HEALTHCARE REALTY TRUST INC
Form 10-Q
May 10, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

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

As of April 30, 2010, 62,294,313 shares of the Registrant s Common Stock were outstanding.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
March 31, 2010
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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	(Unaudited) March 31, 2010	December 31, 2009
ASSETS		
Real estate properties:		
Land	$ 137,601	$ 135,495
Buildings, improvements and lease intangibles	1,997,239	1,977,264
Personal property	17,868	17,509
Construction in progress	107,691	95,059
	2,260,399	2,225,327
Less accumulated depreciation	(451,452)	(433,634)
Total real estate properties, net	1,808,947	1,791,693
Cash and cash equivalents	11,045	5,851
Mortgage notes receivable	22,632	31,008
Assets held for sale and discontinued operations, net	1,553	17,745
Other assets, net	88,525	89,467
Total assets	$ 1,932,702	$ 1,935,764
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	$ 1,035,059	$ 1,046,422
Accounts payable and accrued liabilities	58,815	55,043
Liabilities of discontinued operations	904	251
Other liabilities	45,233	43,900
Total liabilities	1,140,011	1,145,616
Commitments and contingencies		
Equity:		
Preferred stock, $.01 par value; 50,000,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 150,000,000 shares authorized; 61,398,542 and 60,614,931 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	614	606
Additional paid-in capital	1,536,683	1,520,893
Accumulated other comprehensive loss	(4,593)	(4,593)
Cumulative net income attributable to common stockholders	792,559	787,965
Cumulative dividends	(1,536,522)	(1,518,105)
Total stockholders equity	788,741	786,766

Noncontrolling interests	3,950	3,382
Total equity	792,691	790,148
Total liabilities and equity	$ 1,932,702	$ 1,935,764

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

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For the Three Months Ended March 31, 2010 and 2009
(Dollars in thousands, except per share data)
(Unaudited)

	2010	2009
REVENUES		
Master lease rent	$ 15,022	$ 14,808
Property operating	46,146	42,905
Straight-line rent	584	382
Mortgage interest	638	489
Other operating	2,170	3,509
	64,560	62,093
EXPENSES		
General and administrative	4,731	6,966
Property operating	24,675	23,358
Bad debt, net	(199)	435
Depreciation	16,591	15,162
Amortization	1,301	1,481
	47,099	47,402
OTHER INCOME (EXPENSE)		
Loss on extinguishment of debt	(480)	
Re-measurement gain of equity interest upon acquisition		2,701
Interest expense	(16,310)	(10,010)
Interest and other income, net	476	154
	(16,314)	(7,155)
INCOME FROM CONTINUING OPERATIONS	1,147	7,536
DISCONTINUED OPERATIONS		
Income from discontinued operations	815	757
Impairment		(22)
Gain on sales of real estate properties	2,696	12,609
INCOME FROM DISCONTINUED OPERATIONS	3,511	13,344
NET INCOME	4,658	20,880
Less: Net income attributable to noncontrolling interests	(64)	(15)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 4,594	$ 20,865

BASIC EARNINGS PER COMMON SHARE:				
Income from continuing operations	$	0.02	$	0.13
Discontinued operations		0.06		0.23
Net income attributable to common stockholders	$	0.08	$	0.36
DILUTED EARNINGS PER COMMON SHARE:				
Income from continuing operations	$	0.02	$	0.13
Discontinued operations		0.06		0.22
Net income attributable to common stockholders	$	0.08	$	0.35
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC		59,961,455		58,130,574
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING DILUTED		60,969,730		58,847,384
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	$	0.300	$	0.385

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

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2010 and 2009
(Dollars in thousands)
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net income	$ 4,658	$ 20,880
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	18,848	17,680
Stock-based compensation	754	1,288
Straight-line rent receivable	(584)	(353)
Straight-line rent liability	103	113
Gain on sales of real estate properties	(2,696)	(12,609)
Loss on extinguishment of debt	480	
Re-measurement gain of equity interest upon acquisition		(2,701)
Impairments		22
Provision for bad debt, net	(199)	437
State income taxes paid, net of refunds	(6)	53
Payment of partial pension settlement		(2,300)
Changes in operating assets and liabilities:		
Other assets	488	1,201
Accounts payable and accrued liabilities	5,058	1,090
Other liabilities	1,433	2,727
Net cash provided by operating activities	28,337	27,528
INVESTING ACTIVITIES		
Acquisition and development of real estate properties	(25,268)	(33,076)
Funding of mortgages and notes receivable	(2,090)	(3,451)
Proceeds from sales of real estate	19,588	63,907
Proceeds from mortgages and notes receivable repayments	36	38
Net cash provided by (used in) investing activities	(7,734)	27,418
FINANCING ACTIVITIES		
Net repayments on unsecured credit facilities	(3,000)	(4,000)
Repayments on notes and bonds payable	(524)	(20,548)
Repurchase of notes payable	(8,556)	
Quarterly dividends paid	(18,417)	(22,829)
Proceeds from issuance of common stock	15,044	183
Capital contributions received from noncontrolling interests	633	529
Distributions to noncontrolling interest holders	(115)	(43)
Debt issuance costs	(474)	
Net cash used in financing activities	(15,409)	(46,708)

Increase in cash and cash equivalents		5,194		8,238
Cash and cash equivalents, beginning of period		5,851		4,138
Cash and cash equivalents, end of period	$	11,045	$	12,376
Supplemental Cash Flow Information:				
Interest paid	$	3,238	$	3,101
Capitalized interest	$	2,197	$	2,145
Invoices accrued for construction, tenant improvement and other capitalized costs	$	15,052	$	15,764
Mortgage notes payable assumed upon acquisition of a joint venture interest (adjusted to fair value)	$		$	11,716
Mortgage note payable disposed of upon sale of joint venture interest	$		$	5,425

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

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Healthcare Realty Trust Incorporated
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the Company) is a real estate investment trust (REIT) that owns, acquires, manages, finances, and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately $2.3 billion in 205 real estate properties and mortgages as of March 31, 2010, excluding assets classified as held for sale and including an investment in one unconsolidated joint venture. The Company s 200 owned real estate properties, excluding assets classified as held for sale, are comprised of six facility types, located in 28 states, totaling approximately 12.4 million square feet. As of March 31, 2010, the Company provided property management services to approximately 9.3 million square feet nationwide.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, partnerships, and a joint venture where the Company controls the operating activities.

The Company s investment in its unconsolidated joint venture is included in other assets and the related income is recognized in other income (expense) on the Company s Condensed Consolidated Financial Statements. The Company also consolidates one joint venture in which it has an 80% controlling interest. Included in the Company s Condensed Consolidated Financial Statements related to this consolidated joint venture was approximately $95.4 million in real estate investments, including mortgage notes receivable, at March 31, 2010. The Company reports non-controlling interests as equity and reports the related net income attributable to the non-controlling interests as part of consolidated net income in its financial statements.

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

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

Use of Estimates in the Condensed Consolidated Financial Statements

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

Segment Reporting

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

Reclassifications

Discontinued Operations

Certain amounts in the Company s Condensed Consolidated Financial Statements for prior periods have been reclassified to conform to the current period presentation. Assets sold or held for sale, and related liabilities, have been reclassified on the Company s Condensed Consolidated Balance Sheets, and the operating results of those assets have been reclassified from continuing to discontinued operations for all periods presented.

Revenue Recognition

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

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

Rental Income

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

Interest Income

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

Property Operating Income

As of March 31, 2010, the Company had eight real estate properties subject to property operating agreements that obligate the sponsoring health system to provide to the Company a minimum return on the Company s investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the sponsor is responsible to the Company for the shortfall under the terms of these agreements. The Company recognizes the shortfall income in other operating income on the Company s Condensed Consolidated Statements of Income.

Accumulated Other Comprehensive Loss

A company must include certain items in comprehensive income (loss), such as foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains or losses on available-for-sale securities. The Company s accumulated other comprehensive loss includes pension liability adjustments, which are generally recognized in the fourth quarter of each year. As such, the Company s total comprehensive income for the three months ended March 31, 2010 and 2009 was the same as net income.

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Income Taxes

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

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

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

Incentive Plans

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

Accounting for Defined Benefit Pension Plans

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

The Company also had a pension plan under which the Company s non-employee directors would receive retirement benefits upon normal retirement (defined to be when the director reached age 65 and had completed at least five years of service or when the director reached age 60 and had completed at least 15 years of service). The Company terminated the pension plan for these directors in November 2009. As a result, the Company will make lump sum payments totaling approximately $2.6 million in November 2010, or earlier upon retirement, to the eight non-employee directors who participated in the plan.

Operating Leases

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

Discontinued Operations and Assets Held for Sale

The Company sells properties from time to time due to a variety of factors, including among other things, market conditions or the exercise of purchase options by tenants. The operating results of properties that have been sold or are held for sale are reported as discontinued operations in the Company s Condensed Consolidated Statements of Income. A company must report discontinued operations when a component of an entity has either been disposed of or is deemed to be held for sale if (i) both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Long-lived assets classified as held for sale on the Company s Condensed Consolidated Balance Sheets are reported at the lower of their carrying amount or their fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Losses resulting from the sale of such properties are characterized as impairment losses relating to discontinued operations in the Company s Condensed Consolidated Statements of Income. As of March 31, 2010, the Company had one real estate property classified as held for sale.

Land Held for Development

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

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Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. In calculating fair value, a company must maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements.

A hierarchy of valuation techniques is defined to determine whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 quoted prices for identical instruments in active markets;

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

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

Real Estate Properties

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

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

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Note 2. Real Estate and Mortgage Notes Receivable Investments

The Company had investments of approximately $2.3 billion in 205 real estate properties and mortgage notes receivable as of March 31, 2010, excluding assets classified as held for sale and including an investment in one unconsolidated joint venture. The Company s 200 owned real estate properties, excluding assets classified as held for sale, are located in 28 states and comprise approximately 12.4 million total square feet. The table below details the Company s investments.

(Dollars and Square Feet in thousands)	Number of Investments	Gross Investment Amount	Gross Investment %	Square Feet Footage	Square Feet %
Owned properties:					
Master leases					
Medical office	18	$ 175,542	7.7%	903	7.3%
Physician clinics	16	123,649	5.4%	688	5.5%
Ambulatory care/surgery	5	33,351	1.4%	133	1.1%
Specialty outpatient	3	8,263	0.3%	37	0.3%
Specialty inpatient	13	234,623	10.3%	916	7.4%
Other	10	45,470	2.0%	498	4.0%
	65	620,898	27.1%	3,175	25.6%
Property operating agreements					
Medical office	8	83,923	3.7%	621	5.0%
	8	83,923	3.7%	621	5.0%
Multi-tenanted with occupancy leases					
Medical office	95	1,143,789	50.1%	6,802	54.8%
Medical office - stabilization in progress	8	166,018	7.2%	823	6.6%
Medical office - construction in progress	2	90,390	4.0%	339	2.7%
Physician clinics	15	50,743	2.2%	331	2.7%
Ambulatory care/surgery	5	67,400	3.0%	303	2.4%
Specialty outpatient	2	5,221	0.2%	22	0.2%
	127	1,523,561	66.7%	8,620	69.4%
Land held for development		17,301	0.8%		
Corporate property		14,716	0.6%		
		32,017	1.4%		
Total owned properties	200	2,260,399	98.9%	12,416	100.0%
Mortgage loans:					
Medical office	2	5,821	0.3%		
Physician clinics	2	16,811	0.7%		
	4	22,632	1.0%		

Unconsolidated joint venture:					
Other	1	1,266	0.1%		
	1	1,266	0.1%		
Total real estate investments	205	$ 2,284,297	100.0%	12,416	100.0%

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Note 3. Acquisitions and Dispositions

Asset Acquisitions

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

Also, during the first quarter of 2010, the Company began funding the construction of a medical office building in Iowa (by its consolidated joint venture partner) through a construction loan totaling $2.7 million. At March 31, 2010, the Company had funded approximately $1.5 million of the loan. The Company anticipates that the loan balance will be repaid in full during 2010 upon completion of construction.

Asset Dispositions

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

In April 2010, the Company sold a 14,563 square foot specialty outpatient facility in Florida for $4.0 million in net cash proceeds. The Company s aggregate investment in the building was approximately $3.4 million ($2.4 million, net) at March 31, 2010. The Company expects to recognize a gain on sale of approximately $1.5 million, net of closing costs.

Discontinued Operations and Assets Held for Sale

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

(Dollars in thousands)	March 31, 2010	December 31, 2009
Balance Sheet data (as of the period ended):		
Land	$ 587	$ 3,374
Buildings, improvements and lease intangibles	1,021	22,178
	1,608	25,552
Accumulated depreciation	(708)	(8,697)
Assets held for sale, net	900	16,855
Other assets, net (including receivables)	653	890
Assets of discontinued operations, net	653	890
Assets held for sale and discontinued operations, net	$ 1,553	$ 17,745
Accounts payable and accrued liabilities	$ 3	$

Other liabilities		901		251
Liabilities of discontinued operations	$	904	$	251

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(Dollars in thousands, except per share data)	Three Months Ended March 31, 2010	2009
Statements of Income data (for the period ended):		
Revenues		
Master lease rent	$ 898	$ 1,493
Property operating		826
Straight-line rent		(29)
Other operating		216
	898	2,506
Expenses		
Property operating	84	637
Other operating		(9)
Bad debt, net		2
Depreciation		591
	84	1,221
Other Income (Expense)		
Interest expense		(527)
Interest and other income, net	1	(1)
	1	(528)
Discontinued Operations		
Income from discontinued operations	815	757
Impairment		(22)
Gain on sales of real estate properties	2,696	12,609
Income from Discontinued Operations	$ 3,511	$ 13,344
Income from Discontinued Operations per common share basic	$ 0.06	$ 0.23
Income from Discontinued Operations per common share diluted	$ 0.06	$ 0.22

Note 4. Notes and Bonds Payable

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

(Dollars in thousands)	March 31, 2010	Dec. 31, 2009	Maturity Dates	Contractual Interest Rates	Principal Payments	Interest Payments
Unsecured Credit Facility due 2012	$ 47,000	$ 50,000	9/12	LIBOR + 2.80%	At maturity	Quarterly

Senior Notes due 2011, including premium	278,504	286,655	5/11	8.125%	At maturity	Semi-Annual
Senior Notes due 2014, net of discount	264,124	264,090	4/14	5.125%	At maturity	Semi-Annual
Senior Notes due 2017, net of discount	298,044	297,988	1/17	6.500%	At maturity	Semi-Annual
Mortgage notes payable, net of discounts	147,387	147,689	5/11-10/30	5.00%-7.625%	Monthly	Monthly
	$ 1,035,059	$ 1,046,422				

The Company s various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth (as defined in the agreement) and impose certain limits on the Company s ability to incur indebtedness and create liens or encumbrances. At March 31, 2010, the Company was in compliance with the financial covenant provisions under its various debt instruments.

Unsecured Credit Facility due 2012

On September 30, 2009, the Company entered into an amended and restated $550.0 million unsecured credit facility (the Unsecured Credit Facility) that matures on September 30, 2012 with a syndicate of 16 lenders. Amounts outstanding under the Unsecured Credit Facility will bear interest at a rate equal to (x) LIBOR or the base rate (defined as the highest of (i) the Federal Funds Rate plus 0.5%; (ii) the Bank of America prime rate and (iii) LIBOR) plus (y) a margin ranging from 2.15% to 3.20% (currently 2.80%) for LIBOR-based loans and 0.90% to 1.95% for base rate loans (currently

1.55%), based upon the Company s unsecured debt ratings. In addition, the Company pays a facility fee per annum on the aggregate amount of commitments. The facility fee is 0.40% per annum, unless the Company s credit rating falls below a BBB-/Baa3, at which point the facility fee would be 0.50%. At March 31, 2010, the Company had $47.0 million outstanding under the facility with a weighted average interest rate of approximately 3.04% and had borrowing capacity remaining, under its financial covenants, of approximately $503.0 million.

Senior Notes due 2011

In 2001, the Company publicly issued $300.0 million of unsecured senior notes due 2011 (the Senior Notes due 2011). The Senior Notes due 2011 bear interest at 8.125% per annum, payable semi-annually on May 1 and November 1, and are due on May 1, 2011, unless redeemed earlier by the Company. The notes were originally issued at a discount of approximately $1.5 million, which yielded an 8.202% interest rate per annum upon issuance. The original discount is combined with the premium resulting from the termination of interest rate swaps in 2006 that were entered into to offset changes in the fair value of $125.0 million of the notes. The net premium is combined with the principal balance of the Senior Notes due 2011 on the Company s Condensed Consolidated Balance Sheets and is being amortized against interest expense over the remaining term of the notes. Also, during 2010 and 2008, the Company repurchased $8.1 million and $13.7 million, respectively, of the Senior Notes due 2011 and amortized a pro-rata portion of the premium. The Company recognized an expense of approximately $0.5 million related to its 2010 repurchases, which will be offset by interest savings over the remaining term of the Senior Notes due 2011. At March 31, 2010, the Senior Notes due 2011 yielded an effective interest rate of 7.896%. The following table reconciles the balance of the Senior Notes due 2011 on the Company s Condensed Consolidated Balance Sheets.

(Dollars in thousands)	March 31, 2010	December 31, 2009
Senior Notes due 2011 face value	$ 278,221	$ 286,300
Unamortized net gain (net of discount)	283	355
Senior Notes due 2011 carrying amount	$ 278,504	$ 286,655

Senior Notes due 2014

In 2004, the Company publicly issued $300.0 million of unsecured senior notes due 2014 (the Senior Notes due 2014). The Senior Notes due 2014 bear interest at 5.125% per annum, payable semi-annually on April 1 and October 1, and are due on April 1, 2014, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $1.5 million, yielding an effective interest rate of 5.19% per annum. During 2008, the Company repurchased approximately $35.3 million of the Senior Notes due 2014 and amortized a pro-rata portion of the discount. At March 31, 2010, the Senior Notes due 2014 yielded an effective interest rate of 5.190%. The following table reconciles the balance of the Senior Notes due 2014 on the Company s Condensed Consolidated Balance Sheets.

(Dollars in thousands)	March 31, 2010	December 31, 2009
Senior Notes due 2014 face value	$ 264,737	$ 264,737
Unaccreted discount	(613)	(647)
Senior Notes due 2014 carrying amount	$ 264,124	$ 264,090

Senior Notes due 2017

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

(Dollars in thousands)	March 31, 2010	December 31, 2009
Senior Notes due 2017 face value	$ 300,000	$ 300,000
Unaccreted discount	(1,956)	(2,012)
Senior Notes due 2017 carrying amount	$ 298,044	$ 297,988

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Mortgage Notes Payable

The following table details the Company s mortgage notes payable, with related collateral, at March 31, 2010.

(Dollars in millions)	Original Balance	Effective Interest Rate (10)	Maturity Date	Number of Notes Payable (11)	Collateral (12)	Investment in Collateral at March 31, 2010	Balance at March 31, 2010	Balance at Dec. 31, 2009
Life Insurance Co. (1)	$ 4.7	7.765%	1/17	1	MOB	$ 11.4	$ 2.4	$ 2.5
Commercial Bank (2)	1.8	5.550%	10/30	1	OTH	7.8	1.7	1.7
Life Insurance Co. (3)	15.1	5.490%	1/16	1	ASC	32.5	13.8	13.9
Commercial Bank (4)	17.4	6.480%	5/15	1	MOB	19.9	14.4	14.4
Commercial Bank (5)	12.0	6.110%	7/15	1	2 MOBs	19.5	9.7	9.7
Commercial Bank (6)	15.2	7.650%	7/20	1	MOB	20.2	12.8	12.8
Life Insurance Co. (7)	1.5	6.810%	7/16	1	SOP	2.2	1.2	1.2
Commercial Bank (8)	12.8	6.430%	2/21	1	MOB	20.5	11.6	11.6
Investment Fund (9)	80.0	7.250%	12/16	1	15 MOBs	153.1	79.8	79.9
				9		$ 287.1	$ 147.4	$ 147.7

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

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

(3) Payable in monthly installments of principal and

interest based on a 10-year amortization with the final payment due at maturity.

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

(5) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and recorded the note at its fair value, resulting in a $2.1 million discount which is included in the balance above.

(6)

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

(7) Payable in monthly installments of principal and interest based on a 9-year amortization with the final payment due at maturity. The Company acquired this mortgage note in an acquisition during 2008 and recorded the note at its fair value, resulting in a $0.2 million discount which is included in the balance above.

(8) Payable in monthly installments of principal and

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

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

(10) The contractual interest rates ranged from 5.00% to 7.625% at March 31, 2010.

(11) Number of mortgage notes payable outstanding at March 31, 2010.

(12) MOB-Medical office building; ASC-Ambulatory care/surgery; SOP-Specialty

outpatient;
OTH-Other.

Long-Term Debt Maturities

Future maturities of the Company s notes and bonds payable as of March 31, 2010 were as follows:

(Dollars in thousands)	Principal Maturities	Net Accretion/ Amortization (2)	Total Notes and Bonds Payable	%
2010	$ 1,791	$ (751)	$ 1,040	0.1%
2011	280,759	(1,261)	279,498	27.0%
2012 (1)	49,701	(1,433)	48,268	4.7%
2013	2,884	(1,519)	1,365	0.1%
2014	267,811	(1,497)	266,314	25.7%
2015 and thereafter	441,842	(3,268)	438,574	42.4%
	$ 1,044,788	$ (9,729)	$ 1,035,059	100.0%

(1) Includes $47.0 million outstanding on the Unsecured Credit Facility.

(2) Includes discount accretion and premium amortization related to the Company s Senior Notes due 2011, Senior Notes due 2014, and Senior Notes due 2017 and discount accretion related to five mortgage notes payable.

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Note 5. Other Assets

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

(Dollars in millions)	March 31, 2010	December 31, 2009
Straight-line rent receivables	$ 25.8	$ 25.2
Prepaid assets	24.1	24.7
Above-market intangible assets, net	12.1	12.0
Deferred financing costs, net	11.1	12.1
Accounts receivable	7.3	9.0
Notes receivable	3.8	3.3
Goodwill	3.5	3.5
Investment in joint venture cost method	1.3	1.3
Customer relationship intangible assets, net	1.2	1.2
Allowance for uncollectible accounts	(2.9)	(3.7)
Other	1.2	0.9
	$ 88.5	$ 89.5

Equity investment in joint ventures

At March 31, 2010 and December 31, 2009, the Company had an investment in one unconsolidated joint venture, which the Company accounts for under the cost method. The joint venture, which invests in real estate properties, is included in other assets on the Company s Condensed Consolidated Balance Sheet, and the related distributions received are included in interest and other income, net on the Company s Condensed Consolidated Statements of Income.

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

(Dollars in thousands)	Three Months Ended March 31, 2010	2009
Net joint venture investments, beginning of period	$ 1,266	$ 2,784
Equity in losses recognized during the period		(2)
Acquisition of remaining equity interest in a joint venture		(1,700)
Additional investment in a joint venture		184
Net joint venture investments, end of period	$ 1,266	$ 1,266

Note 6. Commitments and Contingencies

Construction in Progress

As of March 31, 2010, the Company had two medical office buildings under construction with estimated completion dates in the second quarter of 2010 and the third quarter of 2011. The table below details the Company s construction in progress and land held for development as of March 31, 2010. The information included in the table below represents management s estimates and expectations at March 31, 2010 which are subject to change. The Company s disclosures regarding certain projections or estimates of completion dates may not reflect actual results.

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State	Estimated Completion Date	Property Type (1)	Properties	Approximate Square Feet	CIP at March 31, 2010	Estimated Remaining Funding	Estimated Total Investment
(Dollars in thousands)							
Under construction:							
Hawaii	2Q 2010	MOB	1	133,000	$ 72,514	$ 13,486	$ 86,000
Washington	3Q 2011	MOB	1	206,000	17,876	74,324	92,200
Land held for development:							
Texas					9,184		
Texas					8,117		
			2	339,000	$ 107,691	$ 87,810	$ 178,200

(1) MOB-Medical office building.

Other Construction

The Company had first-generation tenant improvement budgeted amounts remaining as of March 31, 2010 of approximately $29.6 million related to properties that were developed by the Company.

Legal Proceedings

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

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

Note 7. Stockholders Equity

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

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Cumulative Net Income	Cumulative Dividends	Total Stockholders Equity	Non-controlling Interests	Total Equity
Balance at Dec. 31, 2009	$ 606	$ 1,520,893	$ (4,593)	$ 787,965	$ (1,518,105)	$ 786,766	$ 3,382	$ 790,148
Issuance of common stock	7	15,037				15,044		15,044
Stock-based compensation	1	753				754		754
Net income				4,594		4,594	64	4,658
Other comprehensive income								
Comprehensive income								4,658
Dividends to common stockholders ($0.30 per share)					(18,417)	(18,417)		(18,417)
Distributions to noncontrolling interests							(129)	(129)
Proceeds from noncontrolling interests							633	633
Balance at Mar. 31, 2010	$ 614	$ 1,536,683	$ (4,593)	$ 792,559	$ (1,536,522)	$ 788,741	$ 3,950	$ 792,691

Common Stock

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Balance, beginning of period	60,614,931	59,246,284
Issuance of stock	706,880	1,244,914
Restricted stock-based awards, net of forfeitures	76,731	123,733
Balance, end of period	61,398,542	60,614,931

At-The-Market Equity Offering Program

In February 2010, the Company entered into a sales agreement with an investment bank to sell up to 5,000,000 shares of its common stock through an at-the-market equity offering program. This sales agreement superseded the sales agreement signed with the investment bank in 2008. The Company may sell shares of its common stock from time to time through the at-the-market equity offering program under which the investment bank will act as agent and/or principal.

In the first quarter of 2010, the Company sold 698,700 shares of common stock through its at-the-market equity offering program, generating approximately $14.9 million in net proceeds.

In the second quarter of 2010, through May 10, 2010, the date of this filing, the Company has sold an additional 1,615,500 shares of common stock, generating approximately $38.4 million in net proceeds.

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

Common Stock Dividends

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

In May 2010, the Company declared a quarterly common stock dividend in the amount of $0.30 per share payable on June 3, 2010 to stockholders of record on May 20, 2010.

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Earnings per share

The table below sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2010 and 2009.

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
Weighted average Common Shares				
Weighted average Common Shares outstanding		61,266,352		59,294,999
Unvested restricted stock		(1,304,897)		(1,164,425)
Weighted average Common Shares Outstanding Basic		59,961,455		58,130,574
Weighted average Common Shares Basic		59,961,455		58,130,574
Dilutive effect of restricted stock		940,597		647,429
Dilutive effect of employee stock purchase plan		67,678		69,381
Weighted average Common Shares Outstanding Diluted		60,969,730		58,847,384
Net income				
Income from continuing operations	$	1,147	$	7,536
Noncontrolling interests share in earnings		(64)		(15)
Income from continuing operations attributable to common stockholders		1,083		7,521
Discontinued operations		3,511		13,344
Net income attributable to common stockholders	$	4,594	$	20,865
Basic Earnings Per Common Share				
Income from continuing operations	$	0.02	$	0.13
Discontinued operations		0.06		0.23
Net income attributable to common stockholders	$	0.08	$	0.36
Diluted Earnings Per Common Share				
Income from continuing operations	$	0.02	$	0.13
Discontinued operations		0.06		0.22
Net income attributable to common stockholders	$	0.08	$	0.35

Incentive Plans

The Company has various stock-based incentive plans for its employees and directors. Awards under these plans include restricted stock issued to employees and the Company s directors and options granted to employees pursuant to its employee stock purchase plan.

On May 4, 2010, the Company adopted a restricted stock program for non-employee directors under its 2007 Employees Stock Incentive Plan (the 2007 Plan). The program sets forth terms and provisions for restricted stock grants made to non-employee directors under the 2007 Plan. No additional shares were authorized for issuance as a result of the adoption of this program nor were any new classes of participants added to the 2007 Plan. Consistent with prior policy, the annual restricted stock grant to each non-employee director is expected to be equal to $76,000.

Under the Company s employee stock purchase plan, in January of each year each eligible employee is able to purchase up to $25,000 of Common Stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option. The number of shares subject to each year s option becomes fixed on the date of grant. Options granted under the employee stock purchase plan expire if not exercised 27 months after each such option s

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date of grant. The Company recorded approximately $194,000 to general and administrative expenses during the first quarter of 2010 relating to the annual grant of options to its employees under the employee stock purchase plan. On April 1, 2010, 136,536 options that had not been exercised expired.

A summary of the activity under the employee stock purchase plan for the three months ended March 31, 2010 and 2009 is included in the table below.

	Three Months Ended March 31, 2010	2009
Outstanding and exercisable, beginning of period	335,608	250,868
Granted	256,080	219,184
Exercised	(3,368)	(3,848)
Forfeited	(11,660)	(5,171)
Outstanding and exercisable, end of period	576,660	461,033

Note 8. Defined Benefit Pension Plans

The Company has an Executive Retirement Plan under which three of the Company s founding officers may receive certain benefits upon retirement. The plan is unfunded, and benefits will be paid from earnings of the Company. In 2008, the Company froze the maximum annual benefits payable under the Executive Retirement Plan at $896,000 which resulted in a curtailment of benefits for the Company s chief executive officer. In consideration of the curtailment and as partial settlement of benefits, the Company made a one-time cash payment of $2.3 million to its chief executive officer in January 2009. As of March 31, 2010, only the Company s chief executive officer was eligible to retire under the Executive Retirement Plan.

The Company also had a retirement plan for its non-employee directors which was terminated in November 2009. As a result, accumulated benefits due, aggregating approximately $2.6 million, will be paid out in lump sum to each non-employee director in November 2010, or earlier upon retirement.

Net periodic benefit cost recorded related to the Company s pension plans for the three months ended March 31, 2010 and 2009 is detailed in the following table.

(Dollars in thousands)	Three Months Ended March 31, 2010	2009
Service costs	$ 13	$ 77
Interest costs	242	234
Effect of settlement		171
Amortization of net gain/loss	187	1,017
Total recognized in net periodic benefit cost	$ 442	$ 1,499

Note 9. Other Operating Income

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

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(Dollars in thousands)	Three Months Ended March 31, 2010	2009
Property operating agreement guaranty revenue	$ 1,892	$ 2,654
Interest income on notes receivable	173	125
Management fee income	45	45
Replacement rent	7	625
Other	53	60
	$ 2,170	$ 3,509

Note 10. Taxable Income

Taxable Income

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

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

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

The following table reconciles the Company s consolidated net income to taxable income for the three months ended March 31, 2010 and 2009.

(Dollars in thousands)	Three Months Ended March 31, 2010	2009
Net income attributable to common stockholders	$ 4,594	$ 20,865
Reconciling items to taxable income:		
Depreciation and amortization	5,052	4,360
Gain/loss on disposition of depreciable assets	6,275	5,589
Straight-line rent	(481)	(240)
Receivable allowances	(655)	489
Stock-based compensation	1,175	1,541
Other	725	1,503
Taxable income (1)	$ 16,685	$ 34,107
Dividends paid	$ 18,417	$ 22,829

(1) Before REIT dividend paid deduction.

State Income Taxes

State income tax expense and state income tax payments for the three months ended March 31, 2010 and 2009 are detailed in the table below.

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(Dollars in thousands)	Three Months Ended March 31, 2010	2009
State income tax expense:		
Texas gross margins tax	$ 111	$ 116
Other	48	42
Total state income tax expense	$ 159	$ 158
State income tax payments, net of refunds	$ (6)	$ 53

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

Note 11. Fair Value of Financial Instruments

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

	March 31, 2010		December 31, 2009	
(Dollars in millions)	Carrying value	Fair value	Carrying value	Fair value
Notes and bonds payable	$ 1,035.1	$ 1,092.4	$ 1,046.4	$ 1,088.6
Mortgage notes receivable	$ 22.6	$ 21.8	$ 31.0	$ 30.8
Notes receivable, net of allowances	$ 3.8	$ 3.8	$ 3.3	$ 3.3

Note 12. Subsequent Event

On May 1 and 2, 2010, the greater middle Tennessee area experienced a series of severe storms resulting in widespread flooding and property damage. Based on assessments as of May 10, 2010, the date of this filing, the Company does not believe any of its properties in the affected areas sustained any structural damage.

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

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

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

Business Overview

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

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

The Company s real estate portfolio, diversified by facility type, geography, tenant and payor mix, helps mitigate its exposure to fluctuating economic conditions, tenant and sponsor credit risks, and changes in clinical practice and reimbursement patterns.

Executive Overview

During the first quarter of 2010, the Company acquired a 68,534 square foot medical office building in Iowa through a joint venture for $13.8 million and disposed of five properties in Virginia for approximately $19.2 million in net proceeds. Also, during the first quarter of 2010, construction on two medical office buildings continued with aggregate budgets of approximately $178.2 million.

The first quarter of 2010 was also the first period that reflects a full quarter of interest expense following the issuance of the unsecured senior notes due 2017 (the Senior Notes due 2017), $80 million of mortgage debt entered into during the fourth quarter of 2009, and the effectiveness of the Company s unsecured credit facility (the Unsecured Credit Facility) on September 30, 2009.

At March 31, 2010, the Company s leverage ratio [debt divided by (debt plus stockholders equity less intangible assets plus accumulated depreciation)] was approximately 46.0%, with no significant maturities until 2011. The Company had borrowings outstanding under the Unsecured Credit Facility totaling $47.0 million at March 31, 2010, with a capacity remaining under its financial covenants of $503.0 million.

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Trends and Matters Impacting Operating Results

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

Cost of Capital

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

Acquisitions

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

Dispositions

During the first quarter of 2010, pursuant to purchase options exercised by an operator, the Company disposed of five medical office buildings in Virginia for approximately $19.2 million in net proceeds and $0.8 million in lease termination fees.

Development Activity

At March 31, 2010, the Company had two construction projects underway. The Company expects completion of the core and shell of one of the projects, with a budget totaling approximately $86.0 million, during the second quarter of 2010 and expects completion of the second project with a budget of approximately $92.2 million during the third quarter of 2011.

In addition to the projects currently under construction, the Company continues to finance the development of a six-facility outpatient campus with a budget totaling approximately $72.0 million. At March 31, 2010, the Company had funded $56.4 million towards the project. Construction of the remaining two buildings has not yet begun, but the Company expects to fund the remaining $15.6 million during 2010 and 2011. The Company, through its consolidated joint venture, acquired three of the buildings and the fourth building was sold to a third party during 2009. The Company s consolidated joint venture will have an option to purchase the two remaining buildings at a fair value market price upon completion and full occupancy.

Expiring Leases

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

The Company also has 331 leases in its multi-tenanted buildings set to expire during 2010, with each tenant lessee occupying an average of approximately 3,088 square feet. Management expects that the majority of the leases will renew at favorable rates.

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Funds from Operations

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

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

FFO for the three months ended March 31, 2010 was impacted unfavorably by higher interest expense recognized due to the refinancing of the Unsecured Credit Facility, the issuance of the Senior Notes due 2017, and $80.0 million of mortgage debt entered into during the third and fourth quarters of 2009. As a result, interest expense for the three months ended March 31, 2010 as compared to the same period in 2009 was approximately $6.3 million higher, or $0.10 per diluted common share. Also, FFO for the three months ended March 31, 2009 was impacted favorably by a re-measurement gain of $2.7 million, or $0.05 per diluted common share, recognized in connection with the acquisition of the remaining interests in a joint venture during the first quarter of 2009.

The table below reconciles FFO to net income for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2010	2009
Net Income Attributable to Common Stockholders	$ 4,594	$ 20,865
Gain on sales of real estate properties	(2,696)	(12,609)
Real estate depreciation and amortization	17,333	16,883
Total adjustments	14,637	4,274
Funds from Operations	$ 19,231	$ 25,139
Funds from Operations per Common Share Basic	$ 0.32	$ 0.43

Funds from Operations per Common Share Diluted	$ 0.32	$ 0.43
Weighted Average Common Shares Outstanding Basic	59,961,455	58,130,574
Weighted Average Common Shares Outstanding Diluted	60,969,730	58,847,384

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Results of Operations

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Income from continuing operations and net income attributable to common stockholders for the three months ended March 31, 2010 compared to the same period in 2009 was significantly impacted by higher interest expense resulting from the Company s debt financing activities in the third and fourth quarters of 2009 and the gains on sales of real estate properties recognized in the first quarter of 2009.

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2010	2009	$	%
REVENUES				
Master lease rent	$ 15,022	$ 14,808	$ 214	1.4%
Property operating	46,146	42,905	3,241	7.6%
Straight-line rent	584	382	202	52.9%
Mortgage interest	638	489	149	30.5%
Other operating	2,170	3,509	(1,339)	-38.2%
	64,560	62,093	2,467	4.0%
EXPENSES				
General and administrative	4,731	6,966	(2,235)	-32.1%
Property operating	24,675	23,358	1,317	5.6%
Bad debt, net	(199)	435	(634)	-145.7%
Depreciation	16,591	15,162	1,429	9.4%
Amortization	1,301	1,481	(180)	-12.2%
	47,099	47,402	(303)	-0.6%
OTHER INCOME (EXPENSE)				
Loss on extinguishment of debt	(480)		(480)	
Re-measurement gain of equity interest upon acquisition		2,701	(2,701)	-100.0%
Interest expense	(16,310)	(10,010)	(6,300)	62.9%
Interest and other income, net	476	154	322	209.1%
	(16,314)	(7,155)	(9,159)	128.0%
INCOME FROM CONTINUING OPERATIONS	1,147	7,536	(6,389)	-84.8%
DISCONTINUED OPERATIONS				
Income from discontinued operations	815	757	58	7.7%
Impairment		(22)	22	-100.0%
Gain on sales of real estate properties	2,696	12,609	(9,913)	-78.6%
INCOME FROM DISCONTINUED OPERATIONS	3,511	13,344	(9,833)	-73.7%

NET INCOME	4,658	20,880	(16,222)	-77.7%
Less: Net income attributable to noncontrolling interests	(64)	(15)	(49)	326.7%
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 4,594	$ 20,865	$ (16,271)	-78.0%
EARNINGS PER COMMON SHARE				
Net income attributable to common stockholders Basic	$ 0.08	$ 0.36	$ (0.28)	-77.8%
Net income attributable to common stockholders Diluted	$ 0.08	$ 0.35	$ (0.27)	-77.1%

Total revenues from continuing operations for the three months ended March 31, 2010 increased $2.5 million, or 4.0%, compared to the same period in 2009, mainly for the reasons discussed below:

Master lease rental income increased $0.2 million, or 1.4%. Master lease rental income increased approximately $0.9 million as a result of the Company s 2009 acquisitions. The Company also recognized master lease income of $0.4 million related to a new master lease agreement executed during 2009 on a property whose income was previously reported in property operating income. These increases to master lease rent were partially offset by a reduction of approximately $1.0 million related to properties whose master leases had expired and the Company began recognizing the underlying tenant rents in property operating income.

Property operating income increased $3.2 million, or 7.6%, due mainly to the recognition of additional revenue of approximately $1.4 million resulting from the Company s 2009 real estate acquisitions. Also, the Company began recognizing the underlying tenant rental income on properties whose master leases had expired, resulting in approximately $0.9 million in additional property operating income in the first quarter of 2010 compared to the same period in 2009. The remaining increase of approximately $1.5 million resulted mainly from new leasing activity and annual rent increases. These increases in property operating income were partially offset by a $0.6 million decrease to property operating income related to a property whose gross revenues were previously reported in property operating income, but are now reported in master lease income upon consummation of a new master lease agreement with the tenant.

Straight-line rent increased $0.2 million, or 52.9%, due mainly to leases subject to straight-lining from properties acquired during 2009.

Other operating income decreased $1.3 million, or 38.2%, due mainly to a decrease in property operating agreement guaranty income of approximately $0.7 million resulting from the expiration of agreements relating to five properties. Other operating income for first quarter of 2010 was also lower by approximately $0.6 million of replacement rent received by the Company in 2009 pursuant to an agreement with an operator that expired on June 30, 2009.

Total expenses for the three months ended March 31, 2010 decreased $0.3 million, or 0.6%, compared to the same period in 2009, mainly for the reasons discussed below:

General and administrative expenses decreased $2.2 million, or 32.1%, due mainly to expense of approximately $1.0 million recognized in the first quarter of 2009 related to the payment of a partial pension settlement, a decrease in pension and deferred compensation expenses recognized of approximately $0.7 million and an overall decrease in professional fees of approximately $0.4 million.

Property operating expense increased $1.3 million, or 5.6%, due mainly to the recognition of additional first quarter of 2010 expenses of approximately $0.5 million from the Company s 2009 real estate acquisitions. Also, properties previously under construction that commenced operations during 2009 resulted in approximately $0.6 million in additional property operating expenses in 2010 compared to 2009. Property operating expense also increased approximately $0.6 million for the first quarter of 2010 due to properties whose master leases expired, and the Company began incurring the underlying operating expenses of the buildings. These increases to expense were partially offset by overall decreases in property taxes of approximately $0.3 million and the execution of a master lease agreement in the fourth quarter of 2009 related to a property previously managed by the Company whose expenses were previously reported in property operating expense, resulting in a $0.1 million decrease to property operating income from 2009 to 2010.

Bad debt expense decreased $0.6 million primarily due to the subsequent reversal of bad debt expense and related reserve on a tenant receivable, which was adjusted in the first quarter of 2010.

Depreciation expense increased $1.4 million, or 9.4%, due mainly to approximately $0.5 million in additional depreciation recognized in the first quarter of 2010 compared to 2009 related to the Company s 2009 real estate acquisitions and $0.4 million related to properties previously under construction that commenced operations during 2009. The remainder of the increase of approximately $0.5 million was due mainly to additional depreciation expense recognized related to various building and tenant improvement expenditures.

Amortization expense decreased $0.2 million, or 12.2%, due mainly to a decrease in amortization of approximately $0.4 million on lease intangibles acquired generally as part of the Company s 2003 and 2004 real estate acquisitions which are becoming fully amortized, partially offset by additional amortization of approximately $0.2 million recognized on lease intangibles acquired related to the Company s 2009 real estate acquisitions.

Other income (expense) for the three months ended March 31, 2010 changed unfavorably by $9.2 million, or 128.0%, compared to the same period in 2009 mainly due to an increase in interest expense associated with Senior Notes due 2017 of approximately $4.8 million and interest on the mortgage debt entered into during 2009 of approximately $1.4 million. Also, during the first quarter of 2009, the Company recognized a $2.7 million gain related to the valuation and re-measurement of the Company s equity interest in a joint venture in connection with the acquisition of the remaining equity interests in the joint venture, and in 2010, the Company recognized a loss on the early extinguishment of debt of approximately $0.5 million.

Income from discontinued operations totaled $3.5 million and $13.3 million, respectively, for the three months ended March 31, 2010 and 2009, which includes the results of operations and gains on sale related to assets classified as held for sale or disposed of as of March 31, 2010. The Company disposed of five properties during the first quarter of 2010, with one property remaining in held for sale at March 31, 2010.

Liquidity and Capital Resources

The Company derives most of its revenues from its real estate property portfolio based on contractual arrangements with its tenants and sponsors. The Company may, from time to time, also generate funds from capital market financings, sales of real estate properties or mortgages, borrowings under the Unsecured Credit Facility, or from other private debt or equity offerings. For the three months ended March 31, 2010, the Company generated approximately $28.3 million in cash from operations and used approximately $23.1 million in total cash in investing and financing activities, including dividend payments, as detailed in the Company s Condensed Consolidated Statements of Cash Flows.

Cost of Capital

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

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

Contractual Obligations

The Company monitors its contractual obligations to ensure funds are available to meet obligations when due. The following table represents the Company s long-term contractual obligations for which the Company was making payments as of March 31, 2010, including interest payments due where applicable. The Company is also required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. The Company s material contractual obligations for the remainder of 2010 through 2011 are included in the table below. At March 31, 2010, the Company had no long-term capital lease or purchase obligations.

(Dollars in thousands)	2010	2011	Total
Long-term debt obligations, including interest (1)	$ 57,582	$ 335,057	$ 392,639
Operating lease commitments (2)	3,170	4,290	7,460
Construction in progress (3)	35,902	29,215	65,117
Tenant improvements (4)			
Construction loan obligation (5)	1,232		1,232
Pension obligations (6)	2,581		2,581
Total contractual obligations	$ 100,467	$ 368,562	$ 469,029

(1) Includes estimated interest due on

total debt other than on the Unsecured Credit Facility. See Note 4 to the Condensed Consolidated Financial Statements.

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

(3) Includes cash flow projections for the remainder of 2010 and 2011 related to the construction of two buildings. A portion of the remaining commitments is designated for tenant improvements that will generally be funded after the core and shell of the building is substantially completed.

(4) The Company has various remaining first-generation tenant

improvements budgeted as of March 31, 2010 totaling approximately $29.6 million related to properties that were developed by the Company that the Company may fund for tenant improvements as leases are signed. The Company has not included these budgeted amounts in the table above.

(5) The Company s remaining commitment at March 31, 2010 related to two construction loans.

(6) At December 31, 2009, the last measurement date, one employee, the Company s chief executive officer, was eligible to retire under the Executive Retirement Plan. If the chief executive officer retired and received full retirement benefits based upon the terms of the plan, the

future benefits
to be paid

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are estimated to be approximately $29.9 million as of December 31, 2009. In 2008, the Company froze the maximum annual benefit payable under the Executive Retirement Plan at $896,000, which resulted in a reduction of the benefits payable to the Company s chief executive officer. In consideration of the curtailment and as a partial settlement of the plan, the Company made a one-time cash payment of $2.3 million to its chief executive officer in early 2009. Because the Company s chief executive officer has no present intention to retire, the Company has not projected when the retirement benefits would be paid in this table. At March 31, 2010, the Company had recorded a $16.5 million liability, included in other liabilities, related to its pension plan obligations. In addition, in November 2009, the Company terminated its Retirement Plan for Outside Directors. As a result, lump sum payments totaling approximately $2.6 million will be paid in November 2010, or earlier upon retirement, to the outside directors that participated in the plan, which are included in the table above.

As of March 31, 2010, the Company s leverage ratio [debt divided by (debt plus stockholders equity less intangible assets plus accumulated depreciation)] was approximately 46.0%, and its earnings (from continuing operations) covered fixed charges at a ratio of 0.94 to 1.0 for the three months ended March 31, 2010. Also, the Company had no significant debt maturities until 2011 at March 31, 2010. At March 31, 2010, the Company had $47.0 million outstanding under the Unsecured Credit Facility, with a weighted average interest rate of approximately 3.04%, and had borrowing capacity remaining, under its financial covenants, of approximately $503.0 million.

The Company s various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth (as defined in the agreement) and impose certain limits on the Company s ability to incur indebtedness and create liens or encumbrances. At March 31, 2010, the Company was in compliance with the financial covenant provisions under its various debt instruments.

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

Security Deposits and Letters of Credit

As of March 31, 2010, the Company had approximately $6.3 million in letters of credit, security deposits, debt service reserves or capital replacement reserves for the benefit of the Company in the event the obligated lessee or operator fails to make payments under the terms of their respective lease or mortgage. Generally, the Company may, at its discretion and upon notification to the operator or tenant, draw upon these instruments if there are any defaults under the leases or mortgage notes.

Other Development Activity

In addition to the projects currently under construction, the Company continues to finance the development of a six-facility outpatient campus with a budget totaling approximately $72.0 million. At March 31, 2010, the Company had funded $56.4 million towards the project. Construction of the remaining two buildings has not yet begun, but the Company expects to fund the remaining $15.6 million during 2010 and 2011. The Company, through its consolidated joint venture, acquired three of the buildings and the fourth building was sold to a third party during 2009. The Company s consolidated joint venture will have an option to purchase the two remaining buildings at a fair value market price upon completion and full occupancy.

At-The-Market Equity Offering Program

In February 2010, the Company entered into a sales agreement with an investment bank to sell up to 5,000,000 shares of its common stock through an at-the-market equity offering program. This sales agreement superseded the sales agreement signed with the investment bank in 2008. The Company may sell shares of its common stock from time to time through the at-the-market equity offering program under which the investment bank will act as agent and/or principal.

In the first quarter of 2010, the Company sold 698,700 shares of common stock through its at-the-market equity offering program, generating approximately $14.9 million in net proceeds.

In the second quarter of 2010, through May 10, 2010, the date of this filing, the Company has sold an additional 1,615,500 shares of common stock, generating approximately $38.4 million in net proceeds.

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

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Dividends

The Company expects to pay quarterly dividends of $0.30 per common share during 2010. During the first quarter of 2010, the Company s Board of Directors declared and paid a common stock cash dividend for the three months ended December 31, 2009 of $0.30 per share, and on May 4, 2010, declared a common stock cash dividend for the three months ended March 31, 2010 of $0.30 per share, payable on June 3, 2010. As described in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 under the heading Risk Factors, the ability of the Company to pay dividends is dependent upon its ability to generate funds from operations and cash flows and to make accretive new investments.

Liquidity

Net cash provided by operating activities was $28.3 million and $27.5 million for the three months ended March 31, 2010 and 2009, respectively. The Company s cash flows are dependent upon rental rates on leases, occupancy levels of the multi-tenanted buildings, acquisition and disposition activity during the year, and the level of operating expenses, among other factors. The Company s leases, which provide its main source of income and cash flow, are generally fixed in nature, have terms of approximately one to 20 years and have annual rate increases based generally on consumer price indices.

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

Impact of Inflation

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

Off-Balance Sheet Arrangements

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Item 4. Controls and Procedures.

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

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

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Item 6. Exhibits.

Exhibit 3.1	Second Articles of Amendment and Restatement of the Company (1)
Exhibit 3.2	Amended and Restated Bylaws of the Company, as amended (2)
Exhibit 4.1	Specimen Stock Certificate (1)
Exhibit 4.2	Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.3	First Supplemental Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.4	Form of 8.125% Senior Note Due 2011 (3)
Exhibit 4.5	Second Supplemental Indenture, dated as of March 30, 2004, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly Wachovia Bank, National Association, as Trustee) (4)
Exhibit 4.6	Form of 5.125% Senior Note Due 2014 (4)
Exhibit 4.7	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Regions Bank, as Trustee (5)
Exhibit 4.8	

7.125% 4/1/16	105,000	103,950
Sandridge Energy		
*8.75% 1/15/20	29,000	31,683
#144A 7.50% 3/15/21	150,000	155,438
		3,784,375

(continues) 7

Statement of net assets

Delaware Investments® Dividend and Income Fund, Inc.

	Principal Amount	Value
Corporate Bonds (continued)		
Finance & Investments – 2.17%		
•American International Group		
8.175% 5/15/58	$ 220,000	$ 243,650
Cardtronics 8.25% 9/1/18	72,000	79,020
•Genworth Financial		
6.15% 11/15/66	111,000	86,303
•#ILFC E-Capital Trust I 144A		
5.97% 12/21/65	100,000	84,517
•#ILFC E-Capital Trust II 144A		
6.25% 12/21/65	325,000	287,625
•ING Groep 5.775% 12/29/49	220,000	205,700
•#Liberty Mutual Group 144A		
7.00% 3/15/37	195,000	194,565
Nuveen Investments		
*10.50% 11/15/15	250,000	266,250
#144A 10.50% 11/15/15	72,000	76,320
•XL Group 6.50% 12/31/49	275,000	262,281
		1,786,231
Media – 3.19%		
#Affinion Group 144A		
7.875% 12/15/18	202,000	192,909
#AMO Escrow 144A		
11.50% 12/15/17	80,000	87,000
Cablevision Systems		
8.00% 4/15/20	71,000	78,278
*CCO Holdings		
8.125% 4/30/20	205,000	222,680
#144A 7.00% 1/15/19	14,000	14,333
#Clear Channel Communications		
144A 9.00% 3/1/21	164,000	165,230
#Columbus International 144A		
11.50% 11/20/14	130,000	150,241
Entravision Communications		
8.75% 8/1/17	95,000	101,413
*GXS Worldwide 9.75% 6/15/15	163,000	166,668
#inVentiv Health 144A		
10.00% 8/15/18	139,000	145,081
#Kabel BW Erste Beteiligungs 144A		
7.50% 3/15/19	150,000	156,938
MDC Partners		
11.00% 11/1/16	146,000	162,973

	#144A 11.00% 11/1/16	70,000	77,438
	Nexstar Broadcasting		
	8.875% 4/15/17	139,000	151,510
	*#Ono Finance II 144A		
	10.875% 7/15/19	159,000	177,284
	#Sinclair Television Group 144A		
	9.25% 11/1/17	101,000	113,373
	#UPC Holding 144A		
	9.875% 4/15/18	189,000	212,624
	*Visant 10.00% 10/1/17	92,000	97,750
	#XM Satellite Radio 144A		
	7.625% 11/1/18	145,000	154,788
			2,628,511
Services Cyclical – 3.25%			
	#ARAMARK Holdings PIK 144A		
	8.625% 5/1/16	165,000	169,538
	#CMA CGM 144A 8.50% 4/15/17	170,000	155,550
	*#Delta Air Lines 144A		
	12.25% 3/15/15	129,000	145,286
	#Equinox Holdings 144A		
	9.50% 2/1/16	143,000	153,725
	*Harrah's Operating		
	10.00% 12/15/18	373,000	346,889
	#Icon Health & Fitness 144A		
	11.875% 10/15/16	87,000	91,568
	Kansas City Southern de Mexico		
	8.00% 2/1/18	32,000	35,600
	#144A 6.125% 6/15/21	140,000	141,400
	*#Marina District Finance 144A		
	9.875% 8/15/18	87,000	91,350
	MGM MIRAGE 11.375% 3/1/18	433,000	500,114
	@Northwest Airlines 10.00% 2/1/11	55,000	413
	*Pinnacle Entertainment		
	8.75% 5/15/20	155,000	167,788
	RSC Equipment Rental		
	8.25% 2/1/21	87,000	90,263
	10.25% 11/15/19	13,000	14,788
	#Seven Seas Cruises 144A		
	9.125% 5/15/19	165,000	170,363
	*#Swift Services Holdings 144A		
	10.00% 11/15/18	60,000	66,900
	*#Swift Transportation 144A		
	12.50% 5/15/17	101,000	108,828
	#United Air Lines 144A		
	12.00% 11/1/13	203,000	220,254
			2,670,617
Services Non-Cyclical – 1.28%			
	Casella Waste Systems		
	11.00% 7/15/14	83,000	94,205
	#144A 7.75% 2/15/19	173,000	176,028
	Community Health Systems		

	8.875% 7/15/15	155,000	160,425
	#Darling International 144A		
	8.50% 12/15/18	82,000	89,790
	HealthSouth 7.75% 9/15/22	35,000	37,538
	#Multiplan 144A 9.875% 9/1/18	178,000	193,129
	*Radiation Therapy Services		
	9.875% 4/15/17	157,000	159,944
	Radnet Management		
	10.375% 4/1/18	138,000	144,210
			1,055,269
Technology – 1.92%			
	*Advanced Micro Devices		
	7.75% 8/1/20	210,000	221,549
	Aspect Software 10.625% 5/7/17	143,000	155,155
	*First Data		
	9.875% 9/24/15	217,000	225,137
	11.25% 3/31/16	166,000	167,245

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	Principal Amount	Value
Corporate Bonds (continued)		
Technology (continued)		
#iGate 144A 9.00% 5/1/16	$ 160,000	$ 165,200
#International Wire Group Holdings		
144A 9.75% 4/15/15	129,000	136,095
MagnaChip Semiconductor		
10.50% 4/15/18	101,000	114,509
#MedAssets 144A 8.00% 11/15/18	82,000	84,973
#Seagate HDD Cayman 144A		
7.75% 12/15/18	164,000	173,430
*SunGard Data Systems		
10.25% 8/15/15	127,000	132,398
		1,575,691
Telecommunications – 4.59%		
Avaya		
9.75% 11/1/15	25,000	26,094
#144A 7.00% 4/1/19	169,000	166,043
PIK 10.125% 11/1/15	105,000	109,725
#Buccaneer Merger Sub 144A		
9.125% 1/15/19	130,000	139,913
#Clearwire Communications 144A		
12.00% 12/1/15	266,000	291,702
*12.00% 12/1/17	205,000	224,219
*Cricket Communications		
7.75% 10/15/20	172,000	170,710
#Digicel Group 144A		
9.125% 1/15/15	100,000	103,750
10.50% 4/15/18	96,000	108,960
#EH Holding 144A 7.625% 6/15/21	135,000	138,713
#Integra Telecom Holdings 144A		
10.75% 4/15/16	125,000	131,875
Intelsat Bermuda		
11.25% 2/4/17	401,000	435,084
PIK 11.50% 2/4/17	176,092	191,720
*Level 3 Financing 10.00% 2/1/18	162,000	176,175
*MetroPCS Wireless 7.875% 9/1/18	67,000	72,444
NII Capital		
7.625% 4/1/21	85,000	90,631
10.00% 8/15/16	37,000	42,643
#PAETEC Holding 144A		
9.875% 12/1/18	106,000	114,215
Qwest 8.375% 5/1/16	4,000	4,770
Qwest Communications		
International 7.50% 2/15/14	58,000	58,943
*#Satmex Escrow 144A		
9.50% 5/15/17	85,000	87,550
Sprint Capital 8.75% 3/15/32	159,000	176,291

	#Telcordia Technologies 144A		
	11.00% 5/1/18	253,000	287,154
	Telesat Canada 12.50% 11/1/17	131,000	157,200
	Virgin Media Finance		
	8.375% 10/15/19	92,000	103,960
	#West 144A 7.875% 1/15/19	165,000	168,506
			3,778,990
Utilities – 0.86%			
	AES		
	7.75% 3/1/14	76,000	83,600
	8.00% 6/1/20	50,000	54,375
	9.75% 4/15/16	19,000	22,088
	Elwood Energy 8.159% 7/5/26	136,500	135,817
	*GenOn Energy 9.50% 10/15/18	101,000	106,808
	*Mirant Americas 8.50% 10/1/21	185,000	192,862
	•Puget Sound Energy 6.974% 6/1/67	110,000	112,474
			708,024
Total Corporate Bonds			
	(cost $30,148,509)		32,020,046
«Senior Secured Loans – 1.10%			
	Brock Holdings III 10.50% 2/15/18	55,000	56,719
	Endo Pharmaceuticals Holdings		
	7.25% 4/10/12	115,000	115,000
	Level 3 Financing 14.00% 4/11/12	140,000	140,000
	PQ 6.72% 7/30/15	170,000	168,619
	Silgan Holdings 7.75% 1/20/12	255,000	255,000
	Texas Competitive Electric Holdings		
	3.50% 10/10/14	205,000	174,920
Total Senior Secured Loans			
	(cost $886,550)		910,258
		Number of Shares	
Limited Partnership – 0.23%			
	Brookfield Infrastructure Partners	7,600	188,100
Total Limited Partnership			
	(cost $144,435)		188,100
Preferred Stock – 1.80%			
	Ally Financial		
	• 8.50%	5,000	131,700
	#144A 7.00%	200	193,206
	*Cogdell Spencer 8.50%	29,600	740,888
	•GMAC Capital Trust I 8.125%	15,000	394,050
	†=Port Townsend	70	0
	†W2007 Grace Acquisitions 8.75%	34,400	21,070
Total Preferred Stock			
	(cost $2,349,200)		1,480,914
Warrant – 0.00%			

=@	Port Townsend	70	1
Total Warrant (cost $1,680)			1

(continues) 9

Statement of net assets

Delaware Investments® Dividend and Income Fund, Inc.

	Principal Amount		Value
≠Short-Term Investments – 1.11%			
Discount Notes – 1.11%			
Federal Home Loan Bank			
0.01% 6/1/11	$	896,000	$ 896,001
0.06% 6/7/11		14,458	14,458
Total Short-Term Investments			
(cost $910,459)			910,459
Total Value of Securities Before			
Securities Lending Collateral – 123.64%			
(cost $91,730,172)			101,746,556
	Number of Shares		
Securities Lending Collateral** – 17.24%			
Investment Companies			
BNY Mellon SL DBT II			
Liquidating Fund		118,062	115,157
Delaware Investments			
Collateral Fund No.1		14,068,173	14,068,173
@†Mellon GSL Reinvestment Trust II		154,977	0
Total Securities Lending Collateral			
(cost $14,341,212)			14,183,330
Total Value of Securities – 140.88%			
(cost $106,071,384)			115,929,886©
Obligation to Return Securities			
Lending Collateral** – (17.43%)			(14,341,212)
Borrowing Under Line of Credit – (24.58%)			(20,225,000)
Receivables and Other Assets			
Net of Other Liabilities – 1.13%			925,787
Net Assets Applicable to 9,439,043			
Shares Outstanding; Equivalent to			
$8.72 Per Share – 100.00%			$ 82,289,461

Components of Net Assets at May 31, 2011:	
Common stock, $0.01 par value,	
500,000,000 shares authorized to the Fund	$ 93,836,402
Distributions in excess of net investment income	(260,572)
Accumulated net realized loss on investments	(21,147,706)
Net unrealized appreciation of investments	9,861,337
Total net assets	$ 82,289,461

†Non income producing security.
•Variable rate security. The rate shown is the rate as of May 31, 2011. Interest rates reset periodically.
≠The rate shown is the effective yield at the time of purchase.
@Illiquid security. At May 31, 2011, the aggregate amount of illiquid securities was $47,092, which represented 0.06% of the Fund's net assets. See Note 10 in "Notes to financial statements."
Restricted Security. These investments are in securities not registered under the Securities Act of 1933, as amended, and have certain restrictions on resale which may limit their liquidity. At May 31, 2011, the aggregate amount of the restricted securities was $131,705 or 0.16% of the Fund's net assets. See Note 10 in "Notes to financial statements."
=Security is being fair valued in accordance with the Fund's fair valuation policy. At May 31, 2011, the aggregate amount of fair valued securities was $46,684, which represented 0.06% of the Fund's net assets. See Note 1 in "Notes to financial statements."
#Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. At May 31, 2011, the aggregate amount of Rule 144A securities was $18,696,636, which represented 22.72% of the Fund's net assets. See Note 10 in "Notes to financial statements."
«Senior Secured Loans generally pay interest at rates which are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally: (i) the prime rate offered by one or more United States banks, (ii) the lending rate offered by one or more European banks such as the London Inter-Bank Offered Rate (LIBOR), and (iii) the certificate of deposit rate. Senior Secured Loans may be subject to restrictions on resale. Stated rate in effect at May 31, 2011.
Step coupon bond. Coupon increases or decreases periodically based on a predetermined schedule. Stated rate in effect at May 31, 2011.
*Fully or partially on loan.
**See Note 9 in "Notes to financial statements."
©Includes $12,505,654 of securities loaned.

Summary of Abbreviations:

ADR – American Depositary Receipts
PIK – Pay-in-kind
REIT – Real Estate Investment Trust

See accompanying notes, which are an integral part of the financial statements.

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Statement of operations

Delaware Investments® Dividend and Income Fund, Inc.
Six Months Ended May 31, 2011

Investment Income:			
	Dividends	$ 956,762	
	Interest	1,678,752	
	Securities lending income	23,276	
	Foreign tax withheld	(499)	$ 2,658,291
Expenses:			
	Management fees	272,075	
	Reports to shareholders	47,801	
	Dividend disbursing and transfer agent fees and expenses	35,011	
	Legal fees	25,170	
	Accounting and administration expenses	19,457	
	Leverage expenses	12,465	
	NYSE fees	11,875	
	Audit and tax	7,450	
	Dues and services	4,557	
	Pricing fees	3,189	
	Custodian fees	3,119	
	Pa. franchise tax	2,760	
	Trustee's fees	2,048	
	Insurance fees	1,455	
	Consulting fees	486	
	Registration fees	421	
	Trustee's expenses	124	
	Total operating expenses (before interest expense)		449,463
	Interest expense		142,727
	Total operating expenses (after interest expense)		592,190
Net Investment Income			2,066,101
Net Realized and Unrealized Gain (Loss) on Investments			
	Net realized gain (loss) on:		
	Investments		3,391,214
	Foreign currency exchange contracts		(2,171)
	Foreign currencies		1,086
	Net realized gain		3,390,129
	Net change in unrealized appreciation/depreciation of investments		7,620,048
Net Realized and Unrealized Gain on Investments			11,010,177
Net Increase in Net Assets Resulting from Operations			$ 13,076,278

See accompanying notes, which are an integral part of the financial statements.

Statements of changes in net assets

Delaware Investments® Dividend and Income Fund, Inc.

	Six Months Ended 5/31/11	Year Ended 11/30/10
Increase in Net Assets from Operations:		
Net investment income	$ 2,066,101	$ 3,992,326
Net realized gain on investments and foreign currencies	3,390,129	3,448,267
Net change in unrealized appreciation/depreciation of investments	7,620,048	5,121,408
Net increase in net assets resulting from operations	13,076,278	12,562,001
Dividends and Distributions to Shareholders from:[1]		
Net investment income	(3,256,470)	(6,512,940)
	(3,256,470)	(6,512,940)
Net Increase in Net Assets	9,819,808	6,049,061
Net Assets:		
Beginning of period	72,469,653	66,420,592
End of period (including distributions in excess of net investment income of $260,572 and $260,572, respectively)	$ 82,289,461	$ 72,469,653

[1]See Note 4 in "Notes to financial statements."

See accompanying notes, which are an integral part of the financial statements.

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Statement of cash flows

Delaware Investments® Dividend and Income Fund, Inc.
Six Months Ended May 31, 2011

Net Cash Provided by Operating Activities:	
Net increase in net assets resulting from operations	$ 13,076,278
Adjustments to reconcile net increase in net assets from operations to cash provided by operating activities:	
Amortization of premium and discount on investments purchased	(40,032)
Purchase of investment securities	(31,220,066)
Proceeds from disposition of investment securities	(634,851)
Proceeds from disposition of short-term investment securities, net	33,706,869
Net realized gain from investment transactions	(3,323,879)
Net change in net unrealized appreciation/depreciation of investments	(7,620,048)
Increase in receivable for investments sold	(1,398,894)
Decrease in interest and dividends receivable	6,982
Increase in payable for investments purchased	791,803
Decrease in interest payable	(56)
Decrease in accrued expenses and other liabilities	(63,940)
Total adjustments	(9,796,112)
Net cash provided by operating activities	3,280,166
Cash Flows Used for Financing Activities:	
Cash dividends and distributions paid	(3,256,470)
Net cash used for financing activities	(3,256,470)
Effect of exchange rates on cash	(27)
Net increase in cash	23,669
Cash at beginning of period	13,586
Cash at end of period	$ 37,255
Cash paid for interest expense for leverage	$ 142,783

See accompanying notes, which are an integral part of the financial statements.

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Financial highlights

Delaware Investments® Dividend and Income Fund, Inc.

Selected data for each share of the Fund outstanding throughout each period were as follows:

	Six Months Ended 5/31/11[1] (Unaudited)	Year Ended 11/30/10	11/30/09	11/30/08	11/30/07	11/30/06
Net asset value, beginning of period	$7.680	$7.040	$5.220	$11.850	$14.200	$12.650
Income (loss) from investment operations:						
Net investment income[2]	0.219	0.423	0.413	0.490	0.408	0.470
Net realized and unrealized gain (loss) on investments and foreign currencies	1.166	0.907	2.120	(6.160)	(0.640)	2.150
Total from investment operations	1.385	1.330	2.533	(5.670)	(0.232)	2.620
Less dividends and distributions from:						
Net investment income	(0.345)	(0.690)	(0.410)	(0.558)	(0.553)	(0.486)
Net realized gain on investments	—	—	—	—	(0.912)	(0.584)
Return of capital	—	—	(0.303)	(0.402)	(0.653)	—
Total dividends and distributions	(0.345)	(0.690)	(0.713)	(0.960)	(2.118)	(1.070)
Net asset value, end of period	$8.720	$7.680	$7.040	$5.220	$11.850	$14.200
Market value, end of period	$8.250	$7.560	$6.600	$4.020	$10.660	$13.460
Total return based on:[3]						
Net asset value	18.47%	19.61%	53.26%	(50.35%)	(0.94%)	22.41%
Market value	13.87%	25.59%	86.93%	(57.51%)	(5.99%)	16.96%
Ratios and supplemental data:						
Net assets, end of period (000 omitted)	$82,289	$72,470	$66,421	$51,831	$123,928	$156,324
Ratio of expenses to average net assets	1.51%	1.65%	1.83%	2.39%	2.71%	2.71%
Ratio of expenses to adjusted average net assets (before interest expense)[4]	0.91%	0.95%	1.05%	0.88%	0.84%	0.88%
Ratio of interest expense to adjusted average net assets[4]	0.29%	0.33%	0.30%	0.80%	1.25%	1.19%
Ratio of net investment income to average net assets	5.25%	5.75%	7.06%	5.12%	2.92%	3.59%
Ratio of net investment income to adjusted average net assets[4]	4.18%	4.45%	5.21%	3.59%	2.27%	2.74%
Portfolio turnover	32%	62%	65%	64%	49%	63%
Leverage Analysis:						
Debt outstanding at end of period at par (000 omitted)	$20,225	$20,225	$20,225	$20,225	$44,000	$44,000
Asset coverage per $1,000 of debt outstanding at end of period	$5,069	$4,583	$4,284	$3,563	$3,820	$4,577

1 Ratios have been annualized and total return and portfolio turnover have not been annualized.
2 The average shares outstanding method has been applied for per share information.
3 Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Generally, total investment return based on net asset value will be higher than total investment return based on market value in periods where there is an increase in the discount or decrease in the premium of the market value to the net asset value from the beginning to the end of such periods. Conversely, total investment return based on net asset value will be lower than total investment return based on market value in periods where there is a decrease in the discount or an increase in the premium of the market value to the net asset value from the beginning to the end of such periods.
4 Adjusted average net assets excludes debt outstanding.

See accompanying notes, which are an integral part of the financial statements.

Notes to financial statements

Delaware Investments® Dividend and Income Fund, Inc.
May 31, 2011 (Unaudited)

Delaware Investments Dividend and Income Fund, Inc. (Fund) is organized as a Maryland corporation and is a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. The Fund’s shares trade on the New York Stock Exchange (NYSE) under the symbol DDF.

The investment objective of the Fund is to seek high current income. Capital appreciation is a secondary objective.

1. Significant Accounting Policies

The following accounting policies are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are consistently followed by the Fund.

Security Valuation — Equity securities, except those traded on the Nasdaq Stock Market, Inc. (Nasdaq), are valued at the last quoted sales price as of the time of the regular close of the NYSE on the valuation date. Securities traded on the Nasdaq are valued in accordance with the Nasdaq Official Closing Price, which may not be the last sales price. If on a particular day an equity security does not trade, then the mean between the bid and ask prices will be used. Securities listed on a foreign exchange are valued at the last quoted sales price on the valuation date. Short-term debt securities are valued at market value. U.S. government and agency securities are valued at the mean between the bid and ask prices. Other debt securities are valued by an independent pricing service or broker. To the extent current market prices are not available, the pricing service may take into account developments related to the specific security, as well as transactions in comparable securities. Investment company securities are valued at net asset value per share. Foreign currency exchange contracts are valued at the mean between the bid and ask prices. Interpolated values are derived when the settlement date of the contract is an interim date for which quotations are not available. Generally, other securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Fund’s Board of Directors (Board). In determining whether market quotations are readily available or fair valuation will be used, various factors will be taken into consideration, such as market closures or suspension of trading in a security. The Fund may use fair value pricing more frequently for securities traded primarily in non-U.S. markets because, among other things, most foreign markets close well before the Fund values its securities generally as of 4:00 p.m. Eastern time. The earlier close of these foreign markets gives rise to the possibility that significant events, including broad market moves, government actions or pronouncements, aftermarket trading, or news events may have occurred in the interim. To account for this, the Fund may frequently value foreign securities using fair value prices based on third-party vendor modeling tools (international fair value pricing).

Federal Income Taxes — No provision for federal income taxes has been made as the Fund intends to continue to qualify for federal income tax purposes as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and make the requisite distributions to shareholders. The Fund evaluates tax positions taken or expected to be taken in the course of preparing the Fund’s tax return to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Management has analyzed the Fund’s tax positions taken on federal income tax returns for all open tax years (November 30, 2007–November 30, 2010), and has concluded that no provision for federal income tax is required in the Fund’s financial statements.

Distributions — The Fund has implemented a managed distribution policy. Under the policy, the Fund is managed with a goal of generating as much of the distribution as possible from net investment income and short-term capital gains. The balance of the distribution will then come from long-term capital gains to the extent permitted and, if necessary, a return of capital. Even though the Fund may realize current year capital gains, such gains may be offset, in whole or in part, by the Fund’s capital loss carryovers from prior years. For federal income tax purposes, the effect of such capital loss carryovers may be to convert (to the extent of such current year gains) what would otherwise be returns of capital into distributions taxable as ordinary income. This tax effect can occur during times of extended market volatility. Under the Regulated Investment Company Modernization Act of 2010, this tax effect attributable to the Fund’s capital loss carryovers (the conversion of returns of capital into distributions taxable as ordinary income) will no longer apply to net capital losses of the Fund arising in Fund tax years beginning after November 30, 2011. The actual determination of the source of the Fund’s distributions can be made only at year end. Shareholders should receive written notification regarding the actual components and tax treatments of all Fund distributions for the calendar year 2011 in early 2012.

Foreign Currency Transactions — Transactions denominated in foreign currencies are recorded at the prevailing exchange rates on the valuation date. The value of all assets and liabilities denominated in foreign currencies is translated into U.S. dollars at the exchange rate of such currencies against the U.S. dollar daily. Transaction gains or losses resulting from changes in exchange rates during the reporting period or upon settlement of the foreign currency transaction are reported in operations for the current period. The Fund generally isolates that portion of realized gains and losses on investments in debt securities, which is due to changes in foreign exchange rates from that which is due to changes in market prices of debt securities. For foreign equity securities, these changes are included in net realized and unrealized gain or loss on investments. The Fund reports certain foreign currency related transactions as components of realized gains (losses) for financial reporting purposes, whereas such components are treated as ordinary income (loss) for federal income tax purposes.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

Other — Expenses directly attributable to the Fund are charged directly to the Fund. Other expenses common to various funds within the Delaware Investments Family of Funds are generally allocated amongst such funds on the basis of average net assets. Management fees and some other expenses are paid monthly. Security transactions are recorded on the date the securities are purchased or sold (trade date) for financial reporting purposes. Costs used in calculating realized gains and losses on the sale of investment securities are those of the specific securities sold. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Discounts and premiums on non-convertible bonds are amortized to interest income over the lives of the respective securities. Distributions received from investments in Real Estate Investment Trusts (REITs) are recorded as dividend income on the ex-dividend date, subject to reclassification upon notice of the character of such distribution by the issuer. Foreign dividends are also recorded on the ex-dividend date or as soon after the ex-dividend date that the

(continues)

Notes to financial statements

Delaware Investments® Dividend and Income Fund, Inc.

1. Significant Accounting Policies (continued)

Fund is aware of such dividends, net of all non-rebatable tax withholdings. Withholding taxes on foreign dividends have been recorded in accordance with the Fund's understanding of the applicable country's tax rules and rates.

Subject to seeking best execution, the Fund may direct certain security trades to brokers who have agreed to rebate a portion of the related brokerage commission to the Fund in cash. In general, best execution refers to many factors, including the price paid or received for a security, the commission charged, the promptness and reliability of execution, the confidentiality and placement accorded the order, and other factors affecting the overall benefit obtained by the Fund on the transaction. There were no commission rebates for the six months ended May 31, 2011. DMC, as defined below, and its affiliates have previously acted and may in the future act as an investment advisor to mutual funds or separate accounts affiliated with the administrator of the commission recapture program described above. In addition, affiliates of the administrator act as consultants in helping institutional clients choose investment advisors and may also participate in other types of business and provide other services in the investment management industry.

The Fund may receive earnings credits from its custodian when positive cash balances are maintained, which are used to offset custody fees. There were no earnings credits for the six months ended May 31, 2011.

The Fund may receive earnings credits from its transfer agent when positive cash balances are maintained, which may be used to offset transfer agent fees. There were no earnings credits for the six months ended May 31, 2011.

2. Investment Management, Administration Agreements and Other Transactions with Affiliates

In accordance with the terms of its investment management agreement, the Fund pays Delaware Management Company (DMC), a series of Delaware Management Business Trust and the investment manager, an annual fee of 0.55% of the adjusted average daily net assets of the Fund. For purposes of the calculation of investment management fees, adjusted average weekly net assets excludes the line of credit liability.

Delaware Service Company, Inc. (DSC), an affiliate of DMC, provides fund accounting and financial administration oversight services to the Fund. For these services, the Fund pays DSC fees based on the aggregate daily net assets of the Delaware Investments Family of Funds at the following annual rate: 0.0050% of the first $30 billion; and 0.0045% of the next $10 billion; 0.0040% of the next $10 billion; and 0.0025% of aggregate average daily net assets in excess of $50 billion. For purposes of the calculation of DSC fees, adjusted average daily net assets excludes the line of credit liability. The fees payable to DSC under the service agreement described above are allocated among all Funds in the Delaware Investments Family of Funds on a relative net asset value basis. For the six months ended May 31, 2011, the Fund was charged $2,449 for these services.

At May 31, 2011, the Fund had liabilities payable to affiliates as follows:

Investment management fee payable to DMC	$47,702
Fees and other expenses payable to DSC	428
Other expenses payable to DMC and affiliates*	3,621

*DMC, as part of its administrative services, pays operating expenses on behalf of the Fund and is reimbursed on a periodic basis. Expenses include items such as printing of shareholder reports, fees for audit, legal and tax services, stock exchange fees, custodian fees and Directors' fees.

As provided in the investment management agreement, the Fund bears the cost of certain legal and tax services, including internal legal and tax services provided to the Fund by DMC and/or its affiliates' employees. For the six months ended May 31, 2011, the Fund was charged $13,121 for internal legal and tax services provided by DMC and/or its affiliates' employees.

Directors' fees include expenses accrued by the Fund for each Director's retainer and meeting fees. Certain officers of DMC and DSC are officers and/or directors of the Fund. These officers and directors are paid no compensation by the Fund.

3. Investments

For the six months ended May 31, 2011, the Fund made purchases of $31,220,066 and sales of $33,706,869 of investment securities other than short-term investments.

At May 31, 2011, the cost of investments for federal income tax purposes has been estimated since final tax characteristics cannot be determined until fiscal year end. At May 31, 2011, the cost of investments was $106,647,133. At May 31, 2011, net unrealized appreciation was $9,282,753, of which $13,361,942 related to unrealized appreciation of investments and $4,079,189 related to unrealized depreciation of investments.

U.S. GAAP defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A three level hierarchy for fair value measurements has been established based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Fund’s investment in its entirety is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three level hierarchy of inputs is summarized below.

Level 1 – inputs are quoted prices in active markets for identical investments (e.g., equity securities, open-end investment companies, futures contracts, options contracts)

Level 2 – other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs) (e.g., debt securities, government securities, swap contracts, foreign currency exchange contracts, foreign securities utilizing international fair value pricing)

Level 3 – inputs are significant unobservable inputs (including the Fund’s own assumptions used to determine the fair value of investments) (e.g., broker-quoted securities, fair valued securities)

The following table summarizes the valuation of the Fund’s investments by fair value hierarchy levels as of May 31, 2011:

	Level 1	Level 2	Level 3	Total
Common Stock	$ 55,200,093	$ 41,083	$ 4	$ 55,241,180
Corporate Debt	—	43,509,223	416,679	43,925,902
Short-Term Investments	—	910,459	—	910,459
Securities Lending Collateral	—	14,183,330	—	14,183,330
Other	1,454,738	214,276	1	1,669,015
Total	$ 56,654,831	$ 58,858,371	$ 416,684	$ 115,929,886

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Common Stock	Corporate Debt	Other	Total
Balance as of 11/30/10	$ 4	$ 313,397	$ 24,082	$ 337,483
Purchases	—	650,000	—	650,000
Sales	—	(521,243)	(1)	(521,244)
Transfers out of Level 3	—	—	(860,000)	(860,000)
Net realized gain	—	2,243	1	2,244
Net change in unrealized appreciation/ depreciation	—	(27,718)	835,919	808,201
Balance as of 5/31/11	$ 4	$ 416,679	$ 1	$ 416,684
Net change in unrealized appreciation/ depreciation from investments still held as of 5/31/11	$ —	$ (27,700)	$ —	$ (27,700)

During the six months ended May 31, 2011, the Fund had transfers out of Level 3 investments into Level 2 investments in the amount of $860,000, which was due to the Fund’s pricing vendor being able to supply matrix prices for investments that had been utilizing broker quoted prices. During the six months ended May 31, 2011, there were no transfers between Level 1 investments and Level 2 investments that had a material impact to the Fund. This does not include transfers between Level 1 investments and Level 2 investments due to the Fund utilizing international fair value pricing during the period.

4. Dividend and Distribution Information

Income and long-term capital gain distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP. Additionally, distributions from net gains on foreign currency transactions and net short-term gains on sales of investment securities are treated as ordinary income for federal income tax purposes. The tax character of dividends and distributions paid during the six months ended May 31, 2011 and the year ended November 30, 2010 was as follows:

	Six Months Ended 5/31/11*	Year Ended 11/30/10
Ordinary income	$ 3,256,470	$ 6,512,940

*Tax information for the six months ended May 31, 2011 is an estimate and the tax character of dividends and distributions may be redesignated at fiscal year end.

5. Components of Net Assets on a Tax Basis

The components of net assets are estimated since final tax characteristics cannot be determined until fiscal year end. As of May 31, 2011, the estimated components of net assets on a tax basis were as follows:

Shares of beneficial interest	$ 93,836,402
Realized gains 12/1/10–5/31/11	3,268,769
Capital loss carryforwards as of 11/30/10	(24,101,298)
Unrealized appreciation of investments	9,285,588
Net assets	$ 82,289,461

The differences between book basis and tax basis components of net assets are primarily attributable to tax deferral of losses on wash sales, contingent payment debt instruments, tax treatment of partnership income and market discount and premium on debt instruments.

For financial reporting purposes, capital accounts are adjusted to reflect the tax character of permanent book/tax differences. Reclassifications are primarily due to tax treatment of dividends and distributions, market discount and premium on certain debt instruments, contingent payment debt instruments and gain (loss) on certain currency transactions. Results of operations and net assets were not affected by these reclassifications. For the six months ended May 31, 2011 the Fund recorded an estimate of these differences since final tax characteristics cannot be determined until fiscal year end.

Distributions in excess of net investment income	$ 1,190,369
Accumulated net realized loss	(135,077)
Paid-in capital	(1,055,292)

For federal income tax purposes, capital loss carryforwards may be carried forward and applied against future capital gains. Capital loss carryforwards remaining at November 30, 2010 will expire as follows: $12,885,662 expires in 2016 and $11,215,636 expires in 2017.

For the six months ended May 31, 2011, the fund had capital gains of $3,268,769, which may reduce the capital loss carryforwards.

6. Capital Stock

Shares obtained under the Fund’s dividend reinvestment plan are purchased by the Fund’s transfer agent, The Bank of New York Mellon (BNY Mellon) Shareowner Services, in the open market. There were no shares issued under the Fund’s dividend reinvestment plan for the six months ended May 31, 2011 and the year ended November 30, 2010.

The Fund did not repurchase shares under the Share Repurchase Program during the six months ended May 31, 2011 and the year ended November 30, 2010.

7. Line of Credit

For the six months ended May 31, 2011, the Fund borrowed money pursuant to a $30,000,000 Credit Agreement with BNY Mellon that expires on November 14, 2011. Depending on market conditions, the amount borrowed by the Fund pursuant to the Credit Agreement may be reduced or possibly increased in the future.

At May 31, 2011, the par value of loans outstanding was $20,225,000 at a variable interest rate of 1.35%. During the six months ended May 31, 2011, the average daily balance of loans outstanding was $20,225,000 at a weighted average interest rate of approximately 1.42%. Interest on borrowing is based on a variable short-term rate plus an applicable margin. The commitment fee is computed at a rate of 0.25% per annum on the unused balance. The loan is collateralized by the Fund’s portfolio.

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Notes to financial statements

Delaware Investments® Dividend and Income Fund, Inc.

8. Derivatives

U.S. GAAP requires enhanced disclosures that enable investors to understand: 1) how and why an entity uses derivatives; 2) how they are accounted for; and 3) how they affect an entity's results of operations and financial position.

Foreign Currency Exchange Contracts — The Fund may enter into foreign currency exchange contracts as a way of managing foreign exchange rate risk. The Fund may enter into these contracts to fix the U.S. dollar value of a security that it has agreed to buy or sell for the period between the date the trade was entered into and the date the security is delivered and paid for. The Fund may also use these contracts to hedge the U.S. dollar value of securities it already owns that are denominated in foreign currencies. The change in value is recorded as an unrealized gain or loss. When the contract is closed, a realized gain or loss is recorded equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of foreign currency exchange contracts does not eliminate fluctuations in the underlying prices of the securities, but does establish a rate of exchange that can be achieved in the future. Although foreign currency exchange contracts limit the risk of loss due to an unfavorable change in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency change favorably. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts. The Fund's maximum risk of loss from counterparty credit risk is the value of its currency exchanged with the counterparty. The risk is generally mitigated by having a netting arrangement between the Fund and the counterparty and by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty. No foreign currency exchange contracts were outstanding at May 31, 2011.

The volume of derivative transactions varies throughout the period. Information about derivative transactions reflected on the financial statements is as of the date of this report, but may not be indicative of the type and volume of derivative activity for the six months ended May 31, 2011.

9. Securities Lending

The Fund, along with other funds in the Delaware Investments® Family of Funds, may lend its securities pursuant to a security lending agreement (Lending Agreement) with BNY Mellon. With respect to each loan, if on any business day the aggregate market value of securities collateral plus cash collateral held is less than the aggregate market value of the securities which are the subject of such loan, the borrower will be notified to provide additional collateral by the end of the following business day which, together with the collateral already held, will be not less than the applicable collateral requirements for such security loan. If the aggregate market value of securities collateral and cash collateral held with respect to a security loan exceeds the applicable collateral requirement, upon the request of the borrower BNY Mellon must return enough collateral to the borrower by the end of the following business day to reduce the value of the remaining collateral to the applicable collateral requirement for such security loan. As a result of the foregoing, the value of the collateral held with respect to a loaned security may be temporarily more or less than the value of the security on loan.

Cash collateral received is generally invested in the Delaware Investments Collateral Fund No. 1 (Collective Trust) established by BNY Mellon for the purpose of investment on behalf of funds managed by DMC that participate in BNY Mellon's securities lending program. The Collective Trust may invest in U.S. government securities and high quality corporate debt, asset-backed and other money market securities and in repurchase agreements collateralized by such securities, provided that the Collective Trust will generally have a dollar-weighted average portfolio maturity of 60 days or less. The Collective Trust seeks to maintain a net asset value per unit of $1.00, but there can be no assurance that it will always be able to do so. The Fund may incur investment losses as a result of investing securities lending collateral in the Collective Trust or another collateral investment pool. This could occur if an investment in a collateral investment pool defaulted or if it were necessary to liquidate assets in the collateral investment pool to meet returns on outstanding security loans at a time when the collateral investment pool's net asset value per unit was less than $1.00. Under those circumstances, the Fund may not receive an amount from the collateral investment pool that is equal in amount to the collateral the Fund would be required to return to the borrower of the securities and the Fund would be required to make up this shortfall. Effective April 20, 2009, BNY Mellon transferred the assets of the Fund's previous collateral investment pool other than cash and assets with a maturity of one business day or less to the BNY Mellon SL DBT II Liquidating Fund (Liquidating Fund), effectively bifurcating the previous collateral investment pool. The Fund's exposure to the Liquidating Fund is expected to decrease as the Liquidating Fund's assets mature or are sold. In October 2008, BNY Mellon transferred certain distressed securities from the previous collateral investment pool into the Mellon GSL Reinvestment Trust II. The Fund can also accept U.S. government securities and letters of credit (non-cash collateral) in connection with securities loans. In the event of default or bankruptcy by the lending agent, realization and/or retention of the collateral may be subject to legal proceedings. In the event the borrower fails to return loaned securities and the collateral received is insufficient to cover the value of the loaned securities and provided such collateral shortfall is not the result of investment losses, the lending agent has agreed to pay the amount of the shortfall to the Fund, or at the discretion of the lending agent, replace the loaned securities. The Fund continues to record dividends or interest, as applicable, on the securities loaned and is subject to change in value of the securities loaned that may occur during the term of the loan. The Fund has the right under the Lending Agreement to recover the securities from the borrower on demand. With respect to security loans collateralized by non-cash collateral, the Fund receives loan premiums paid by the borrower. With respect to security loans collateralized by cash collateral, the earnings from the collateral investments are shared among the Fund, the security lending agent and the borrower. The Fund records security lending income net of allocations to the security lending agent and the borrower.

At May 31, 2011, the value of securities on loan was $12,505,654, for which the Fund received collateral, comprised of securities collateral valued at $144,277 and cash collateral of $14,341,212. At May 31, 2011, the value of invested collateral was $14,183,330. Investments purchased with cash collateral are presented on the statement of net asset under the caption “Securities Lending Collateral.”

10. Credit and Market Risks

The Fund borrows through its line of credit for purposes of leveraging. Leveraging may result in higher degrees of volatility because the Fund’s net asset value could be subject to fluctuations in short-term interest rates and changes in market value of portfolio securities attributable to the leverage.

The Fund invests a portion of its assets in high yield fixed income securities, which carry ratings of BB or lower by Standard & Poor’s and/or Ba or lower by Moody’s Investor Services. Investments in these higher yielding securities are generally accompanied by a greater degree of credit risk than higher rated securities. Additionally, lower rated securities may be more susceptible to adverse economic and competitive industry conditions than investment grade securities.

The Fund invests in REITs and is subject to some of the risks associated with that industry. If the Fund holds real estate directly as a result of defaults or receives rental income directly from real estate holdings, its tax status as a regulated investment company may be jeopardized. There were no direct real estate holdings during the six months ended May 31, 2011. The Fund’s REIT holdings are also affected by interest rate changes, particularly if the REITs it holds use floating rate debt to finance their ongoing operations.

The Fund may invest up to 10% of its net assets in illiquid securities, which may include securities with contractual restrictions on resale, securities exempt from registration under Rule 144A of the Securities Act of 1933, as amended, and other securities which may not be readily marketable. The relative illiquidity of these securities may impair the Fund from disposing of them in a timely manner and at a fair price when it is necessary or desirable to do so. While maintaining oversight, the Fund’s Board has delegated to DMC the day-to-day functions of determining whether individual securities are liquid for purposes of the Fund’s limitation on investments in illiquid securities. Securities eligible for resale pursuant to Rule 144A, which are determined to be liquid, are not subject to the 10% limit on investments in illiquid securities. Rule 144A and illiquid securities have been identified on the statement of net assets.

11. Contractual Obligations

The Fund enters into contracts in the normal course of business that contain a variety of indemnifications. The Fund’s maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts. Management has reviewed the Fund’s existing contracts and expects the risk of loss to be remote.

12. Subsequent Events

Management has determined that no material events or transactions occurred subsequent to May 31, 2011 that would require recognition or disclosure in the Fund’s financial statements.

Other Fund information
(Unaudited)

Delaware Investments® Dividend and Income Fund, Inc.

Fund management

Babak "Bob" Zenouzi
Senior Vice President, Chief Investment Officer — Real Estate Securities and Income Solutions (RESIS)

Bob Zenouzi is the lead manager for the real estate securities and income solutions (RESIS) group at Delaware Investments, which includes the team, its process, and its institutional and retail products, which he created during his prior time with the firm. He also focuses on opportunities in Japan, Singapore, and Malaysia for the firm's global REIT product. Additionally, he serves as lead portfolio manager for the firm's Dividend Income products, which he helped to create in the 1990s. He is also a member of the firm's asset allocation committee, which is responsible for building and managing multi-asset class portfolios. He rejoined Delaware Investments in May 2006 as senior portfolio manager and head of real estate securities. In his first term with the firm, he spent seven years as an analyst and portfolio manager, leaving in 1999 to work at Chartwell Investment Partners, where from 1999 to 2006 he was a partner and senior portfolio manager on Chartwell's Small-Cap Value portfolio. He began his career with The Boston Company, where he held several positions in accounting and financial analysis. Zenouzi earned a master's degree in finance from Boston College and a bachelor's degree from Babson College. He is a member of the National Association of Real Estate Investment Trusts and the Urban Land Institute.

Damon J. Andres, CFA
Vice President, Senior Portfolio Manager

Damon J. Andres, who joined Delaware Investments in 1994 as an analyst, currently serves as a portfolio manager for the firm's real estate securities and income solutions (RESIS) group. He also serves as a portfolio manager for the firm's Dividend Income products. From 1991 to 1994, he performed investment-consulting services as a consulting associate with Cambridge Associates. Andres earned a bachelor's degree in business administration with an emphasis in finance and accounting from the University of Richmond.

Wayne A. Anglace, CFA
Vice President, Portfolio Manager

Wayne A. Anglace currently serves as a portfolio manager and trader for the firm's convertible bond strategies. Prior to joining the firm in March 2007 as a research analyst and trader, he spent more than two years as a research analyst at Gartmore Global Investments for its convertible bond strategy. From 2000 to 2004, Anglace worked in private client research at Deutsche Bank Alex. Brown in Baltimore where he focused on equity research, and he started his financial services career with Ashbridge Investment Management in 1999. Prior to moving to the financial industry, Anglace worked as a professional civil engineer. He earned his bachelor's degree in civil engineering from Villanova University and an MBA with a concentration in finance from Saint Joseph's University, and he is a member of the CFA Society of Philadelphia.

Kristen E. Bartholdson
Vice President, Senior Portfolio Manager

Kristen E. Bartholdson is a senior portfolio manager for the firm's Large-Cap Value team. Prior to joining the firm in 2006 as an associate portfolio manager, she worked at Susquehanna International Group from 2004 to 2006, where she was an equity research salesperson. From 2000 to 2004 she worked in equity research at Credit Suisse, most recently as an associate analyst in investment strategy. Bartholdson earned her bachelor's degree in economics from Princeton University.

Thomas H. Chow, CFA
Senior Vice President, Senior Portfolio Manager

Thomas H. Chow is a member of the firm's taxable fixed income portfolio management team, with primary responsibility for portfolio construction and strategic asset allocation in investment grade credit exposures. He is the lead portfolio manager for Delaware Corporate Bond Fund and Delaware Extended Duration Bond Fund, as well as several institutional mandates. His experience includes significant exposure to asset liability management strategies and credit risk opportunities. Prior to joining Delaware Investments in 2001 as a portfolio manager working on the Lincoln General Account, he was a trader of high grade and high yield securities, and was involved in the portfolio management of collateralized bond obligations (CBOs) and insurance portfolios at SunAmerica/AIG from 1997 to 2001. Before that, he was an analyst, trader, and portfolio manager at Conseco Capital Management from 1989 to 1997. Chow received a bachelor's degree in business analysis from Indiana University, and he is a Fellow of Life Management Institute.

Roger A. Early, CPA, CFA, CFP
Senior Vice President, Co-Chief Investment Officer — Total Return Fixed Income Strategy

Roger A. Early rejoined Delaware Investments in March 2007 as a member of the firm's taxable fixed income portfolio management team, with primary responsibility for portfolio construction and strategic asset allocation. During his previous time at the firm, from 1994 to 2001, he was a senior portfolio manager in the same area, and he left Delaware Investments as head of its U.S. investment grade fixed income group. In recent years, Early was a senior portfolio manager at Chartwell Investment Partners and Rittenhouse Financial and served as the chief investment officer for fixed income at Turner Investments. Prior to joining Delaware Investments in 1994, he worked for more than 10 years at Federated Investors where he managed more than $25 billion in mutual fund and institutional portfolios in the short-term and investment grade markets. He left the firm as head of institutional fixed income management. Earlier in his career, he held management positions with the Federal Reserve Bank, PNC Financial, Touche Ross, and Rockwell International. Early earned his bachelor's degree in economics from The Wharton School of the University of Pennsylvania and an MBA with concentrations in finance and accounting from the University of Pittsburgh. He is a member of the CFA Society of Philadelphia.

Nikhil G. Lalvani, CFA
Vice President, Senior Portfolio Manager

Nikhil G. Lalvani is a senior portfolio manager for the firm's Large-Cap Value team. At Delaware Investments, Lalvani has served as both a fundamental and quantitative analyst. Prior to joining the firm in 1997 as an account analyst, he was a research associate with Bloomberg. Lalvani holds a bachelor's degree in finance from The Pennsylvania State University. He is a member of the CFA Institute and the CFA Society of Philadelphia.

Anthony A. Lombardi, CFA
Vice President, Senior Portfolio Manager

Anthony A. Lombardi is a senior portfolio manager for the firm's Large-Cap Value team. Prior to joining the firm in 2004 in his current role, Lombardi was a director at Merrill Lynch Investment Managers. He joined Merrill Lynch Investment Managers' Capital Management Group in 1998 and last served as a portfolio manager for the U.S. Active Large-Cap Value team, managing mutual funds and separate accounts for institutions and private clients. From 1990 to 1997, he worked at Dean Witter Reynolds as a sell-side equity research analyst. He began his career as an investment analyst with Crossland Savings. Lombardi graduated from Hofstra University, receiving a bachelor's degree in finance and an MBA with a concentration in finance. He is a member of the New York Society of Security Analysts and the CFA Institute.

Kevin P. Loome, CFA
Senior Vice President, Senior Portfolio Manager, Head of High Yield Investments

Kevin P. Loome is head of the High Yield fixed income team, responsible for portfolio construction and strategic asset allocation of all high yield fixed income assets. Prior to joining Delaware Investments in August 2007 in his current position, Loome spent 11 years at T. Rowe Price, starting as an analyst and leaving the firm as a portfolio manager. He began his career with Morgan Stanley as a corporate finance analyst in the New York and London offices. Loome received his bachelor's degree in commerce from the University of Virginia and earned an MBA from the Tuck School of Business at Dartmouth.

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Other Fund information
(Unaudited)

Delaware Investments® Dividend and Income Fund, Inc.

Fund management (continued)

D. Tysen Nutt Jr.
Senior Vice President, Senior Portfolio Manager, Team Leader

D. Tysen Nutt Jr. is senior portfolio manager and team leader for the firm's Large-Cap Value team. Before joining Delaware Investments in 2004 as senior vice president and senior portfolio manager, Nutt led the U.S. Active Large-Cap Value team within Merrill Lynch Investment Managers, where he managed mutual funds and separate accounts for institutions and private clients. He departed Merrill Lynch Investment Managers as a managing director. Prior to joining Merrill Lynch Investment Managers in 1994, Nutt was with Van Deventer & Hoch where he managed large-cap value portfolios for institutions and private clients. He began his investment career at Dean Witter Reynolds, where he eventually became vice president, investments. Nutt earned his bachelor's degree from Dartmouth College, and he is a member of the New York Society of Security Analysts and the CFA Institute.

Robert A. Vogel Jr., CFA
Vice President, Senior Portfolio Manager

Robert A. Vogel Jr. is a senior portfolio manager for the firm's Large-Cap Value team. Prior to joining Delaware Investments in 2004 as vice president and senior portfolio manager, he worked at Merrill Lynch Investment Managers for more than seven years, where he rose to the position of director and portfolio manager within the U.S. Active Large-Cap Value team. He began his career in 1992 as a financial consultant at Merrill Lynch. Vogel graduated from Loyola University Maryland, earning both bachelor's and master's degrees in finance. He also earned an MBA with a concentration in finance from The Wharton School of the University of Pennsylvania. Vogel is a member of the New York Society of Security Analysts, the CFA Institute, and the CFA Society of Philadelphia.

Change in independent registered public accounting firm

Due to independence matters under the Securities and Exchange Commission's auditor independence rules relating to the January 4, 2010 acquisition of Delaware Investments (including DMC and DSC) by Macquarie Group, Ernst & Young LLP (E&Y) has resigned as the independent registered public accounting firm for Delaware Investments® Dividend and Income Fund, Inc. (the Fund) effective May 20, 2010. At a meeting held on May 20, 2010, the Board of Directors of the Fund, upon recommendation of the Audit Committee, selected PricewaterhouseCoopers LLP (PwC) to serve as the independent registered public accounting firm for the Fund for the fiscal year ending November 30, 2010. During the fiscal years ended November 30, 2009 and 2008, E&Y's audit reports on the financial statements of the Fund did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. In addition, there were no disagreements between the Fund and E&Y on accounting principles, financial statements disclosures or audit scope, which, if not resolved to the satisfaction of E&Y, would have caused them to make reference to the disagreement in their reports. Neither the Fund nor anyone on its behalf has consulted with PwC at any time prior to their selection with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Fund's financial statements.

About the organization

This semiannual report is for the information of Delaware Investments® Dividend and Income Fund, Inc. shareholders. The figures in this report represent past results that are not a guarantee of future results. The return and principal value of an investment in the Fund will fluctuate so that shares, when sold, may be worth more or less than their original cost.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may, from time to time, purchase shares of its common stock on the open market at market prices. Your Fund's Board of Directors approved a share repurchase program in 1994 that authorizes the Fund to purchase up to 10% of its outstanding shares on the floor of the New York Stock Exchange.

Board of Directors

Patrick P. Coyne
Chairman, President,
and Chief Executive Officer
Delaware Investments Family of Funds
Philadelphia, PA

Thomas L. Bennett
Private Investor
Rosemont, PA

John A. Fry†
President
Drexel University
Philadelphia, PA

Anthony D. Knerr
Founder and Managing Director
Anthony Knerr & Associates
New York, NY

Lucinda S. Landreth
Former Chief Investment Officer
Assurant Inc.
Philadelphia, PA

Ann R. Leven
Consultant
ARL Associates
New York, NY

Thomas F. Madison†
President and Chief Executive Officer
MLM Partners Inc.
Minneapolis, MN

Janet L. Yeomans†
Vice President and Treasurer
3M Corporation
St. Paul, MN

Affiliated officers

David F. Connor
Vice President, Deputy General Counsel,
and Secretary
Delaware Investments Family of Funds
Philadelphia, PA

Daniel V. Geatens
Vice President and Treasurer
Delaware Investments Family of Funds
Philadelphia, PA

David P. O'Connor
Senior Vice President, General Counsel,
and Chief Legal Officer
Delaware Investments Family of Funds
Philadelphia, PA

Richard Salus
Senior Vice President and
Chief Financial Officer
Delaware Investments Family of Funds
Philadelphia, PA

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q, as well as a description of the policies and procedures that the Fund uses to determine how to vote proxies (if any) relating to portfolio securities are available without charge (i) upon request, by calling 800 523-1918; (ii) on the Fund's website at www.delawareinvestments.com; and (iii) on the SEC's website at www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC; information on the operation of the Public Reference Room may be obtained by calling 800 SEC-0330.

Information (if any) regarding how the Fund voted proxies relating to portfolio securities during the most recently disclosed 12-month period ended June 30 is available without charge (i) through the Fund's website at www.delawareinvestments.com; and (ii) on the SEC's website at www.sec.gov.

Contact information

Investment manager
Delaware Management Company
a series of Delaware Management
Business Trust
Philadelphia, PA

Principal office of the Fund
2005 Market Street
Philadelphia, PA 19103-7094

Independent registered public
accounting firm
PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

Registrar and stock transfer
agent
BNY Mellon Shareowner Services
480 Washington Blvd.
Jersey City, NJ 07310
800 851-9677

For securities dealers
and financial institutions
representatives
800 362-7500

Website
www.delawareinvestments.com

Delaware Investments, a member of Macquarie Group, refers to Delaware Management Holdings, Inc. and its subsidiaries. Macquarie Group refers to Macquarie Group Limited and its subsidiaries and affiliates worldwide.

Your reinvestment options
Delaware Investments Dividend and Income Fund, Inc. offers an automatic dividend reinvestment program. If you would like to

J. Richard Zecher
Founder
Investor Analytics
Scottsdale, AZ

reinvest dividends, and shares are registered in your name, contact BNY Mellon Shareowner Services at 800 851-9677. You will be asked to put your request in writing. If you have shares registered in “street” name, contact the broker/dealer holding the shares or your financial advisor.

†Audit committee member

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Item 2. Code of Ethics

Not applicable.

Item 3. Audit Committee Financial Expert

Not applicable.

Item 4. Principal Accountant Fees and Services

Not applicable.

Item 5. Audit Committee of Listed Registrants

Not applicable.

Item 6. Investments

(a) Included as part of report to shareholders filed under Item 1 of this Form N-CSR.

(b) Divestment of securities in accordance with Section 13(c) of the Investment Company Act of 1940.

Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies

Not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Applicable to Form N-CSRs filed after fiscal years ending on or after December 31, 2005.

Not applicable.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers

Not applicable.

Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

The registrant’s principal executive officer and principal financial officer have evaluated the registrant’s disclosure controls and procedures within 90 days of the filing of this report and have concluded that they are effective in providing reasonable assurance that the information required to be disclosed by the registrant in its reports or statements filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no significant changes in the registrant’s internal control over financial reporting that occurred during the second fiscal quarter of the period covered by the report to stockholders included herein (i.e., the registrant’s second fiscal quarter) that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

Item 12. Exhibits

(a) (1) Code of Ethics

Not applicable.

(2) Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rule 30a-2 under the Investment Company Act of 1940 are attached hereto as Exhibit 99.CERT.

(3) Written solicitations to purchase securities pursuant to Rule 23c-1 under the Securities Exchange Act of 1934.

Not applicable.

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are furnished herewith as Exhibit 99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf, by the undersigned, thereunto duly authorized.

Name of Registrant: Delaware Investments® Dividend and Income Fund, Inc.

PATRICK P. COYNE
By: Patrick P. Coyne
Title: Chief Executive Officer
Date: July 25, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

PATRICK P. COYNE
By: Patrick P. Coyne
Title: Chief Executive Officer
Date: July 25, 2011

RICHARD SALUS
By: Richard Salus
Title: Chief Financial Officer
Date: July 25, 2011