estate	(53,536)	(63,172)
Development of real estate	(10,098)	(18,982)
Additional long-lived assets	(36,329)	(29,286)
Proceeds from sales of real estate	117,010	—
Proceeds from mortgages and notes receivable repayments	10	9
Net cash provided by (used in) investing activities	17,057	(111,431)
FINANCING ACTIVITIES		
Net repayments on unsecured credit facility	(72,000)	(16,000)
Borrowings of notes and bonds payable	—	11,500
Repayments on notes and bonds payable	(2,249)	(19,963)
Dividends paid	(69,898)	(62,239)
Net proceeds from issuance of common stock	1,005	145,125
Common stock redemptions	(1,125)	(1,282)
Debt issuance and assumption costs	(84)	(265)
Net cash (used in) provided by financing activities	(144,351)	56,876
(Decrease) increase in cash, cash equivalents and restricted cash	(43,323)	4,924
Cash, cash equivalents and restricted cash at beginning of period	54,507	4,102
Cash, cash equivalents and restricted cash at end of period	$11,184	$9,026
Supplemental Cash Flow Information:		
Interest paid	$27,570	$28,692
Invoices accrued for construction, tenant improvements and other capitalized costs	$6,355	$12,745
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	$12,460	$13,951
Capitalized interest	$484	$452

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, 2016, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated

Notes to the Condensed Consolidated Financial Statements
June 30, 2017
(Unaudited)

Note 1. Summary of Significant Accounting Policies
Business Overview
Healthcare Realty Trust Incorporated (the "Company") is a self-managed, self-administered real estate investment trust ("REIT") that integrates owning, leasing, managing, financing, developing and redeveloping income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. As of June 30, 2017, the Company had gross investments of approximately $3.6 billion in 197 real estate properties located in 26 states totaling approximately 14.5 million square feet. The Company provided leasing and property management services to approximately 10.9 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 the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2016. All material intercompany transactions and balances have been eliminated in consolidation.

This interim financial information should be read in conjunction with the financial statements included in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. 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, 2017 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.
Cash, Cash Equivalents and Restricted Cash
Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased. Restricted cash includes cash held in escrow in connection with proceeds from the sales of certain real estate properties. These sales proceeds will be disbursed as the Company acquires real estate investments under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The carrying amount approximates fair value due to the short term maturity of these investments. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Company's Consolidated Balance Sheets to the combined amounts shown on the Company's Consolidated Statements of Cash Flows:

(Dollars in thousands)	6/30/2017	12/31/2016
Cash and cash equivalents	$ 2,033	$ 5,409
Restricted cash	9,151	49,098
Total cash, cash equivalents and restricted cash	$ 11,184	$ 54,507

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Reclassifications

Condensed Consolidated Statements of Income

Certain reclassifications have been made on the Company's Condensed Consolidated Statements of Income. The Company reclassified acquisition and pursuit costs from the general and administrative line item to a separate line item. The acquisition and pursuit costs line item includes direct third party and travel costs related to the Company's pursuit of acquisitions and developments. In addition, the Company combined the line items labeled depreciation and amortization into one line item. These reclassifications are as follows:

	June 30, 2016			
	Three Months Ended		Six Months Ended	
(in thousands)	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
General and administrative	$8,129	$ 7,756	$18,375	$ 15,828
Acquisition and pursuit costs	—	373	—	2,547
Total	$8,129	$ 8,129	$18,375	$ 18,375
Depreciation	$28,528	$ —	$56,221	$ —
Amortization	2,762	—	5,463	—
Depreciation and amortization	—	31,290	—	61,684
Total	$31,290	$ 31,290	$61,684	$ 61,684

New Accounting Pronouncements

Accounting Standards Update No. 2014-09 and No. 2015-14

In May 2014, the Financial Accounting Standards Board ("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 other 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 plans on adopting this standard by using the full retrospective adoption method beginning on January 1, 2018. The Company's revenue-producing contracts are primarily leases that are not within the scope of this standard. As a result, the Company does not expect the adoption of this standard to have a material impact on the timing and measurement of the Company's leasing revenues. The Company is continuing to evaluate the impact on other revenue sources. However, the Company does expect additional disclosures that are required from the adoption of this standard.

Accounting Standards Update No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, "Leases." For lessees, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company expects that all of the leases where

the Company is the lessee will be recorded on the Company's balance sheet. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, then the lease would be classified as an operating lease.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

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Accounting Standards Update No. 2016-13

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments. This update requires that financial statement assets measured at an amortized cost and certain other financial instruments be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2016-15

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." This update clarifies whether the following items should be classified as operating, investing or financing in the statement of cash flows: (i) debt prepayments and extinguishment costs, (ii) settlement of zero-coupon debt, (iii) settlement of contingent consideration, (iv) insurance proceeds, (v) settlement of corporate-owned life insurance and bank-owned life insurance policies, (vi) distributions from equity method investees, (vii) beneficial interest in securitization transactions and (viii) receipts and payments with aspects of more than one class of cash flows.

This standard is effective for the Company for annual and interim periods beginning on January 1, 2018 with early adoption permitted on a retrospective transition method to each period presented. The Company adopted this standard effective January 1, 2017. There was not a material impact on the Company's Consolidated Financial Statements and related notes resulting from the adoption of this standard.

Accounting Standards Update No. 2017-01

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations: Clarifying the Definition of a Business." This update modifies the requirements to meet the definition of a business under Topic 805, "Business Combinations." The amendments provide a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The Company believes that this amendment will result in most of its real estate acquisitions being accounted for as asset acquisitions rather than business combinations. This standard is effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this standard effective January 1, 2017. The impact to the Consolidated Financial Statements and related notes as a result of the adoption of this standard is primarily related to the difference in the accounting of acquisition costs. When accounting for these costs as a part of an asset acquisition, the Company will be permitted to capitalize the costs. The adoption of this standard did not have a material impact on the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2017-04

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." This update eliminates Step 2 of the goodwill impairment test. As such, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. This standard is effective for the Company for annual and interim periods beginning after December 15, 2019. The Company does not expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

Accounting Standards Update No. 2017-05
In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update defines an in-substance nonfinancial asset, unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing the sales of real estate, removes exception to the financial asset derecognition model and clarifies the accounting for contributions of nonfinancial assets to joint ventures. This standard is effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company does not expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

Accounting Standards Update No. 2017-09
In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation - Scope of Modification Accounting." This update provides guidance about which changes to the terms and conditions of share-based awards require an entity to apply modification accounting in Topic 718. This standard is effective for the Company for the annual and interim periods

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beginning after December 15, 2017 with early adoption permitted. The Company does not expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

Note 2. Real Estate Investments

2017 Acquisitions

The following table details the Company's acquisitions for the six months ended June 30, 2017 (dollars in millions):

Location	Type [1]	Date Acquired	Purchase Price	Mortgage Note Payable Assumed [2]	Cash Consideration [3]	Real Estate	Other [4]	Square Footage
St. Paul, Minnesota	MOB	3/6/17	$ 13.5	$ —	$ 13.5	$ 13.3	$ 0.2	34,608
San Francisco, California	MOB	6/12/17	26.8	—	26.8	26.8	—	75,649
Washington, D.C.	MOB	6/13/17	24.0	(12.1)	12.5	24.8	(0.2)	62,379
Total acquisitions			$ 64.3	$ (12.1)	$ 52.8	$ 64.9	$ —	172,636

(1) MOB = medical office building

(2) The mortgage note payable assumed in the acquisition does not reflect the fair value adjustments totaling $0.4 million recorded by the Company upon acquisition (included in Other).

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

(4) Includes assets acquired, liabilities assumed, and intangibles recognized at acquisition.

2017 Dispositions

The following table details the Company's dispositions for the six months ended June 30, 2017 (dollars in millions):

Location	Type [1]	Date Disposed	Sales Price	Closing Adjustments	Net Proceeds	Net Real Estate Investment	Other (including receivables) [3]	Gain	Square Footage
Evansville, Indiana	OTH	3/6/17	$ 6.4	$ —	$ 6.4	$ 1.1	$ —	$ 5.3	29,500
Columbus, Georgia [2]	MOB	3/7/17	0.6	—	0.6	0.6	—	—	12,000
Las Vegas, Nevada [2]	MOB	3/30/17	5.5	(0.7)	4.8	2.2	0.3	2.3	18,147
Texas (3 properties)	IRF	3/31/17	69.5	(1.6)	67.9	46.9	5.2	15.8	169,722
Chicago, Illinois [2]	MOB	6/16/17	0.5	(0.1)	0.4	0.4	—	—	5,100
San Antonio, Texas [2]	IRF	6/29/17	14.5	(0.2)	14.3	5.1	0.9	8.3	39,786
Roseburg, Oregon	MOB	6/29/17	23.2	(0.6)	22.6	14.5	0.3	7.8	62,246
Total dispositions			$ 120.2	$ (3.2)	$ 117.0	$ 70.8	$ 6.7	$ 39.5	336,501

(1) OTH = other; MOB = medical office building; IRF = inpatient rehabilitation facility

(2) Previously classified as held for sale.

(3) Includes straight-line rent receivables, leasing commissions and lease inducements.

Subsequent Acquisition

On July 31, 2017, the Company acquired a 42,780 square foot medical office building in Los Angeles, California for a purchase price of $16.3 million.

Potential Disposition

The Company is under contract to sell an off-campus, 79,980 square foot medical office building located in St. Louis, Missouri. The Company's net investment in the property is approximately $7.4 million at June 30, 2017. The sales

price of the building will be approximately $2.6 million. In July 2017, the sale became probable based on the expiration of the due diligence period and therefore, the Company reclassified the property to held for sale and recognized a $5.2 million impairment using level one input.

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Assets Held for Sale

At June 30, 2017 and December 31, 2016, the Company had one and two properties, respectively, classified as held for sale. During the six months ended June 30, 2017, the Company reclassified three properties to held for sale and four properties were sold. A summary of each of the properties reclassified as held for sale is below:

- a 78,731 square foot inpatient rehabilitation facility located in Pittsburgh, Pennsylvania reclassified to held for sale in connection with management's decision to sell the property;

- a 39,786 square foot inpatient rehabilitation facility located in San Antonio, Texas reclassified to held for sale in connection with management's decision to sell the property. The Company sold this property in the second quarter of 2017 and recognized an $8.3 million gain on the disposition; and

- a 5,100 square foot medical office building located in Chicago, Illinois reclassified to held for sale in connection with management's decision to sell the property. In the first quarter of 2017, the Company recorded an impairment charge of $0.3 million using level one inputs. The Company sold this property in the second quarter of 2017 and recognized an immaterial impairment loss on the disposition.

The table below reflects the assets and liabilities of the properties classified as held for sale and discontinued operations as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Balance Sheet data:		
Land	$1,125	$ 1,362
Buildings, improvements and lease intangibles	18,231	4,410
	19,356	5,772
Accumulated depreciation	(10,657)	(2,977)
Real estate assets held for sale, net	8,699	2,795
Other assets, net (including receivables)	68	297
Assets held for sale and discontinued operations, net	$8,767	$ 3,092
Accounts payable and accrued liabilities	$186	$ 22
Other liabilities	213	592
Liabilities of properties held for sale and discontinued operations	$399	$ 614

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Discontinued Operations

The following table represents the results of operations of the properties included in discontinued operations on the Company's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016.

(Dollars in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Statements of Income data:				
Revenues				
Rental income	$—	$—	$—	$—
	—	—	—	—
Expenses				
Property operating	—	19	17	27
	—	19	17	27
Other Income (Expense)				
Interest and other income, net	—	—	—	—
	—	—	—	—
Discontinued Operations				
Loss from discontinued operations	—	(19)	(17)	(27)
Gain on sales of real estate assets	—	7	5	7
Loss from Discontinued Operations	$—	$(12)	$(12)	$(20)

Note 3. Notes and Bonds Payable

The table below details the Company’s notes and bonds payable.

(Dollars in thousands)	Maturity Dates	Balance as of June 30, 2017	Balance as of December 31, 2016	Effective Interest Rate as of June 30, 2017
Unsecured Credit Facility	7/20	$35,000	$107,000	2.22 %
Unsecured Term Loan Facility, net of issuance costs	2/19	149,609	149,491	2.42 %
Senior Notes due 2021, net of discount and issuance costs	1/21	397,483	397,147	5.97 %
Senior Notes due 2023, net of discount and issuance costs	4/23	247,499	247,296	3.95 %
Senior Notes due 2025, net of discount and issuance costs	5/25	247,930	247,819	4.08 %
Mortgage notes payable, net of discounts and issuance costs and including premiums	1/18-5/40	125,625	115,617	5.06 %
		$1,203,146	$1,264,370	

Changes in Debt Structure

On May 1, 2017, the Company repaid in full a mortgage note payable bearing interest at a rate of 6.50% per annum with outstanding principal of $0.2 million. The mortgage note encumbered a 60,476 square foot medical office building located in Minnesota.

On June 13, 2017, in connection with the acquisition of a 62,379 square foot medical office property in Washington D.C., the Company assumed a $12.1 million mortgage note payable (excluding a fair value premium adjustment of $0.4 million). The mortgage note payable has a contractual interest rate of 4.69% per annum (effective rate of 4.27% per annum).

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

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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.

As of June 30, 2017, 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 Income for the three and six months ended June 30, 2017 and 2016 respectively, was as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amount of loss reclassified from accumulated OCI into Interest Expense (effective portion)	$(42)	$(42)	$(85)	$(84)

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.

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 finalizing the redevelopment of a medical office building in Nashville, Tennessee, which includes a 70,000 square foot expansion. During the six months ended June 30, 2017, the Company funded approximately $10.3 million on the redevelopment of this property, including approximately $3.1 million related to overages on tenant improvement projects that have yet to be finalized and collected from the tenant. The Company expects to spend an additional $2.2 million throughout the remainder of 2017.

Development Activity
The Company is developing a 99,957 square foot medical office building in Denver, Colorado. The total development budget is $26.5 million, of which $21.6 million has been spent as of June 30, 2017. The Company received the certificate of substantial completion on the core and shell in the second quarter of 2017. Tenants are expected to begin taking occupancy in the third quarter of 2017.

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Note 6. Stockholders' Equity

Common Stock

The following table provides a reconciliation of the beginning and ending shares of common stock outstanding for the six months ended June 30, 2017 and the year ended December 31, 2016:

	June 30, 2017	December 31, 2016
Balance, beginning of period	116,416,900	101,517,009
Issuance of common stock	41,020	14,063,100
Nonvested share-based awards, net of withheld shares	87,034	836,791
Balance, end of period	116,544,954	116,416,900

Common Stock Authorization

On May 2, 2017, the Company's shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000.

At-The-Market Equity Offering Program

No shares were sold under this program during the six months ended June 30, 2017. The Company has 5,868,697 authorized shares remaining available to be sold under the current sales agreements as of July 31, 2017.

Common Stock Dividends

During the six months ended June 30, 2017, the Company declared and paid common stock dividends totaling $0.60 per share. On August 1, 2017, the Company declared a quarterly common stock dividend in the amount of $0.30 per share payable on August 31, 2017 to stockholders of record on August 11, 2017.

Accumulated Other Comprehensive Loss

The following table represents the changes in balances of each component and the amounts reclassified out of accumulated other comprehensive loss related to the Company during the six months ended June 30, 2017 and 2016:

	Forward-starting Interest Rate Swaps	
(Dollars in thousands)	2017	2016
Beginning balance	$(1,401)	$(1,569)
Amounts reclassified from accumulated other comprehensive loss	85	84
Net accumulated other comprehensive income	85	84
Ending balance	$(1,316)	$(1,485)

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Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Weighted average Common Shares outstanding				
Weighted average Common Shares outstanding	116,528,181	105,306,479	116,499,667	103,970,376
Nonvested shares	(1,807,082)	(1,318,730)	(1,801,448)	(1,260,457)
Weighted average Common Shares outstanding—Basic	114,721,099	103,987,749	114,698,219	102,709,919
Weighted average Common Shares outstanding—Basic	114,721,099	103,987,749	114,698,219	102,709,919
Dilutive effect of restricted stock	861,037	691,064	796,283	646,341
Dilutive effect of employee stock purchase plan	92,228	90,732	102,327	114,274
Weighted average Common Shares outstanding—Diluted	115,674,364	104,769,545	115,596,829	103,470,534
Net Income				
Income from continuing operations	$25,224	$ 12,157	$57,082	$ 21,320
Discontinued operations	—	(12)	(12)	(20)
Net income	$25,224	$ 12,145	$57,070	$ 21,300
Basic Earnings Per Common Share				
Income from continuing operations	$0.22	$ 0.12	$0.50	$ 0.21
Discontinued operations	0.00	0.00	0.00	0.00
Net income	$0.22	$ 0.12	$0.50	$ 0.21
Diluted Earnings Per Common Share				
Income from continuing operations	$0.22	$ 0.12	$0.49	$ 0.21
Discontinued operations	0.00	0.00	0.00	0.00
Net income	$0.22	$ 0.12	$0.49	$ 0.21

Incentive Plans

A summary of the activity under the stock-based incentive plans for the three and six months ended June 30, 2017 and 2016 is included in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock-based awards, beginning of period	1,814,039	1,326,746	1,786,497	1,092,262
Granted	23,231	21,374	103,615	321,580
Vested	(39,584)	(36,951)	(92,426)	(102,673)
Stock-based awards, end of period	1,797,686	1,311,169	1,797,686	1,311,169

During the six months ended June 30, 2017 and 2016, the Company withheld 16,581 and 14,442 shares of common stock, respectively, from participants to pay estimated withholding taxes related to shares that vested. No such shares were withheld during the three months ended June 30, 2017.

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In addition to the stock-based incentive plans, the Company maintains the 2000 Employee Stock Purchase Plan (the "Purchase Plan"). A summary of the activity under the Purchase Plan for the three and six months ended June 30, 2017 and 2016 is included in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Outstanding and exercisable, beginning of period	365,618	361,955	316,321	340,958
Granted	—	—	206,824	198,450
Exercised	(7,595)	(10,839)	(19,030)	(37,528)
Forfeited	(13,451)	(6,208)	(27,233)	(13,890)
Expired	—	—	(132,310)	(143,082)
Outstanding and exercisable, end of period	344,572	344,908	344,572	344,908

Note 7. 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 due to the short term maturity of these investments.

Borrowings under the unsecured credit facility due 2020 and unsecured term loan facility due 2019 - The carrying amount approximates fair value because the borrowings are based on variable market interest rates.

Senior Notes and Mortgage 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.

The table below details the fair values and carrying values for notes and bonds payable at June 30, 2017 and December 31, 2016.

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes and bonds payable [1]	$1,203.1	$1,208.3	$1,264.4	$1,265.1

(1) Level 3 - Fair value derived from valuation techniques in which one or more significant inputs or significant value drivers is 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,” and other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties, including the risks described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2016.

The purpose of this Management's Discussion and Analysis of FInancial Condition and Results of Operations ("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 receipts from its real estate portfolio based on contractual arrangements with its tenants and sponsors, borrowings under the Company's Unsecured Credit Facility, proceeds from the sales of real estate properties 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 and restricted cash, 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 $3.3 billion at June 30, 2017, 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 six months ended June 30, 2017 were approximately $17.1 million. Below is a summary of the significant investing activities.

- The Company acquired three medical office buildings totaling 172,636 square feet during the six months ended June 30, 2017 for a total purchase price of $64.3 million, including cash consideration of $52.8 million and the assumption of a mortgage note payable totaling $12.1 million (excluding a fair value premium adjustment of $0.4 million). These properties are located on Fairview Health Services' St. John’s Hospital campus, Sutter Health's Santa Rosa Regional Hospital campus, and Trinity Health's Holy Cross Hospital campus.
- The Company disposed of nine properties during the six months ended June 30, 2017 for a total sales price of $120.2 million, including $84.0 million for four inpatient rehabilitation facilities.
- The Company funded approximately $21.1 million at its development and redevelopment properties.
- Other items funded during the six months ended June 30, 2017 include the following:

first generation tenant improvements and planned capital expenditures relating to properties acquired during the most recent two-year period totaling $2.6 million;

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second generation tenant improvements totaling $9.0 million; and
capital expenditures totaling $8.2 million.

Subsequent Acquisition
On July 31, 2017, the Company acquired a 42,780 square foot medical office building in Los Angeles, California for a purchase price of $16.3 million. The property is located on HCA's West Hills Hospital and Medical Center campus.

Potential Disposition
The Company is under contract to sell an off-campus, 79,980 square foot medical office building located in St. Louis, Missouri. The Company's net investment in the property is approximately $7.4 million at June 30, 2017. The sales price of the building will be approximately $2.6 million. In July 2017, the Company reclassified the property to held for sale and recognized a $5.2 million impairment using level one input. The property was included in the reposition category at 41% occupancy and recognized trailing-twelve month net operating income of $39,000 as of June 30, 2017.

Financing Activities
Cash flows used in financing activities for the six months ended June 30, 2017 were approximately $144.4 million. Inflows from equity related to the Company's dividend reinvestment program and employee stock purchase plan totaled $1.0 million, net of issuance costs incurred. Aggregate cash outflows totaled approximately $145.4 million primarily associated with dividends paid to common stockholders and debt repayments. See Notes 3 and 6 to the Condensed Consolidated Financial Statements for more information about capital markets and financing activities.

Changes in Debt Structure
On May 1, 2017, the Company repaid in full a mortgage note payable bearing interest at a rate of 6.50% per annum with outstanding principal of $0.2 million. The mortgage note encumbered a 60,476 square foot medical office building located in Minnesota.

On June 13, 2017, in connection with the acquisition of a 62,379 square foot medical office property in Washington, D.C., the Company assumed a $12.1 million mortgage note payable (excluding a fair value premium adjustment of $0.4 million). The mortgage note payable has a contractual interest rate of 4.69% per annum (effective rate of 4.27% per annum).

Operating Activities
Cash flows provided by operating activities increased from $59.5 million for the six months ended June 30, 2016 to $84.0 million for the six months ended June 30, 2017. Items impacting cash flows from operations include, but are 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.

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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, 2016, 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 15% to 20% of the leases in its multi-tenanted portfolio will expire each year in the ordinary course of business. There are 343 leases totaling 1.2 million square feet in the Company's multi-tenant portfolio that will expire during the remainder of 2017. Approximately 93% of the leases expiring in 2017 are located in buildings on or adjacent to hospital campuses, are distributed throughout the portfolio, and are not concentrated with any one tenant, health system or market area. The Company typically expects to retain 75% to 90% of multi-tenant property tenants upon expiration, and the retention ratio for the first six months of the year has been within this range.

Five single-tenant net leases expire on December 31, 2017. The Company expects each of these leases to be renewed or the properties to be sold to the lessee under its applicable purchase option. The purchase option price is greater than the Company's net investment in the properties. See "Purchase Options" below.

Property Operating Agreement Expirations

Two of the Company's owned real estate properties as of December 31, 2016 were subject to property operating agreements between the Company and a sponsoring health system. These agreements contractually obligate the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue any shortfalls due from the sponsoring health systems under the terms of the property operating agreement. One agreement expired in January 2017, resulting in a decrease of $0.2 million per quarter in property lease guaranty revenue. The remaining agreement will expire in February 2019. The Company recognized $0.2 million of property lease guaranty revenue in the second quarter of 2017.

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 June 30, 2017, leases for 85% of the Company's multi-tenant leased square footage allow for some recovery of operating expenses, with 55% allowing recovery of all expenses.

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Purchase Options

Additional information about the Company's unexercised purchase options and the amount and basis for determination of the purchase price is detailed in the table below (dollars in thousands):

		Gross Real Estate Investment as of June 30, 2017		
Year Exercisable	Number of Properties	Fair Market Value Method (1)	Non Fair Market Value Method (2)	Total
Current	4	$94,831	$—	$94,831
Remainder of 2017 (3)	7	—	49,003	49,003
2018	—	—	—	—
2019	2	41,521	—	41,521
2020	—	—	—	—
2021	1	—	14,984	14,984
2022	—	—	—	—
2023	—	—	—	—
2024	—	—	—	—
2025	5	18,883	221,929	240,812
2026	—	—	—	—
2027 and thereafter	4	114,536	—	114,536
Total	23	$269,771	$285,916	$555,687

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(1) The purchase option price includes a fair market value component that is determined by an appraisal process.

(2) Includes properties with stated purchase prices or prices based on fixed capitalization rates. These properties have purchase prices that are on average 13% greater than the Company's current gross investment.

(3) These seven properties, comprised of five single-tenant net leased buildings and two multi-tenant buildings, are covered by one purchase option with a stated purchase price of approximately $45.2 million, subject to certain contractual adjustments. The Company's aggregate net book value for these properties was $24.3 million at June 30, 2017. The Company recognized net operating income of approximately $3.1 million for the six months ended June 30, 2017 from these properties.

Non-GAAP Financial Measures and Key Performance Indicators

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, management considers certain non-GAAP financial measures and key performance indicators 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 and key performance indicators 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 and key performance indicators 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 ("FFO"), Normalized FFO and Funds Available for Distribution ("FAD")

FFO and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts (“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.

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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.

In addition to FFO and FFO per share, the Company presents Normalized FFO, Normalized FFO per share, and funds available for distribution ("FAD"). Normalized FFO is presented by adding to FFO acquisition-related costs, acceleration of deferred financing costs, debt extinguishment costs and other Company-defined normalizing items to evaluate operating performance. FAD is presented by adding to Normalized FFO non-real estate depreciation and amortization, deferred financing fees amortization, share-based compensation expense and provision for bad debts, net; and subtracting maintenance capital expenditures, including second generation tenant improvements and leasing commissions paid and straight-line rent income, net of expense. The Company's definition of these terms may not be comparable to that of other real estate companies as they may have different methodologies for computing these amounts. Normalized FFO and FAD should not be considered as an alternative to net income as an indicator of the Company's financial performance or to cash flow from operating activities as an indicator of the Company's liquidity. Normalized FFO and FAD should be reviewed in connection with GAAP financial measures.

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The table below reconciles net income attributable to common stockholders to FFO, Normalized FFO and FAD for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except per share data)	2017	2016	2017	2016
Net Income	$25,224	$12,145	$57,070	$21,300
Gain on sales of properties	(16,124)	(8)	(39,532)	