HEALTHCARE REALTY TRUST INC
Form 10-K
February 19, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period to
Commission File Number: 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)
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.01 par value per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the shares of common stock (based upon the closing price of these shares on the New York Stock Exchange, Inc. on June 30, 2013) of the Registrant held by non-affiliates on June 30, 2013 was approximately $2,300,922,136.

As of January 31, 2014, 95,993,252 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 13, 2014 are incorporated by reference into Part III of this Report.

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HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-K
December 31, 2013

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PART I

Item 1. Business

Overview

Healthcare Realty Trust Incorporated ("Healthcare Realty" or the "Company") was incorporated in Maryland in 1992, listed in 1993, and is a self-managed and self-administered real estate investment trust ("REIT") that owns, acquires, manages, finances and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States.

The Company operates so as to qualify as a REIT for federal income tax purposes. As a REIT, the Company is not subject to corporate federal income tax with respect to taxable income distributed to its stockholders. See "Risk Factors" in Item 1A for a discussion of risks associated with qualifying as a REIT.

The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company expects to meet its liquidity needs through cash on hand, cash flows from operations, equity and debt issuances in the public or private markets and borrowings under commercial credit facilities.

Real Estate Properties

The Company had investments of approximately $3.2 billion in 202 real estate properties and mortgages at December 31, 2013. The Company provided property management services for 147 healthcare-related properties nationwide, totaling approximately 10.3 million square feet as of December 31, 2013. The Company's real estate property investments by geographic area are detailed in Note 2 to the Consolidated Financial Statements.

(Dollars and Square Feet in thousands)	Number of Investments	Gross Investment Amount	%		Square Feet Footage	%	
Owned properties:							
Multi-tenant leases							
Medical office/outpatient	159	$2,380,204	74.6	%	11,431	82.0	%
Other	2	20,269	0.6	%	256	1.9	%
	161	2,400,473	75.2	%	11,687	83.9	%
Single-tenant net leases							
Medical office/outpatient	15	180,240	5.6	%	872	6.3	%
Inpatient	14	437,584	13.7	%	1,131	8.1	%
Other	8	26,439	0.8	%	243	1.7	%
	37	644,263	20.1	%	2,246	16.1	%
Land held for development	—	17,054	0.5	%	—	—	
Corporate property	—	5,397	0.2	%	—	—	
	—	22,451	0.7	%	—	—	
Total owned properties	198	3,067,187	96.0	%	13,933	100.0	%
Mortgage notes receivable:							
Medical office/outpatient	3	85,574	2.7	%	—	—	
Other	1	39,973	1.3	%	—	—	
	4	125,547	4.0	%	—	—	
Total real estate investments	202	$3,192,734	100.0	%	13,933	100.0	%

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The following table details occupancy of the Company's owned properties by facility type as of December 31, 2013 and 2012.

	Investment at Dec. 31, 2013 (1) (in thousands)	Percentage of Square Feet (1)	Occupancy (1) 2013	Occupancy (1) 2012
Medical office/outpatient	$ 2,560,444	88.3 %	83.8 %	81.6 %
Inpatient	437,584	8.1 %	100.0 %	100.0 %
Other	46,708	3.6 %	83.4 %	83.4 %
Total	$ 3,044,736	100.0 %	85.1 %	83.3 %

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(1) The investment and percentage of square feet columns include all owned real estate properties, but exclude land held for development and corporate property. The occupancy columns represent the percentage of total rentable square feet leased (including month-to-month and holdover leases), excluding properties classified as held for sale (three properties as of December 31, 2013 and one property as of December 31, 2012). Properties under property operating or single-tenant net lease agreements are included at 100% occupancy. Upon expiration of these agreements, occupancy reflects underlying tenant leases in the building.

Revenue Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2013, the Company had one tenant that accounted for more than 10% of the Company's consolidated revenues including revenues from discontinued operations, Baylor Scott & White Health at 11%.

Expiring Leases

As of December 31, 2013, the weighted average remaining years to maturity pursuant to the Company's long-term single-tenant net leases, property operating agreements, and multi-tenant occupancy leases were approximately 7.9 years, with expirations through 2033. The table below details the Company's lease maturities as of December 31, 2013, excluding three properties classified as held for sale.

Expiration Year	Annualized Minimum Rents (1) (in thousands)	Number of Leases: Multi-Tenant Properties	Number of Leases: Single-Tenant Net Lease Properties	Average Percentage of Revenues	Total Square Feet
2014	$56,709	561	10	20.5 %	2,226,106
2015	30,842	316	—	11.1 %	1,257,592
2016	31,233	285	4	11.3 %	1,180,968
2017	31,674	221	5	11.4 %	1,345,146
2018	28,369	232	—	10.2 %	1,143,469
2019	11,025	64	1	4.0 %	421,130
2020	14,372	61	1	5.2 %	541,907
2021	10,122	55	2	3.7 %	463,661
2022	16,477	60	3	5.9 %	684,284
2023	13,638	80	1	4.9 %	611,664
Thereafter	32,766	20	10	11.8 %	1,015,627

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(1) Represents the annualized minimum rents on leases in-place as of December 31, 2013, excluding the impact of potential lease renewals, future increases in rent, property lease guaranty revenue under property operating agreements and straight-line rent that may be recognized relating to the leases.

Mortgage Notes Receivable

All of the Company's $125.5 million of mortgage notes receivable are classified as held-for-investment based on management's intent and ability to hold the notes until maturity. The loans are carried at amortized cost and all of the Company's mortgage notes receivable are secured by existing buildings or buildings under construction.

In January 2014, one of the Company's mortgage notes receivable had a scheduled balloon payment due that the borrower was not able to pay. The borrower has agreed to transfer its interest in the property to the Company in satisfaction of the debt.

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See Note 5 to the Consolidated Financial Statements for details of these mortgage notes.

Business Strategy

The Company's strategy is to own and operate healthcare properties, primarily medical office buildings and outpatient-related facilities, that produce stable and growing rental income. To execute its strategy of managing and growing its portfolio of healthcare properties, the Company undertakes a broad spectrum of real estate services including property management, leasing, acquisition, development, financing and disposition. The Company focuses its portfolio on facilities located on or near the campuses of large, acute care hospitals and associated with leading health systems because management views these facilities as more stable and lower-risk over time. Management seeks to lower the Company's overall financial and operational risk by owning properties in diverse geographic locations and through the diversity of its tenants, which include over 30 physician specialties, as well as surgery, imaging, cancer and diagnostic centers.

2013 Acquisitions and Dispositions

The Company acquired ten properties in 2013 for a total purchase price of approximately $315.2 million, including assumed mortgage notes payable of $39.6 million. The $102.6 million purchase price for one property was offset by the elimination of a $97.2 million construction mortgage note receivable provided by the Company to fund the development of the property prior to acquisition.

The Company sold 12 real estate properties and one land parcel in 2013 generating net proceeds of approximately $96.1 million and Company-financed mortgage notes of approximately $4.3 million, $2.4 million of which was repaid as of December 31, 2013. Upon the sale of these properties, the Company recognized approximately $24.7 million in gains and approximately $3.3 million in an impairment.

See Note 4 to the Consolidated Financial Statements for more information on these acquisitions and dispositions.

Construction Mortgage Note Funding

As of December 31, 2013, the Company had one construction mortgage loan under which the Company had funded $80.0 million. The Company expects to fund an additional $11.2 million during 2014.

Competition

The Company competes for the acquisition and development of real estate properties with private investors, healthcare providers, other REITs, real estate partnerships and financial institutions, among others. The business of acquiring and developing new healthcare facilities is highly competitive and is subject to price, construction and operating costs, and other competitive pressures. Some of the Company's competitors are larger than the Company and have lower costs of capital.

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

Government Regulation

The facilities owned by the Company are utilized by medical tenants which are required to comply with extensive regulation at the federal, state, and local levels, including the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Reform Law") and laws intended to combat fraud and waste such as the Anti-Kickback Statute, Stark Law, False Claims Act, Health Insurance Portability and Accountability Act of 1996. These laws and regulations establish, among other things, requirements for state licensure and criteria for medical tenants to participate in government-sponsored reimbursement programs, such as the Medicare and Medicaid programs. The Company's leases generally require the tenant to comply with all applicable laws relating to the tenant's use and occupation of the leased premises. Although lease payments to the Company are not directly affected by these laws and regulations, changes in these programs or the loss by a tenant of its license or ability to participate in government-sponsored reimbursement programs would have a material adverse effect on the tenant's ability to make lease payments and could impact facility revenues to the Company.

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change. Government healthcare spending has increased over time; however, changes from year to year in reimbursement methodology, rates and other regulatory requirements have resulted in a challenging operating environment for healthcare providers. Aggregate spending on government reimbursement programs for healthcare services is expected to continue to rise significantly over the

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next 20 years with population growth and the anticipated expansion of public insurance programs for the uninsured and senior populations. However, the profitability of providing care to the rising number of Medicare and Medicaid patients may decline, which could adversely affect tenants' ability to make lease payments to the Company.

In March 2010, the Health Reform Law was signed into law to provide for comprehensive reform of the United States' healthcare system and extend health insurance benefits to the uninsured population, with the potential to alleviate high uncompensated care expense to healthcare providers. However, the law also increases regulatory scrutiny of providers by federal and state administrative authorities; lowers annual increases in Medicare payment rates; and will gradually implement significant cost-saving measures to lower the growth of healthcare spending, while also requiring improved access and quality of care, thus presenting the industry and its individual participants with uncertainty. The United States Supreme Court upheld the constitutionality of most of the Health Reform Law; however, legal challenges to certain items remain ongoing. The implementation of the law, in whole or in part, could affect the economic performance of some or all of the Company's tenants and borrowers. The Company cannot predict the degree to which these changes may affect indirectly the economic performance of the Company, positively or negatively.

The Bipartisan Budget Act of 2013 was passed in December to fund the federal government through fiscal year 2015 and accommodate debt ceiling limitations through 2023. The legislation delayed a scheduled cut in Medicare payment rates for physician and outpatient services and provided stable rates through March 31, 2014. Currently, there is widespread support in Congress to revise the Medicare physician-payment formula and provide stability to physician reimbursement long-term. If these measures or other federal budget negotiations ultimately require cuts to other healthcare providers' Medicare reimbursement rates or the federal healthcare programs in general, the Company cannot predict the degree to which these changes may affect the economic performance of some or all of the Company's tenants, positively or negatively.

The Company expects healthcare providers to continue to adjust to new operating and reimbursement challenges, as they have in the past, by increasing operating efficiency and modifying their strategies to profitably grow operations.

Legislative Developments

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

- the Health Reform Law and proposed amendments and repeal measures and related actions at the federal and state level;
- quality control, cost containment, and payment system reforms for Medicaid, Medicare and other public funding, such as expansion of pay-for-performance criteria and value-based purchasing programs, bundled provider payments, accountable care organizations, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- implementation of state health insurance exchanges and the implementation of regulations governing their operation, whether run by the state or by the federal government, whereby individuals and small businesses will purchase health insurance, including government-funded plans;
- reform of the Medicare physician fee-for-service reimbursement formula that dictates annual updates in Medicare payment rates for physician services, which in recent years has called for significant reductions in its “Sustainable Growth Rate.” As part of the Bipartisan Budget Act of 2013, Congress continued its practice of extending physician Medicare rates, currently through March 31, 2014. The House Ways and Means Committee and the Senate Finance Committee drafted bipartisan legislation in early 2014 for Congress to consider to increase physician Medicare rates by 0.5% annually for five years; and
- tax law changes affecting non-profit providers.

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

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Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property (such as the Company) may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, under, or disposed of in connection with such property, as well as certain other potential costs (including government fines and injuries to persons and adjacent property) relating to hazardous or toxic substances. Most, if not all, of these laws, ordinances and regulations contain stringent enforcement provisions including, but not limited to, the authority to impose substantial administrative, civil, and criminal fines and penalties upon violators. Such laws often impose liability, without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances, and may be imposed on the owner in connection with the activities of a tenant or operator of the property. The cost of any required remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the aggregate assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or lease such property or to borrow using such property as collateral. A property can also be negatively impacted either through physical contamination, or by virtue of an adverse effect on value, from contamination that has or may have emanated from other properties.

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

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

Insurance

The Company carries comprehensive liability insurance and property insurance covering its owned and managed properties, including those held under long-term ground leases. In addition, tenants under long-term single-tenant net leases are required to carry property insurance covering the Company's interest in the buildings.

Employees

At December 31, 2013, the Company employed 243 people. The employees are not members of any labor union, and the Company considers its relations with its employees to be excellent.

Available Information

The Company makes available to the public free of charge through its internet website the Company's Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such reports with, or

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

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Corporate Governance Principles

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

Committee Charters

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

Executive Officers

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

Item 1A. Risk Factors

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

The Company's expected results may not be achieved.

The Company's expected results may not be achieved, and actual results may differ materially from expectations. This may be the result of various factors, including, but not limited to: changes in the economy; the availability and cost of capital at favorable rates; changes to facility-related healthcare regulations; changes in interest rates; competition for quality assets; negative developments in the operating results or financial condition of the Company's tenants, including, but not limited to, their ability to pay rent and repay loans; the Company's ability to reposition or sell facilities with profitable results; the Company's ability to re-lease space at similar rates as vacancies occur; the Company's ability to timely reinvest proceeds from the sale of assets at similar yields; government regulations affecting tenants' Medicare and Medicaid reimbursement rates and operational requirements; unanticipated difficulties and/or expenditures relating to future acquisitions and developments; changes in rules or practices governing the Company's financial reporting; and other legal and operational matters.

The Company's expiring long-term single-tenant net leases may not be extended.

Long-term single-tenant net leases that are expiring may not be extended. To the extent these properties have vacancies or subleases at lower rates upon expiration, income may decline if the Company is not able to re-let the properties at rental rates that are as high as the former rates. For more specific information concerning the Company's expiring long-term single-tenant net leases, see "Single-Tenant Net Leases" in "Trends and Matters Impacting Operating Results" section of this report.

The Company's revenues depend on the ability of its tenants and sponsoring health systems under its leases and property operating agreements to generate sufficient income from their operations to make rent, loan and property lease guaranty payments to the Company.

The Company's revenues are subject to the financial strength of its tenants and sponsoring health systems. The Company has no operational control over the business of these tenants and sponsoring health systems who face a wide range of economic, competitive, government reimbursement and regulatory pressures and constraints. Any slowdown in the economy, decline in the availability of financing from the capital markets, and changes in healthcare regulations may adversely affect, the businesses of the Company's tenants and sponsoring health systems to varying degrees. Such conditions may further impact such tenants' and sponsoring health systems' abilities to meet their obligations to the

Company and, in certain cases, could lead to restructurings, disruptions, or bankruptcies of such tenants and sponsoring health systems. In turn, these conditions could adversely affect the Company's revenues and could increase allowances for losses and result in impairment charges, which could decrease net income attributable to common stockholders and equity, and reduce cash flows from operations.

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The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold.
The Company had approximately $224.0 million, or 7.3% of the Company’s real estate property investments, that were subject to purchase options held by lessees or sponsoring health systems under property operating agreements that were exercisable as of December 31, 2013 or could become exercisable in 2014. Other properties have purchase options that will become exercisable in future periods. Properties with options exercisable in 2014 produced aggregate net operating income of approximately $20.5 million in 2013. Five of those properties were also benefited by property lease guaranty payments of $5.1 million in 2013, in addition to underlying property net operating income, pursuant to property operating agreements with a sponsoring health system. The exercise of these purchase options exposes the Company to reinvestment risk and a reduction in investment return. Certain properties subject to purchase options are producing returns above the rates of return the Company expects to achieve with new investments. If the Company is unable to reinvest the sale proceeds at rates of return equal to the return received on the properties that are sold, it may experience a decline in lease revenues and a corresponding material adverse effect on the Company’s business and financial condition, the Company’s ability to make distributions to its stockholders, and the market price of its common stock.
The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future.
As of December 31, 2013, the Company had approximately $1.3 billion of outstanding indebtedness and the Company’s leverage ratio [debt divided by (debt plus stockholders’ equity less intangible assets plus accumulated depreciation)] was 42.0%. Covenants under the unsecured credit facility due 2017 ("Unsecured Credit Facility") and the indentures governing the Company’s senior notes permit the Company to incur substantial, additional debt, and the Company may borrow additional funds, which may include secured borrowings. A high level of indebtedness would require the Company to dedicate a substantial portion of its cash flows from operations to service the debt, thereby reducing the funds available to implement the Company’s business strategy and to make distributions to stockholders. A high level of indebtedness could also:

- limit the Company’s ability to adjust rapidly to changing market conditions in the event of a downturn in general economic conditions or in the real estate and/or healthcare industries;
- impair the Company’s ability to obtain additional debt financing or require potentially dilutive equity to fund obligations and carry out its business strategy; and
- result in a downgrade of the rating of the Company’s debt securities by one or more rating agencies, which would increase the costs of borrowing under the Unsecured Credit Facility and the cost of issuance of new debt securities, among other things.

In addition, from time to time the Company mortgages properties to secure payment of indebtedness. If the Company is unable to meet its mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of the Company's properties could have a material adverse effect on the Company’s consolidated financial condition and results of operations.
Covenants in the Company’s debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company’s consolidated financial condition and results of operations.
The terms of the Unsecured Credit Facility, the indentures governing the Company’s outstanding senior notes and other debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. These provisions include, among other things: a limitation on the incurrence of additional indebtedness; limitations on mergers, investments, acquisitions, redemptions of capital stock, transactions with affiliates; and maintenance of specified financial ratios. The Company’s continued ability to incur debt and operate its business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in defaults under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit the Company’s operational flexibility, as well as defaults resulting from a breach of any of these covenants in its debt instruments, could have a material adverse effect on the Company’s consolidated financial condition and results of operations.

A change to the Company's current dividend payment may have an adverse effect on the market price of the Company's common stock.

The ability of the Company to pay dividends is dependent upon its ability to maintain funds from operations and cash flow, to make accretive new investments and to access capital. There can be no assurance that the Company will continue to pay dividends at current amounts, or at all. A failure to maintain dividend payments at current levels could result in a reduction of the market price of the Company's common stock.

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

Access to external capital on favorable terms is critical to the Company's success in growing and maintaining its portfolio. If financial institutions within the Unsecured Credit Facility were unwilling or unable to meet their respective funding commitments to the Company, any such failure would have a negative impact on the Company's operations, consolidated financial condition and ability to meet its obligations, including the payment of dividends to stockholders.

Owning real estate and indirect interests in real estate is subject to inherent risks.

The Company's operating performance and the value of its real estate assets are subject to the risk that if its properties do not generate revenues sufficient to meet its operating expenses, including debt service, the Company's cash flow and ability to pay dividends to stockholders will be adversely affected.

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

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

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

If the Company loses a tenant or sponsor health system and is unable to attract another healthcare provider on a timely basis and on acceptable terms, the Company's cash flows and results of operations could suffer. Transfers of operations of healthcare facilities are often subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

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

A portion of the Company's leases will expire over the course of any year. For more specific information concerning the Company's expiring leases, see the "Trends and Matters Impacting Operating Results" section. The Company may not be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space to attract new tenants. If it is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates, or if the Company is required to undertake significant capital expenditures in connection with re-letting units, the Company's business, consolidated financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

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

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

The Company has, and may have more in the future, exposure to fixed rent escalators, which could impact its growth and profitability.

The Company receives a significant portion of its revenues by leasing assets in which the rental rate is generally fixed with annual escalations. Most of these annual increases are based upon fixed percentage increases while some are based on increases in the Consumer Price Index. If the fixed percentage increases begin to lag behind inflation, the Company's growth and profitability would be negatively impacted.

The Company’s real estate investments are illiquid and the Company may not be able to sell properties strategically targeted for disposition.

Because real estate investments are relatively illiquid, the Company’s ability to adjust its portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including debt service (if any), real estate taxes, and operating and maintenance costs. This combination of

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variable revenue and relatively fixed expenditures may result in reduced earnings and could have an adverse effect on the Company's financial condition. In addition, the Company may not be able to sell properties targeted for disposition, including properties held for sale, due to adverse market conditions. This may negatively affect, among other things, the Company's ability to sell properties on favorable terms, execute its operating strategy, repay debt or pay dividends.

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

As of December 31, 2013, the Company had approximately $510.6 million invested in construction mortgage loans and properties developed by the Company in recent years currently in the lease-up process. The Company's remaining funding obligations on the construction mortgage loans was $14.9 million as of December 31, 2013, and the Company expects to fund at least an additional $22 million for tenant improvements on development conversion properties. The Company is subject to certain risks associated with the development of properties including the following:

- The construction of properties generally requires various government and other approvals that may not be received when expected, or at all, which could delay or preclude commencement of construction;
- Development opportunities that the Company pursued but later abandoned could result in the expensing of pursuit costs, which could impact the Company's consolidated results of operations;
- Construction costs could exceed original estimates, which could impact the building's profitability to the Company;
- Operating expenses could be higher than forecasted;
- Time required to initiate and complete the construction of a property and to lease up a completed development property may be greater than originally anticipated, thereby adversely affecting the Company's cash flow and liquidity;
- Occupancy rates and rents of a completed development property may not be sufficient to make the property profitable to the Company; and
- Favorable capital sources to fund the Company's development activities may not be available when needed.

From time to time the Company may make material acquisitions and undertake developments that may involve the expenditure of significant funds and may not perform in accordance with management's expectations.

The Company regularly pursues potential transactions to acquire or develop additional assets in order to grow stockholder value. Future acquisitions could require the Company to issue equity securities, incur debt or other contingent liabilities or amortize expenses related to other intangible assets, any of which could adversely impact the Company's consolidated financial condition or results of operations. In addition, equity or debt financing required for such acquisitions may not be available at favorable times or rates.

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

- The Company's purchase price for acquired facilities may be based upon a series of market or building-specific judgments which may be incorrect;
- The costs of any maintenance or improvements for properties might exceed estimated costs;
- The Company may incur unexpected costs in the acquisition, construction or maintenance of real estate assets that could impact its expected returns on such assets; and
- Leasing of real estate properties may not occur within expected time frames or at expected rental rates.

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

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

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

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Many of the Company's properties are held under ground leases. These ground leases contain provisions that may limit the Company's ability to lease, sell, or finance these properties.

As of December 31, 2013, the Company had 92 properties, representing an aggregate net investment of approximately $1.1 billion, that were held under ground leases. The Company's ground lease agreements with hospitals and health systems typically contain restrictions that limit building occupancy to physicians on the medical staff of an affiliated hospital and prohibit tenants from providing services that compete with the services provided by the affiliated hospital. Ground leases may also contain consent requirements or other restrictions on sale or assignment of the Company's leasehold interest, including rights of first offer and first refusal in favor of the lessor. These ground lease provisions may limit the Company's ability to lease, sell, or obtain mortgage financing secured by such properties which, in turn, could adversely affect the income from operations or the proceeds received from a sale. As a ground lessee, the Company is also exposed to the risk of reversion of the property upon expiration of the ground lease term, or an earlier breach by the Company of the ground lease, which may have a material adverse effect on the Company's business, consolidated financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

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

A REIT is required by the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") to make dividend distributions, thereby retaining less of its capital for growth. As a result, a REIT typically grows through steady investments of new capital in real estate assets. However, there may be times when the Company will have limited access to capital from the equity and/or debt markets. Changes in the Company's debt ratings could have a material adverse effect on its interest costs and financing sources. The Company's debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities. In recent years, the capital and credit markets have experienced volatility and at times have limited the availability of funds. The Company's ability to access the capital and credit markets may be limited by these or other factors, which could have an impact on its ability to refinance maturing debt, fund dividend payments and operations, acquire healthcare properties and complete construction projects. If the Company is unable to refinance or extend principal payments due at maturity of its various debt instruments, its cash flow may not be sufficient to repay maturing debt and, consequently, make dividend payments to stockholders. If the Company defaults in paying any of its debts or honoring its debt covenants, it could experience cross-defaults among debt instruments, the debts could be accelerated and the Company could be forced to liquidate assets for less than the values it would otherwise receive.

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

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

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

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
-

lower reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;

- availability of capital;
- credit downgrades;
- liability insurance expense;
- regulatory and government reimbursement uncertainty resulting from the Health Reform Law;
- health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, accountable care organizations, state health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;

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- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates, while requiring increased patient access to care;
- congressional efforts to reform the Medicare physician fee-for-service formula that dictates annual updates in payment rates for physician services, including significant reductions in the Sustainable Growth Rate, whether through a short-term fix or a more long-term solution;
- heightened health information technology security standards for healthcare providers; and
- potential tax law changes affecting non-profit providers.

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

If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock.

The Company intends to operate in a manner that will allow it to continue to qualify as a REIT for federal income tax purposes. Although the Company believes that it qualifies as a REIT, it cannot provide any assurance that it will continue to qualify as a REIT for federal income tax purposes. The Company’s continued qualification as a REIT will depend on the satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. The Company’s ability to satisfy the asset tests depends upon the characterization and fair market values of its assets. The Company’s compliance with the REIT income and quarterly asset requirements also depends upon the Company’s ability to successfully manage the composition of the Company’s income and assets on an ongoing basis. Accordingly, there can be no assurance that the Internal Revenue Service ("IRS") will not contend that the Company has operated in a manner that violates any of the REIT requirements.

If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates and possibly increased state and local taxes (and the Company might need to borrow money or sell assets in order to pay any such tax). Further, dividends paid to the Company’s stockholders would not be deductible by the Company in computing its taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to the Company’s stockholders, which in turn could have an adverse impact on the value of, and trading prices for, the Company’s common stock. In addition, in such event the Company would no longer be required to pay dividends to maintain REIT status, which could adversely affect the value of the Company’s common stock. Unless the Company were entitled to relief under certain provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), the Company also would continue to be disqualified from taxation as a REIT for the four taxable years following the year in which the Company failed to qualify as a REIT.

Even if the Company remains qualified for taxation as a REIT, the Company is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed taxable income, and state or local income, franchise, property and transfer taxes. These tax liabilities would reduce the Company’s cash flow and could adversely affect the value of the Company’s common stock. For more specific information on state income taxes paid, see Note 16 to the Consolidated Financial Statements.

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Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The federal tax rate applicable to income from "qualified dividends" payable to certain domestic stockholders that are individuals, trusts and estates is currently the preferential tax rate applicable to long-term capital gains. Dividends payable by REITs, however, are generally not qualified dividends and do not qualify for the preferential tax rate. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including the Company's common stock.

Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature of its assets, the amounts it distributes to its stockholders and the ownership of its stock. The Company may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source-of-income, or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder the Company's ability to make certain attractive investments.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize the Company's REIT qualification. The Company's continued qualification as a REIT will depend on the Company's satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, the Company's ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence, including in cases where the Company owns an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in the Company. The federal income tax rules that affect REITs are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could cause the Company to change its investments and commitments and affect the tax considerations of an investment in the Company. There can be no assurance that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to the Company's qualification as a REIT or with respect to the federal income tax consequences of qualification.

The Company's Articles of Incorporation contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock.

In order to qualify as a REIT, no more than 50% of the value of the Company's outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. To assist in complying with this REIT requirement, the Company's Articles of Incorporation contain provisions restricting share transfers where the transferee (other than specified individuals involved in the formation of the Company, members of their families and certain affiliates, and certain other exceptions) would, after such transfer, own (a) more than 9.9% either in number or value of the outstanding common stock of the Company or (b) more than 9.9% either in number or value of any outstanding preferred stock of the Company. If, despite this prohibition, stock is acquired increasing a transferee's ownership to over 9.9% in value of either the outstanding common stock or any preferred stock of the Company, the stock in excess of this 9.9% in value is deemed to be held in trust for transfer at a price that does not exceed what the purported transferee paid for the stock, and, while held in trust, the stock is not entitled to receive dividends or to vote. In addition, under these circumstances, the Company has the right to redeem such stock. These restrictions on transfer of the Company's shares could have adverse effects on the value of the Company's common stock.

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

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

The Company is subject to cyber security risks.

A cyber-attack that bypasses the Company's information technology ("IT") security systems causing an IT security breach, may lead to a material disruption of the Company's IT business systems and/or the loss of business information resulting in an adverse business impact. Risks may include:

- future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and/or
- negative publicity resulting in reputation or brand damage with the Company's tenants, sponsoring health systems or other operators.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In addition to the properties described in Item 1, "Business," in Note 2 to the Consolidated Financial Statements, and in Schedule III of Item 15 of this Annual Report on Form 10-K, the Company leases office space from an unrelated third party for its headquarters, which are located at 3310 West End Avenue in Nashville, Tennessee. The Company's corporate office lease currently covers approximately 30,934 square feet of rented space and expires on October 31, 2020. An amendment to the lease for expansion space consisting of 5,719 square feet will commence on April 1, 2014 and will expire on October 31, 2020. Annual base rent on the corporate office lease increases approximately 3.25% annually. The Company's base rent for 2013 was approximately $0.7 million.

Item 3. Legal Proceedings

The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of the Company’s common stock are traded on the New York Stock Exchange under the symbol “HR.” At December 31, 2013, there were approximately 1,168 stockholders of record. The following table sets forth the high and low sales prices per share of common stock and the dividends declared and paid per share of common stock related to the periods indicated.

	High	Low	Dividends Declared and Paid per Share
2013			
First Quarter	$28.50	$24.07	$0.30
Second Quarter	30.59	23.40	0.30
Third Quarter	27.37	21.78	0.30
Fourth Quarter (Payable on February 28, 2014)	24.77	20.91	0.30
2012			
First Quarter	$22.52	$18.52	$0.30
Second Quarter	23.96	20.71	0.30
Third Quarter	25.16	22.95	0.30
Fourth Quarter	24.44	22.15	0.30

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2013 about the Company’s common stock that may be issued upon grants of restricted stock and the exercise of options, warrants and rights under all of the Company’s existing compensation plans, including the 2007 Employees Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	391,108	—	839,373
Equity compensation plans not approved by security holders	—	—	—
Total	391,108	—	839,373

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(1) The Company’s outstanding rights relate only to its 2000 Employee Stock Purchase Plan. The Company is unable to ascertain with specificity the number of securities to be issued upon exercise of outstanding options under the 2000 Employee Stock Purchase Plan or the weighted average exercise price of outstanding rights under that plan. The 2000 Employee Stock Purchase Plan provides that shares of common stock may be purchased at a per share price equal to 85% of the fair market value of the common stock at the beginning of the offering period or a purchase

date applicable to such offering period, whichever is lower.

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Issuer Purchases of Equity Securities

During the twelve months ended December 31, 2013, the Company withheld shares of Company common stock to satisfy employee tax withholding obligations payable upon the vesting of non-vested shares, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	745	$24.93	—	—
February 1 - February 28	3,880	25.60	—	—
March 1 - March 31	1,436	26.71	—	—
April 1 - April 30	3,300	27.00	—	—
May 1 - May 31	15	29.73	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	57	25.40	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	7,608	24.01	—	—
November 1 - November 30	1,077	22.25	—	—
December 1 - December 31	—	—	—	—
Total	18,118			

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Item 6. Selected Financial Data

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

	Years Ended December 31,				
(Amounts in thousands except per share data)	2013	2012 (1)	2011 (1)	2010 (1)	2009 (1)
Statement of Operations Data:					
Total revenues	$336,926	$304,074	$278,598	$236,263	$222,506
Total expenses	248,503	230,000	213,030	179,593	170,275
Other income (expense)	(100,691)	(73,979)	(77,111)	(63,692)	(39,140)
Income (loss) from continuing operations	$(12,268)	$95	$(11,543)	$(7,022)	$13,091
Discontinued operations	$19,251	$5,440	$11,359	$15,266	$38,060
Net income (loss) attributable to common stockholders	$6,946	$5,465	$(214)	$8,200	$51,091
Diluted earnings per common share:					
Income (loss) from continuing operations	$(0.13)	$0.00	$(0.16)	$(0.11)	$0.22
Discontinued operations	$0.21	$0.07	$0.16	$0.24	$0.65
Net income (loss) attributable to common stockholders	$0.08	$0.07	$(0.00)	$0.13	$0.87
Weighted average common shares outstanding - Diluted	90,941	80,128	72,720	61,723	59,047
Balance Sheet Data (as of the end of the period):					
Real estate properties, gross	$3,067,187	$2,821,323	$2,778,903	$2,562,570	$2,216,677
Real estate properties, net	$2,435,078	$2,240,706	$2,266,777	$2,081,608	$1,786,185
Mortgage notes receivable	$125,547	$162,191	$97,381	$36,599	$31,008
Assets held for sale and discontinued operations, net	$6,852	$3,337	$28,650	$23,915	$17,745
Total assets	$2,729,662	$2,539,972	$2,521,022	$2,357,309	$1,935,764
Notes and bonds payable	$1,348,459	$1,293,044	$1,393,537	$1,407,855	$1,046,422
Total equity	$1,245,286	$1,120,944	$1,004,806	$842,740	$790,148
Other Data:					
Funds from operations - Diluted (2)	$90,153	$104,665	$84,682	$79,084	$97,904
Funds from operations per common share - Diluted (2)	$0.98	$1.31	$1.15	$1.26	$1.66
Cash flows from operations	$120,797	$116,397	$107,852	$87,756	$103,214
Dividends paid	$111,571	$96,356	$89,270	$75,821	$91,385
Dividends declared and paid per common share	$1.20	$1.20	$1.20	$1.20	$1.54

(1) The years ended December 31, 2012, 2011, 2010, and 2009 are restated to conform to the discontinued operations presentation for 2013. See Note 6 to the Consolidated Financial Statements for more information on the Company's discontinued operations as of December 31, 2013.

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

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Item 7. Management's Discussions and Analysis of Financial Condition and Results of Operations

Disclosure Regarding Forward-Looking Statements

This report and other materials Healthcare Realty has filed or may file with the Securities and Exchange Commission (“SEC”), 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 that could significantly affect the Company’s current plans and expectations and future financial condition and results.

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

- The Company's expected results may not be achieved;
- The Company's expiring long-term single-tenant net leases may not be extended;
- The Company’s revenues depend on the ability of its tenants and sponsoring health systems under its leases and property operating agreements to generate sufficient income from their operations to make rent, loan and property lease guaranty payments to the Company;
- The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold;
- The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future;
- Covenants in the Company’s debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company’s financial condition and results of operations;
- A change to the Company’s current dividend payment may have an adverse effect on the market price of the Company’s common stock;
- If lenders under the Unsecured Credit Facility fail to meet their funding commitments, the Company’s consolidated financial position would be negatively impacted;
- Owning real estate and indirect interests in real estate is subject to inherent risks;
- The Company may incur impairment charges on its real estate properties or other assets;
- If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility;
- If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates or if the Company is required to undertake significant expenditures to attract new tenants, then the Company’s business, financial condition and results of operations would be adversely affected;
- Certain of the Company’s properties are special purpose healthcare facilities and may not be easily adaptable to other uses;
- The Company has, and may have more in the future, exposure to fixed rent escalators, which could impact its growth and profitability;
- The Company’s real estate investments are illiquid and the Company may not be able to sell properties strategically targeted for disposition;
- The Company is subject to risks associated with the development of properties;
- From time to time, the Company may make material acquisitions and developments that may involve the expenditure of significant funds and may not perform in accordance with management’s expectations;
- The Company is exposed to risks associated with entering new geographic markets;

- Many of the Company’s properties are held under ground leases. These ground leases contain provisions that may limit the Company’s ability to lease, sell, or finance these properties;
- The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company’s debt ratings could have an adverse effect on the Company’s ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity;
- The Company is exposed to increases in interest rates, which could adversely impact its ability to refinance existing debt, sell assets or engage in acquisition and development activity;
- Adverse trends in the healthcare service industry may negatively affect the Company’s lease revenues and the value of its investments;
- If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock;
- Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends;
- Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities;
- Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code;
- New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT;
- The Company's Articles of Incorporation contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock;
- The Company may experience uninsured or underinsured losses related to casualty or liability; and
- The Company is subject to cyber security risks.

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

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

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

- Overview
- Liquidity and Capital Resources
- Trends and Matters Impacting Operating Results
- Non-GAAP Measures
- Results of Operations
- Off-balance Sheet Arrangements
- Contractual Obligations
- Application of Critical Accounting Policies

Overview

Healthcare Realty's strategy is to own and operate healthcare properties, primarily medical office buildings and outpatient-related facilities, that produce stable and growing rental income. To execute its strategy of managing and growing its portfolio of healthcare properties, the Company undertakes a broad spectrum of real estate activities including property management, leasing, acquisition, development, financing and disposition. The Company focuses on facilities located on or near the campuses of large, acute-care hospitals and associated with leading health systems because management views these facilities as more stable and lower-risk over time. Management also seeks to lower the Company's overall financial and operational risk by owning properties in diverse geographic locations and through the diversity of its tenants, which include over 30 physician specialties, as well as surgery, imaging, cancer, and diagnostic centers.

Liquidity and Capital Resources

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

•Leverage ratios and lending covenants;

•Dividend payout percentage; and

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

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

Sources and Uses of Cash

The Company's revenues are derived from its real estate property and mortgage portfolio based on contractual arrangements with its tenants, sponsoring health systems and borrowers. These sources of revenue represent the Company's primary source of liquidity to fund its dividends and its operating expenses, including interest incurred on debt, general and administrative costs, and other expenses incurred in connection with managing its existing portfolio and investing in additional properties. To the extent additional investments are not funded by these sources, the Company will fund its investment activity generally through equity or debt issuances either in the public or private markets or through proceeds from its Unsecured Credit Facility.

The Company expects to continue to meet its liquidity needs, including capital for additional investments, dividend payments and debt service funds through cash on hand, cash flows from operations and the cash flow sources addressed above. The Company also had unencumbered real estate assets with a book value of approximately $2.7 billion at December 31, 2013, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

The Company has some exposure to variable interest rates and its common stock price has been impacted by the volatility in the stock markets. However, the Company’s leases, which provide its main source of income and cash flow, have terms of approximately 1 to 20 years and have lease rates that generally increase on an annual basis at fixed rates or based on consumer price indices.

Operating Activities

Cash flows provided by operating activities for the three years ended December 31, 2013, 2012 and 2011 were $120.8 million, $116.4 million and $107.9 million, respectively. Several items impact cash flows from operating activities including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipts of tenant rent.

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

See "Trends and Matters Impacting Operating Results" for additional information regarding the Company's operating activities.

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Investing Activities

The following table details the Company's cash flows used in investing activities for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
(Dollars in thousands)	2013	2012	2011
Acquisitions of real estate	$(177,744)	$(89,640)	$(114,225)
Development of real estate	—	(7,833)	(83,720)
Tenant improvements and capital additions	(72,784)	(62,251)	(34,306)
Funding of mortgages and notes receivable	(58,731)	(78,297)	(101,931)
Proceeds from sales of real estate	96,132	74,817	19,572
Proceeds from sale of cost method investment in real estate	2,717	—	—
Proceeds from mortgage repayment by previously consolidated VIE	—	35,057	—
Proceeds from mortgages and notes receivable repayments	2,464	14,893	17,797
Net cash used in investing activities	$(207,946)	$(113,254)	$(296,813)

A summary of the significant transactions impacting investing activities for the year ended December 31, 2013 is listed below. In addition, see Notes 4 and 5 to the Consolidated Financial Statements for more detail on these activities.

- The Company acquired 10 properties during 2013 for total cash paid of $177.7 million which includes $0.7 million of liabilities assumed, net of assets acquired, and assumed mortgage notes payable of $39.6 million. Of the ten properties, seven were medical office buildings, two were inpatient rehabilitation facilities and one was an orthopedic facility (referred to below in the discussion related to the Mercy Health projects).
- The Company disposed of 15.1 acres of land in Texas for $1.1 million in net cash proceeds and the origination of a $3.7 million Company-financed mortgage note receivable of which $1.8 million has been repaid.
- The Company disposed of eight medical office buildings and four inpatient rehabilitation facilities for net cash proceeds of $95.0 million and the origination of a $0.6 million Company-financed mortgage receivable which was subsequently repaid. In connection with the sales, the Company repaid a mortgage note payable of $1.1 million and incurred debt extinguishment costs of $0.3 million.
- During 2013, the Company had two development projects affiliated with Mercy Health based in St. Louis, Missouri:

  At December 31, 2013, the Company had one remaining construction mortgage on the medical office building under construction in Oklahoma. The Company provided $23.1 million in construction fundings during 2013, bringing cumulative fundings to date to $80.0 million. This project, which was originally scheduled to be completed in July 2013, sustained tornado damage in late May 2013. The tornado damage caused a delay in the completion date, and while subject to change, is now expected to be completed by June 2014. Builder's risk insurance is expected to fund the total scope of necessary repairs. The Company will continue to recognize mortgage interest income through the delayed completion and expects to receive interest payments in cash from insurance proceeds. The interest rate on this construction mortgage note increased effective October 1, 2013 from 6.75% to 7.72%. The Company expects to fund an additional $11.2 million in 2014. The Company will acquire this property upon completion.

  In September 2013, the Company acquired an orthopedic facility in Missouri for $102.6 million, including the elimination of a construction mortgage note receivable totaling $97.2 million and cash consideration of approximately $5.4 million. The facility is 100% leased to Mercy Health. The Company provided $35.6 million in construction fundings toward the facility under a construction mortgage in 2013. During 2013, the Company recognized mortgage interest income of approximately $4.2 million and single-tenant net lease rental income of approximately $2.4 million. Subsequent to the acquisition, the Company funded an additional $6.5 million through December 31, 2013 and anticipates funding approximately $2.3 million to complete the development during 2014.
- The Company sold its interest in a cost method investment in an unconsolidated limited liability company for net cash proceeds of $2.7 million.

The Company is in the early planning stages with several health systems and developers regarding new development opportunities, one or more of which could lead to a development start in the near future. The Company will consider these

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projects in light of existing obligations, the acquisition environment, capital availability, leasing activity, and cost, among other factors. Construction of new buildings generally takes 12 months or longer to complete, and any new development starts in 2014 are not expected have a material impact on 2014 results.

Financing Activities

The following table details the Company's cash flows provided by (used in) financing activities for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
(Dollars in thousands)	2013	2012	2011
Net borrowings (repayments) on unsecured credit facility	$128,000	$(102,000)	$212,000
Borrowings on notes and bonds payable	247,948	—	—
Repayments on notes and bonds payable	(19,984)	(4,990)	(3,703)
Repurchase of notes payable	(371,839)	—	(280,201)
Dividends paid	(111,571)	(96,356)	(89,270)
Net proceeds from issuance of common stock	220,252	202,352	251,916
Common stock redemptions	(454)	(68)	(86)
Capital contributions received from noncontrolling interests	1,806	—	—
Distributions to noncontrolling interest holders	(32)	(40)	(284)
Purchase of noncontrolling interests	—	—	(1,591)
Debt issuance and assumption costs	(5,082)	(3)	(8,403)
Net cash provided by (used in) financing activities	$89,044	$(1,105)	$80,378

Below is a summary of the significant financing activity for the year ended December 31, 2013. See Notes 10 and 11 to the Consolidated Financial Statements for more information on the capital markets and financing activities.

Changes in Debt Structure

- In February 2013, the Company amended the Unsecured Credit Facility, extending the maturity date to April 14, 2017, while providing the Company two six-month options to extend the maturity date to April 14, 2018. The amendment also reduced the applicable margin rate range to 0.95% to 1.75% (currently 1.4% based on the Company's credit rating) over LIBOR for purposes of determining interest and the annual facility fee to a range of 0.15% to 0.35% (currently at 0.30%). The Company paid up-front fees to the lenders of approximately $2.7 million, which will be amortized over the term of the facility, and wrote-off $0.3 million in certain unamortized deferred financing costs associated with the original facility in connection with the amendment. No significant changes were made to the covenant provisions. The Company had $238.0 million outstanding under the Unsecured Credit Facility and had a remaining borrowing capacity of approximately $462.0 million as of December 31, 2013.
- In March 2013, the Company issued $250.0 million of unsecured senior notes due 2023 (the "Senior Notes due 2023"), bearing interest at 3.75%, payable semi-annually in arrears on April 15 and October 15, commencing October 15, 2013, and maturing on April 15, 2023 unless redeemed earlier by the Company. Proceeds received were net of a discount of approximately $2.1 million, yielding a 3.85% interest rate per annum upon issuance. The Senior Notes due 2023 contain various financial covenant provisions that are required to be met on a quarterly and annual basis and are consistent with the Company's other outstanding senior notes.
- In April 2013, the Company redeemed its 5.125% unsecured senior notes due 2014, at a price of $277.3 million consisting of the following:
  - outstanding principal of $264.7 million,
  - accrued interest as of the redemption date of $0.7 million; and
  - a “make-whole” amount of approximately $11.9 million, resulting in a loss on extinguishment of debt totaling approximately $12.3 million, including the write-off of unaccreted discount and unamortized costs.
- In June 2013, the Company prepaid in full a secured loan from Teachers Insurance and Annuity Association of America bearing an interest rate of 7.25% at an amount equal to $94.3 million consisting of the following:

outstanding principal of $77.0 million
accrued interest as of the redemption date of $0.5 million; and
a prepayment penalty of approximately $16.8 million, resulting in a loss on extinguishment of debt totaling $17.4 million, including the write-off of unamortized costs.

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- In conjunction with the purchase of three medical office buildings, the Company assumed three mortgage notes payable with an aggregate principal balance of approximately $39.6 million and recorded an aggregate fair value adjustment premium of approximately $1.4 million. The mortgage notes payable assumed by the Company bear interest at rates ranging from 5.86% to 6.17% (with effective rates between 5.00% to 5.25%) and mature in 2016 and 2027.

The refinancing activities described above, including the costs incurred to execute the transactions, provided the Company the opportunity to refinance at lower interest rates that lower future costs of capital, improve the Company's debt and credit metrics and extend its debt maturities.
As of December 31, 2013, 95.4% of the Company’s debt balances were due after 2015. Also, as of December 31, 2013, the Company’s stockholders’ equity totaled approximately $1.2 billion and its leverage ratio [debt divided by (debt plus stockholders’ equity less intangible assets plus accumulated depreciation)] was approximately 42.0%. The Company’s fixed charge ratio, calculated in accordance with Item 503 of Regulation S-K, includes only income from continuing operations which is reduced by depreciation and amortization and the operating results of properties currently classified as held for sale, as well as other income from discontinued operations (see Note 6 to the Consolidated Financial Statements). In accordance with this definition, the Company’s earnings from continuing operations for the year ended December 31, 2013 were insufficient to cover its fixed charges by approximately $12.5 million, with a ratio of 0.83 to 1.00. The Company incurred losses on extinguishment of debt during 2013 totaling $29.6 million which negatively impacted the fixed charge ratio. Absent those losses on extinguishment, the ratio for the year ended December 31, 2013 would have been sufficient to cover its fixed charges with a ratio of 1.23 to 1.00. Calculated in accordance with the fixed charge covenant ratio under its Unsecured Credit Facility, the Company’s earnings covered its fixed charges 2.5 times.

The Company’s various debt agreements contain certain representations, warranties, and financial and other covenants customary in such debt agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth and impose certain limits on the Company’s ability to incur indebtedness and create liens or encumbrances. At December 31, 2013, the Company was in compliance with the financial covenant provisions under all of its various debt instruments.
The Company plans to manage its capital structure to maintain compliance with its debt covenants consistent with its current profile. Downgrades in ratings by the rating agencies could have a material adverse impact on the Company’s cost and availability of capital, which could in turn have a material adverse impact on consolidated results of operations, liquidity and/or financial condition.

Common Stock Issuances

- On July 19, 2013, the Company issued 3,000,000 shares of common stock, par value $0.01 per share, at $26.13 per share in an underwritten public offering pursuant to the Company's existing effective registration statement. The net proceeds of the offering were $78.3 million, which was used to fund the Company's acquisitions.
- The following table summarizes the sales of common stock under the Company's at-the-market equity program:

	Shares Sold	Sales Price Per Share	Net Proceeds (in millions)
2013	5,207,871	$24.19 - $30.49	$140.6
2012	—	—	$—
2011	11,648,700	$20.27 - $23.63	$251.6

The Company used the net proceeds from the at-the-market equity offering program for general corporate purposes, including the acquisition and development of healthcare facilities, funding of mortgage loans and the repayment of debt.

Dividends Payable

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a REIT. Common stock cash dividends paid during or related to 2013 are shown in the table below:

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Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/*Payable
4th Quarter 2012	$0.30	January 29, 2013	February 14, 2013	March 1, 2013
1st Quarter 2013	$0.30	April 30, 2013	May 16, 2013	May 31, 2013
2nd Quarter 2013	$0.30	July 30, 2013	August 15, 2013	August 30, 2013
3rd Quarter 2013	$0.30	October 29, 2013	November 14, 2013	November 29, 2013
4th Quarter 2013	$0.30	February 4, 2014	February 18, 2014	* February 28, 2014

The ability of the Company to pay dividends is dependent upon its ability to generate cash flows and to make accretive new investments.

Security Deposits and Letters of Credit

As of December 31, 2013, the Company held approximately $9.1 million in letters of credit, security deposits, and capital replacement reserves for the benefit of the Company in the event the obligated tenant or borrower fails to perform under the terms of its respective lease or mortgage. Generally, the Company may, at its discretion and upon notification to the tenant, draw upon these instruments if there are any defaults under the leases or mortgage notes.

Trends and Matters Impacting Operating Results

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

Portfolio Management

The Company's portfolio continued to exhibit stable cash flows and steady growth in 2013. Occupancy for the same store properties remained steady at 90% to 91% throughout 2013, and the properties acquired in 2013, which are not yet included in same store properties, were 93% leased. Year-over-year same store net operating income ("NOI") grew steadily throughout 2013, ranging from 0.4% to 2.5% in each of the four quarters as a result of consistent revenue growth and effective operating expense management. See the "Non-GAAP Measures" section for a discussion and reconciliation of the fourth quarter of 2013 same store NOI.

Acquisitions and Dispositions

The acquisition environment for properties that meet the Company's investment criteria was healthy in 2013. The Company acquired 10 properties in 2013 for a total purchase price of $315.2 million, including assumed mortgage notes payable of $39.6 million. The $102.6 million purchase price for one these property was offset by the repayment of a $97.2 million construction mortgage note receivable provided by the Company to fund the development of the property prior to acquisition and is discussed in Development Activity below. Based on recent market activity, the Company expects the acquisition environment to continue to be productive in 2014 with capitalization rates in the high 6% to low 7% range for medical office buildings the Company seeks to acquire. The Company will continue to make selective acquisitions as it monitors the availability of properties that meet its criteria, capitalization rates, and cost of capital.

The Company sold 12 real estate properties and one land parcel in 2013 for a total sales price of approximately $101.9 million, generating net proceeds of approximately $96.1 million and the origination of Company-financed mortgage notes of approximately $4.3 million, of which $2.4 million has been repaid. The Company expects that asset dispositions in 2014 will be in-line with its historical range, excluding the potential exercise of purchase options.

See the Company's discussion regarding the 2013 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Development Activity

In 2013, the Company had two development projects affiliated with Mercy Health based in St. Louis, Missouri. On September 27, 2013, the Company acquired a 100%-leased, orthopedic facility in Missouri for $102.6 million, including the elimination of the construction mortgage note receivable totaling $97.2 million. During the fourth quarter of 2013, the Company recognized single-tenant net lease rental income of $2.3 million from this property. At December 31, 2013, the Company had one remaining construction mortgage on the medical office building under construction in Oklahoma. The Company funded $23.1 million in 2013 and $14.9 million remained under the loan at

December 31, 2013. The Company expects to fund an additional $11.2 million to complete construction. Upon completion, which is expected to occur in June 2014, the Company will acquire the property for an expected purchase price of $91.2 million subject to change based on the final project costs. See "Investing Activities" in "Liquidity and Capital Resources" for more detailed information on the Company’s activities related to these two development projects.

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No new development projects were started in 2013. During 2013, the Company saw steady leasing improvement at the 12 properties categorized as stabilization in progress. These properties were 63% occupied at December 31, 2013, compared to 41% occupied at the beginning of 2013. The Company has additional executed leases beyond the current occupancy and expects leasing momentum for these properties to continue throughout 2014, albeit at a less predictable pace as the Company identifies complementary tenants at attractive lease terms. These properties improved from NOI of $0.9 million in the fourth quarter of 2012 to NOI of $2.3 million in the fourth quarter of 2013. During 2013, the Company funded $23.7 million toward tenant improvement allowances for new tenants at these properties. The Company estimates it will need an incremental investment of at least $22 million for tenant improvements as these properties continue to lease up. Given the current level of occupancy and executed leases, the Company has moved these properties into its stabilized portfolio as of December 31, 2013. These 12 properties will be included in the Company's same store properties beginning in the first quarter of 2015 once the properties have been in the stabilized portfolio for five consecutive quarters.

Multi-Tenant Leases

The Company expects that approximately 15% to 20% of the leases in its multi-tenanted portfolio will expire each year. During 2013, 393 leases in the Company's multi-tenanted portfolio expired, of which approximately 303 were renewed or the tenants continue to occupy the space. Because the demand for well-located real estate that houses complementary practice types and services remains consistent, the Company's quarterly tenant retention statistics remained steady in 2013, ranging from 77% to 84%. In 2014, 499 leases, excluding holdover leases, in the Company's multi-tenanted portfolio are scheduled to expire. Of the leases scheduled to expire in 2014, 88% are located in buildings on hospital campuses, which in the Company's experience have a higher tenant retention rate.

Multi-tenant Rental Rates

The Company continues to experience sustained revenue growth for its in-place leases. In 2013, the Company experienced continued average contractual rental rate growth of just over 3% for its in-place leases; this was unchanged from 2012. The Company continues to work closely with physicians and health systems to understand and anticipate the effects of health insurance reform on real estate decisions. Despite concern about the implementation of reform, the Company saw gradual increases in its quarterly weighted average rental rate growth for renewing leases, unadjusted for rent abatements. For the years ended December 31, 2013 and 2012, quarterly weighted average rental rate growth ("cash releasing spread") for renewing leases ranged from 0.5% to 2.5% and 0.4% to 1.8%, respectively.

Tenant Improvements

The Company may provide a tenant improvement allowance in new or renewal leases for the purpose of refurbishing or renovating tenant space. Shorter-term leases (one to two years) generally do not include a tenant improvement allowance. In instances where the Company negotiates a renewal lease but does not increase the rental rate in the first year of the renewal term, it limits or eliminates a tenant's improvement allowance.

Tenant improvements totaled approximately $46.1 million or $3.31 per square foot in 2013, of which $34.9 million pertained to first generation space. Tenant improvements totaled $40.0 million or $2.94 per square foot in 2012, of which $30.7 million pertained to first generation space. If tenants spend more than the allowance, the Company generally offers the tenant the option to either amortize the overage over the lease term, with interest, or reimburse the overage to the Company in a lump sum. In either case, such overages are amortized by the Company as rental income over the term of the lease. Interest earned on tenant overages is included in other operating income in the Company's Consolidated Statements of Operations and totaled approximately $0.5 million in 2013 and $0.4 million in 2012. The tenant overage amount amortized to rent totaled approximately $4.0 million in 2013 and $3.5 million in 2012.

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Leasing Commissions

In certain markets, the Company may pay leasing commissions to real estate brokers who represent either the Company's properties or prospective tenants, with commissions generally equating to 4% to 6% of the gross lease value for new leases and 1% to 2% of the gross lease value for renewal leases. Leasing commissions are amortized over the term of the applicable leases. In 2013, the Company paid leasing commissions of approximately $7.8 million, or $0.56 per square foot, of which $4.1 million pertained to the lease-up of first generation space. In 2012, the Company paid leasing commissions of approximately $6.2 million, or $0.45 per square foot, of which $3.5 million pertained to the lease-up of first generation space. These payments will be amortized against rent over the term of the applicable leases.

Rent Abatements

Rent abatements, which generally take the form of deferred rent, are sometimes used to help induce a potential tenant or renewing tenant to lease space in the Company's properties. Such abatements, when made, are amortized by the Company on a straight-line basis against rental income over the lease term. Rent abatements for 2013 totaled approximately $4.1 million, or $0.29 per square foot, of which $1.7 million pertained to lease-up of first generation space. Rent abatements for 2012 totaled approximately $2.0 million, or $0.15 per square foot, of which $1.3 million pertained to lease-up of first generation space.

Single-Tenant Net Leases

Leases on six single tenant net lease properties expired in 2013. These six properties generated approximately $6.5 million in net operating income for the year ended December 31, 2013. Four of the properties were sold when the tenants exercised purchase options. The remaining two properties are medical office buildings vacated by the existing tenants in the third quarter of 2013. The Company is actively marketing both properties for sale.

Leases on 10 single tenant net lease properties will expire in 2014 during the second half of the year. Six of the properties are senior living facilities in Michigan and Indiana associated with a single operator and two of the leases are on-campus, inpatient facilities. The two remaining are medical office buildings of which one is on-campus. Two of the 10 leases have been renewed. At this time, the Company does not expect that any of the properties will be vacated.

Operating Leases

As of December 31, 2013, the Company was obligated under operating lease agreements consisting primarily of the Company’s corporate office lease and ground leases related to 44 real estate investments, excluding those ground leases the Company has prepaid. These operating leases have expiration dates through 2101. Rental expense relating to the operating leases for the years ended December 31, 2013, 2012 and 2011 was $4.4 million, $4.3 million and $4.3 million, respectively.

Capital Additions

As a part of the Company's leasing practice, the Company generates a return on capital additions by setting lease rates for each property based on the Company's gross investment, inclusive of any actual or expected capital additions. The Company invested $11.9 million, or $0.85 per square foot, in capital additions in 2013 and $12.1 million, or $0.89 per square foot, in 2012. Capital additions are long-term investments made to maintain and improve the physical and aesthetic attributes of the Company's owned properties. Examples of such improvements include, but are not limited to, material changes to, or the full replacement of, major building systems (exterior facade, building structure, roofs, elevators, mechanical systems, electrical systems, energy management systems, upgrades to existing systems for improved efficiency, etc.) and common area improvements (furniture, signage and artwork, bathroom fixtures and finishes, exterior landscaping, parking lots or garages, etc.). These various capital additions are capitalized into the gross investment of a property and then depreciated over their estimated useful lives, typically ranging from 7 to 20 years. Capital additions specifically do not include recurring maintenance expenses, whether direct or indirect, related to the upkeep and maintenance of major building systems or common area improvements. Capital additions also do not include improvements related to a specific tenant suite, unless the improvement is part of a major building system or common area improvement.

Purchase Options

The Company had approximately $224.0 million in real estate properties as of December 31, 2013 that were subject to exercisable purchase options or purchase options that become exercisable during 2014. The Company has approximately $376.3 million in real estate properties that are subject to purchase options that will become exercisable after 2014.

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Discontinued Operations
As discussed in more detail in Note 1 to the Consolidated Financial Statements, the Company must present the results of operations of real estate assets disposed of or held for sale as discontinued operations. Therefore, the results of operations from such assets are classified as discontinued operations for the current period, and all prior periods presented are restated to conform to the current period presentation. Each future disposal will result in a change to the presentation of the Company’s operations in the historical Consolidated Statements of Operations as previously filed. Such reclassifications to the Consolidated Statements of Operations will have no impact on previously reported net income attributable to common stockholders.
Equity Issuances
On July 19, 2013, the Company issued 3,000,000 shares of common stock, par value $0.01 per share, at $26.13 per share in an underwritten public offering pursuant to the Company's existing effective registration statement. The net proceeds of the offering were $78.3 million, which was used to fund the Company's acquisitions.

The Company has in place an at-the-market equity offering program to sell shares of the Company's common stock from time to time in at-the-market sales transactions primarily for the acquisition of healthcare properties and other general corporate purposes, including the repayment of debt. The Company sold 5,207,871 shares under this program in 2013 generating net proceeds of $140.6 million.
Impact of Inflation
The Company is subject to the risk of inflation as most of its revenues are derived from long-term leases. Most of the Company's leases provide for fixed increases in base rents or increases based on the Consumer Price Index and require the tenant to pay all or some portion of the increases in operating expenses. The Company believes that these provisions mitigate the impact of inflation. However, there can be no assurances that the Company's ability to increase rents or recover operating expenses will always keep pace with inflation.
Other Items Impacting Operations
The Company typically has higher general and administrative costs in the first quarter of every year as a result of employee benefit plan expenses, such as the expenses related to the grant of employee stock purchase plan options and contributions to healthcare savings accounts. These items will likely increase general and administrative expenses by approximately $0.5 million in the first quarter of 2014.
Non-GAAP Measures
Management considers certain non-GAAP financial measures to be useful supplemental measures of the Company's operating performance. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Set forth below are descriptions of the non-GAAP financial measures management considers relevant to the Company's business and useful to investors, as well as reconciliations of these measures to the most directly comparable GAAP financial measures.
The non-GAAP financial measures presented herein are not necessarily identical to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. These measures should not be considered as alternatives to net income [determined in accordance with generally accepted accounting principles (“GAAP”)], as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of the Company's liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of the Company's needs. Management believes that in order to facilitate a clear understanding of the Company's historical consolidated operating results, these measures should be examined in conjunction with net income and cash flows from operations as presented in the Consolidated Financial Statements and other financial data included elsewhere in this Annual Report on Form 10-K.
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."

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

The comparability of FFO for the year ended December 31, 2013 compared to 2012 was most significantly affected by the various property acquisitions during 2012 and 2013 and the results of operations of the portfolio from period to period, as well as the commencement of operations of properties that were previously under construction and continued leasing of the development properties. FFO for the year ended December 31, 2013 was negatively affected by the $29.9 million in losses incurred on the early repayment of debt. Also during 2013, the Company sold its interest in a cost method investment in an unconsolidated limited liability company and recognized a $1.5 million gain on the disposition. This gain is included in FFO for the year ended December 31, 2013. Other items that impacted the comparability of FFO are discussed in the "Results of Operations" section.

The table below reconciles net income (loss) attributable to common stockholders to FFO for each of the three years ended December 31, 2013.

	Year Ended December 31,		
(Amounts in thousands, except per share data)	2013	2012	2011
Net income (loss) attributable to common stockholders	$6,946	$5,465	$(214)
Gain on sales of real estate properties	(24,718)	(10,874)	(7,035)
Impairments	9,889	14,908	6,697
Real estate depreciation and amortization	98,036	95,166	85,234
Total adjustments	83,207	99,200	84,896
Funds from Operations	$90,153	$104,665	$84,682
Funds from Operations per Common Share - Diluted	$0.98	$1.31	$1.15
Weighted Average Common Shares Outstanding - Diluted	92,387	80,128	73,807

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Same Store NOI

NOI and same store NOI are non-GAAP financial measures of performance. Management considers same store NOI an important supplemental measure because it allows investors, analysts and Company management to measure unlevered property-level operating results. The Company defines NOI as operating revenues (property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue) less property operating expenses related specifically to the property portfolio. NOI excludes straight-line rent, general and administrative expenses, interest expense, depreciation and amortization, gains and losses from property sales, property management fees and other revenues and expenses not specifically related to the property portfolio. NOI may also be adjusted for certain expenses that are related to prior periods or are not considered to be part of the operations of the properties.

The following table reflects the Company's same store NOI for the three months ended December 31, 2013 and 2012. Also, the Company does not measure same store NOI and related growth rate on an annual basis. An annual period would cause the pool of same store properties to be different than the pool used in any individual quarter resulting in same store NOI information that is not indicative of the earnings from the current same store portfolio.

			Same Store NOI for the Three Months Ended December 31,	
(Dollars in thousands)	Number of Properties [1]	Investment at December 31, 2013	2013	2012
Multi-tenant Properties	120	$1,564,611	$31,603	$31,491
Single-tenant Net Lease Properties	32	460,037	11,350	10,991
Total	152	$2,024,648	$42,953	$42,482

(1) Mortgage notes receivable, corporate property and assets classified as held for sale are excluded.

Properties included in the same store analysis are stabilized properties that have been included in operations and were consistently reported as leased and stabilized properties for the duration of the year-over-year comparison period presented. Accordingly, properties that were recently acquired or disposed of, properties classified as held for sale, and properties in stabilization or conversion from stabilization are excluded from the same store analysis. In addition, the Company excludes properties that meet the following Company-defined criteria to be included in the reposition property group:

- Properties having less than 60% occupancy;
- Anticipated significant or material changes to a particular property or its market environment;
- Conversions between the single-tenant net lease and multi-tenant portfolios; or
- Condemnations, if any.

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

Reconciliation of Same Store NOI:

	Three Months Ended December 31,	
(Dollars in thousands)	2013	2012
Rental income	$86,318	$74,197
Property lease guaranty revenue (a)	1,124	1,226
Property operating expense	(31,945)	(29,841)
Exclude Straight-line rent revenue	(2,928)	(1,435)
NOI	52,569	44,147
NOI not included in same store	(9,616)	(1,665)
Same store NOI	$42,953	$42,482

(a) Other operating income reconciliation:

Property lease guaranty revenue	$1,124	$1,226
Interest income	173	124
Other	90	92
Total consolidated other operating income	$1,387	$1,442

Reconciliation of Same Store Property Count:

	Property Count as of December 31, 2013
Same store properties	152
Acquisitions	14
Reposition	20
Development conversions	12
Total owned real estate properties	198

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Results of Operations

Twelve Months Ended December 31, 2013 Compared to Twelve Months Ended December 31, 2012

The Company's consolidated results of operations for 2013 compared to 2012 were significantly impacted by acquisitions, dispositions, development conversion properties, extinguishments of debt, gains on sale and impairment charges recorded on real estate properties.

Revenues

Rental income increased $29.5 million, or 10.2%, to approximately $318.3 million compared to $288.8 million in the prior year period and is comprised of the following:

			Change	
(Dollars in thousands)	2013	2012	$	%
Property operating	$256,129	$239,707	$16,422	6.9 %
Single-tenant net lease	52,665	42,481	10,184	24.0 %
Straight-line rent	9,500	6,599	2,901	44.0 %
Total Rental income	$318,294	$288,787	$29,507	10.2 %

Property operating income increased $16.4 million, or 6.9%, from the prior year as a result of the following activity:

- Acquisitions in 2012 and 2013 contributed $8.9 million.
- Additional leasing activity at developed conversion properties contributed $6.6 million.
- Net leasing activity including contractual rent increases and renewals contributed $2.0 million.
- Conversion of one property to a single-tenant net lease caused a decrease of $1.1 million.

Single-tenant net lease income increased $10.2 million, or 24.0%, from the prior year as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $7.7 million.
- New leasing activity including contractual rent increases contributed $1.6 million.
- Lease conversions from property operating income contributed $0.9 million.

Straight-line rent income increased $2.9 million, or 44.0%, from the prior year as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $1.5 million.
- New leasing activity including contractual rent increases and the effects of rent abatements contributed $1.5 million.

Mortgage interest increased approximately $4.4 million due to additional interest from fundings on two construction mortgage notes receivable for the two build-to-suit facilities affiliated with Mercy Health, one of which was acquired during 2013, and interest earned on new Company-financed mortgages notes funded during 2012 and 2013 totaling approximately $0.2 million. These amounts are partially offset by a reduction of approximately $1.1 million from the repayment of mortgage notes.

Expenses

Property operating expenses increased $9.1 million, or 7.8%, for the twelve months ended December 31, 2013 compared to the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions accounted for an increase of $3.7 million.
- Properties that were previously under construction that commenced operations during 2012 accounted for an increase of $0.9 million.
- The Company experienced an overall increase in real estate taxes of approximately $3.8 million, professional fees of approximately $0.9 million and utilities of approximately $0.2 million.
- Conversion of one property to a single-tenant net lease caused a decrease of $0.4 million.

General and administrative expenses increased approximately $2.8 million, or 13.5%, for the twelve months ended December 31, 2013 compared to the prior year period as a result of the following activity:

- Increase in compensation-related expenses totaling $3.3 million including $1.8 million of non-cash stock-based compensation.

- Increase in expenses related to potential acquisitions and developments of $1.3 million.

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- Reduction in litigation costs of $1.7 million including a $1.0 million settlement recorded in 2012.

Depreciation expense increased $6.4 million, or 7.8%, for the twelve months ended December 31, 2013 compared to the prior year period. Properties acquired in 2012 and 2013 and developments completed and commencing operations contributed a combined increase of $4.5 million. The remaining $1.9 million increase is related to various building and tenant improvement expenditures.

Other Income (Expense)

Other income (expense) increased $26.7 million, or 36.1%, for the twelve months ended December 31, 2013 compared to the prior year period mainly due to the following activity:

Interest Expense

Interest expense decreased $1.4 million for the twelve months ended December 31, 2013 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	2013	2012	Change	Percentage Change
Contractual interest	$69,334	$75,821	$(6,487)	(8.6)%
Net discount/premium accretion	1,132	987	145	14.7%
Deferred financing costs amortization	3,228	3,168	60	1.9%
Interest cost capitalization	(183)	(5,021)	4,838	(96.4)%
Total interest expense	$73,511	$74,955	$(1,444)	(1.9)%

Contractual interest decreased $6.5 million primarily as a result of a lower average interest rate and lower average utilization on the Unsecured Credit Facility, the lower interest on the Senior Notes due 2023 issued in the first quarter of 2013 compared to the Senior Notes due 2014 that were repaid in the second quarter of 2013, and the repayment of a $77.3 million secured loan in the second quarter of 2013.

Capitalized interest costs decreased $4.8 million due to a decrease in development expenditures upon completion of various projects in progress.

Loss on Extinguishments of Debt

In connection with the early repayments of debt during 2013, the Company incurred $29.6 million of losses on extinguishment of debt.

Gain on Sale of Cost Method Investment in Real Estate

In December 2013, the Company recognized a $1.5 million gain on the sale of a cost method investment in an unconsolidated limited liability company.

Discontinued Operations

Income from discontinued operations totaled $19.3 million and $5.4 million, respectively, for the years ended December 31, 2013 and 2012, which includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2013 or disposed of during 2013. The Company disposed of 12 real estate properties and one land parcel in 2013 and disposed of nineteen properties in 2012 with three properties classified as held for sale as of December 31, 2013.

Twelve Months Ended December 31, 2012 Compared to Twelve Months Ended December 31, 2011

The Company’s consolidated results of operations for 2012 compared to 2011 were significantly impacted by acquisitions, dispositions, development conversion properties, gains on sale and impairment charges recorded on real estate properties.

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Revenues

Rental income increased $25.0 million, or 9.5%, to approximately $288.8 million compared to $263.7 million in the prior year period and is comprised of the following:

			Change		
(Dollars in thousands)	2012	2011	$	%	
Property operating	$239,707	$216,058	$23,649	10.9	%
Single-tenant net lease	42,481	41,957	524	1.2	%
Straight-line rent	6,599	5,725	874	15.3	%
Total Rental income	$288,787	$263,740	$25,047	9.5	%

Property operating income increased $23.6 million, or 10.9%, from the prior year as a result of the following activity:

- Acquisitions in 2011 and 2012 contributed $12.8 million.
- Additional leasing activity at properties that were previously under construction and commenced operations during 2011 and 2012 contributed $5.0 million.
- Net leasing activity including contractual rent increases and renewals contributed $5.2 million.
- Conversions of three properties from single-tenant net lease contributed $1.1 million.
- Conversion of one property to a single-tenant net lease caused a decrease of $0.4 million.

Single-tenant net lease income increased $0.5 million, or 1.2%, from the prior year as a result of the following activity:

- The Company's 2012 acquisitions contributed $0.8 million.
- New leasing activity including contractual rent increases contributed $1.5 million.
- Conversion of one property from property operating income contributed $0.3 million.
- Expiration of an agreement in 2011 with one operator which provided replacement rent to the Company caused a decrease of $0.3 million.
- Expiration of single-tenant net lease agreements with six properties caused a decrease of $1.7 million.

Straight-line rent income increased $0.9 million, or 15.3%, from the prior year as a result of the following activity:

- The Company's 2011 and 2012 acquisitions contributed $1.2 million.
- New leasing activity including contractual rent increases and the effects of rent abatements caused a decrease of $0.3 million.

Mortgage interest increased approximately $3.8 million due to additional interest from fundings on two construction mortgage notes receivable for the two build-to-suit facilities affiliated with Mercy Health and $0.4 million for new Company-financed mortgage notes receivable, offset partially by a reduction of approximately $1.9 million from the repayment of mortgage notes.

Expenses

Property operating expenses increased $4.3 million, or 3.9%, for the twelve months ended December 31, 2012 compared to the prior year period as a result of the following activity:

- The Company's 2011 and 2012 acquisitions accounted for an increase of $4.4 million.
- Properties that were previously under construction that commenced operations during 2011 and 2012 accounted for an increase of $3.7 million.
- Conversions from single-tenant net lease caused an increase of $0.4 million.
- The Company experienced an overall decrease in real estate taxes of approximately $3.3 million and utility expense of approximately $0.6 million.

General and administrative expenses decreased approximately $0.1 million, or 0.4%, for the twelve months ended December 31, 2012 compared to the prior year period as a result of the following activity:

- Reduction in pension costs of $0.8 million.
- Reduction in expenses related to potential acquisitions and developments of $0.8 million.
- Increase in litigation costs of $1.5 million.

Depreciation expense increased $9.9 million, or 13.8%, for the twelve months ended December 31, 2012 compared to the prior year period. Properties acquired in 2011 and 2012 and developments completed and commencing operations contributed a

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combined increase of $6.4 million. The remaining $3.6 million increase is related to various building and tenant improvement expenditures.

Amortization expense increased $2.3 million, or 28.5%, for the twelve months ended December 31, 2012 compared to the prior year period as a result of intangibles recognized on real estate properties acquired in 2011 and 2012.

Other Income (Expense)

Interest expense decreased $1.0 million for the twelve months ended December 31, 2012 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	2012	2011	Change	Percentage Change
Contractual interest	$75,821	$79,185	$(3,364)	(4.2)%
Net discount accretion	987	1,211	(224)	(18.5)%
Deferred financing costs amortization	3,168	4,073	(905)	(22.2)%
Interest cost capitalization	(5,021)	(8,531)	3,510	(41.1)%
Total interest expense	$74,955	$75,938	$(983)	(1.3)%

Contractual interest decreased approximately $5.5 million due to the redemption of the senior notes due 2011 in March 2011 This amount is partially offset by approximately $0.4 million from a higher weighted average principal balance on the Company's unsecured credit facility in 2012 compared to 2011, additional interest expense totaling approximately $1.7 million on mortgage notes assumed as a part of the Company's 2011 and 2012 acquisitions. In connection with the repayment of the senior notes due 2011, the Company incurred a $2.0 million charge related to the early redemption.

Deferred financing costs decreased approximately $0.9 million due to the 2011 renewal of the Company's unsecured credit facility that extended the amortization life.

Capitalized interest costs decreased due to decreased development expenditures upon completion of various projects in progress.

Discontinued Operations

Income from discontinued operations totaled $5.4 million and $11.4 million, respectively, for the year ended December 31, 2012 and 2011, which includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2012 or disposed of during 2012. The Company disposed of nineteen properties in 2012 and disposed of five properties in 2011 with one property classified as held for sale as of December 31, 2012.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

The Company monitors its contractual obligations to manage the availability of funds necessary 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 December 31, 2013, 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 REIT under the Internal Revenue Code. The Company's material contractual obligations are included in the table below. As of December 31, 2013, the Company had no long-term capital lease obligations.

	Payments Due by Period				
(Dollars in thousands)	Total	Less than 1 Year	1 -3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations, including interest (1)	$1,717,127	$73,709	$224,892	$628,698	$789,828
Operating lease commitments (2)	275,140	4,719	9,728	9,904	250,789
Construction loan obligation (3)	14,918	14,918	—	—	—
Tenant improvements (4)	23,008	23,008	—	—	—
Pension obligations (5)	—	—	—	—	—
Total contractual obligations	$2,030,193	$116,354	$234,620	$638,602	$1,040,617

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(1) The amounts shown include estimated interest on total debt other than the Unsecured Credit Facility, whose balance and interest rate may fluctuate from day to day. Excluded from the table above are the discounts on the Company's outstanding senior notes of approximately $5.3 million, and the discounts and premiums totaling approximately $0.9 million on 15 mortgage notes payable, which are included in notes and bonds payable on the Company's Consolidated Balance Sheet as of December 31, 2013. The Company's long-term debt principal obligations are presented in more detail in the table below.

(In millions)	Principal Balance at Dec. 31, 2013	Principal Balance at Dec. 31, 2012	Maturity Date	Contractual Interest Rates at December 31, 2013		Principal Payments	Interest Payments
Unsecured Credit Facility	$ 238.0	$ 110.0	2/17	LIBOR + 1.40%		At maturity	Quarterly
Senior Notes due 2014	—	264.7	4/14	5.13	%	At maturity	Semi-Annual
Senior Notes due 2017	300.0	300.0	1/17	6.50	%	At maturity	Semi-Annual
Senior Notes due 2021	400.0	400.0	1/21	5.75	%	At maturity	Semi-Annual
Senior Notes due 2023	250.0	—	4/23	3.75	%	At maturity	Semi-Annual
Mortgage notes payable	166.7	225.2	5/15-10/30	5.00%-7.63%		Monthly	Monthly
	$ 1,354.7	$ 1,299.9					

(2) Includes primarily the corporate office and ground leases, with expiration dates through 2101, related to various real estate investments for which the Company is currently making payments.

(3) Includes the Company's remaining funding commitment on one construction mortgage loan as of December 31, 2013. The Company is obligated to acquire the building upon completion for approximately $91.2 million representing the expected fundings under the construction mortgage loan. This amount is subject to change based on the final project costs.

(4) The Company has remaining tenant improvement allowances related to first generation tenant improvements of approximately $17.5 million on properties that were acquired in 2013 or developed by the Company. Also, the

Company has remaining tenant improvement allowances related to second generation tenant improvements of approximately $5.5 million. The Company expects to fund these improvements in 2014.

(5) As of December 31, 2013, only the Company’s chief executive officer was eligible to retire under the Executive Retirement Plan. If the chief executive officer retired and received full retirement benefits based upon the terms of the plan, the future benefits to be paid are estimated to be approximately $22.6 million as of December 31, 2013. Because the Company does not know when its chief executive officer will retire, it has not projected when the retirement benefits would be paid in the table above. As of December 31, 2013, the Company had recorded a $13.9 million liability, included in other liabilities, related to its pension plan obligations.

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Application of Critical Accounting Policies to Accounting Estimates

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

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

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

Principles of Consolidation

The Company's Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, joint ventures, partnerships and variable interest entities ("VIEs") where the Company controls the operating activities. All material intercompany accounts and transactions have been eliminated.

Management must make judgments regarding the Company's level of influence or control over an entity and whether or not the Company is the primary beneficiary of a variable interest entity. Consideration of various factors includes, but is not limited to, the Company's ability to direct the activities that most significantly impact the entity's economic performance, the Company's form of ownership interest, the Company's representation on the entity's governing body, the size and seniority of the Company's investment, the Company's ability and the rights of other investors to participate in policy making decisions, the Company's ability to replace the manager and/or liquidate the entity. Management's ability to correctly assess its influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in the Company's Consolidated Financial Statements.

If it is determined that the Company is the primary beneficiary of a VIE, the Company's Consolidated Financial Statements would include the operating results of the VIE rather than the results of the variable interest in the VIE. The Company would depend on the VIE to provide timely financial information and would rely on the interest control of the VIE to provide accurate financial information. Untimely or inaccurate financial information provided to the Company or deficiencies in the VIEs internal controls over financial reporting could impact the Company's Consolidated Financial Statements and its internal control over financial reporting.

Capitalization of Costs

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

Direct costs of a development project generally include construction costs, professional services such as architectural and legal costs, travel expenses, and land acquisition costs as well as other types of fees and expenses. These costs are capitalized as part of the basis of an asset to which such costs relate. Indirect costs include capitalized interest and overhead costs. Indirect costs are capitalized during construction and on the unoccupied space in a property for up to one year after the certificate of substantial completion is received. Capitalized interest is calculated using the weighted average interest rate of the Company's unsecured debt or the interest rate on project specific debt, if applicable. The Company continues to capitalize interest on the unoccupied portion of the properties in stabilization for up to one year after the properties have been placed into service, at which time the capitalization of interest ceases. The Company's overhead costs are based on overhead load factors that are charged to a project based on direct time incurred. The Company computes the overhead load factors annually for its acquisition and development departments, which have employees who are involved in the projects. The overhead load factors are computed to absorb that portion of indirect employee costs (payroll and benefits, training, occupancy and similar costs) that are attributable to the productive time the employee incurs working directly on projects. The employees in the Company's development departments who work on these projects maintain and report their hours daily, by project. Employee costs that are administrative, such as vacation time, sick time, or general and administrative time, are expensed in the period incurred.

Acquisition-related costs of an existing real estate property include finder's fees, advisory, legal, accounting, valuation, other professional or consulting fees, and certain general and administrative costs. These costs are also expensed in the period incurred for acquisitions accounted for as a business combination under Accounting Standards Codification Topic 805, Business Combinations. Costs associated with asset acquisitions are capitalized in accordance with existing GAAP.

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

The Company classifies its pursuit projects into four categories, of which three relate to development and one relates to acquisitions. The first category includes pursuits of developments that have a remote chance of producing new business. Costs for these projects are expensed in the period incurred. The second category includes pursuits of developments that might reasonably be expected to produce new business opportunities although there can be no assurance that they will result in a new project or contract. Costs for these projects are capitalized but, due to the uncertainty of projects in this category, these costs are reserved at 50%, which means that 50% of the costs are expensed in the period incurred. The third category includes those pursuits of developments that are either highly probable to result in a project or contract or already have resulted in a project or contract in which the contract requires the operator to reimburse the Company’s costs. Many times, these are pursuits involving operators with which the Company is already doing business. Since the Company believes it is probable that these pursuits will result in a project or contract, it capitalizes these costs in full and records no reserve. The fourth category includes pursuits that involve the acquisition of existing real estate properties. As discussed above, costs related to acquisitions of existing real estate properties are expensed in the period incurred.

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

As of December 31, 2013 and 2012, the Company had capitalized pursuit costs totaling $4.0 million (which were fully reserved) and $2.0 million ($39,000, net of reserve), respectively.

Valuation of Long-Lived and Intangible Assets and Goodwill

Long-Lived Assets Held and Used

The Company assesses the potential for impairment of identifiable intangible assets and long-lived assets, primarily real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be recoverable. Important factors that could cause management to review for impairment include significant underperformance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company reviews for possible impairment those assets subject to purchase options and those impacted by casualties, such as hurricanes. Management remains continuously alert to the factors above, and others, that could indicate an impairment exists.

The Company may, from time to time, be approached by a third party with interest in purchasing one or more of the Company's operating real estate properties that was otherwise not for sale. Alternatively, the Company may explore disposing of an operating real estate property but without specific intent to sell the property and without the property meeting the criteria to be classified as held for sale (see discussion below). In such cases, the Company and a potential buyer typically negotiate a letter of intent followed by a purchase and sale agreement that includes a due diligence time line for completion of customary due diligence procedures. Anytime throughout this period the transaction could be terminated by the parties. The Company views the execution of a purchase and sale agreement as a circumstance that warrants an impairment assessment and must include its best estimates of the impact of a potential sale in the recoverability test discussed in more detail below.

A property value is considered impaired only if management's estimate of current and projected (undiscounted and unleveraged) operating cash flows of the property is less than the net carrying value of the property. These estimates of future cash flows include only those that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the property based on its estimated remaining useful life. These estimates, including the useful life determination which can be affected by any potential sale of the property, are based on management's assumptions about its use of the property. Therefore, significant judgment is involved in estimating the current and projected cash flows.

When the Company executes a purchase and sale agreement for a held and used property, the Company performs the cash flow estimation described above. This assessment gives consideration to all available information, including an assessment of the likelihood the potential transaction will be consummated under the terms and conditions set forth in the purchase and sale agreement. Management will re-evaluate the recoverability of the property if and when significant changes occur as the transaction proceeds toward closing. Normally sale transactions will close within 15 to 30 days after the due diligence period expires. Upon expiration of the due diligence period, management will again re-evaluate the recoverability of the property, updating its assessment based on the status of the potential sale.

Whenever management determines that the carrying value of an asset that has been tested may not be recoverable, then an impairment charge would be recognized to the extent the current carrying value exceeds the current fair value of the asset. Significant judgment is also involved in making a determination of the estimated fair value of the asset.

The Company also performs an annual goodwill impairment review. The Company's reviews are performed as of December 31 of each year. The Company's 2013 and 2012 reviews indicated that no impairment had occurred with respect to the Company's $3.5 million goodwill asset.

Long-Lived Assets to be Disposed of by Planned Sale

From time to time management affirmatively decides to sell certain real estate properties under a plan of sale. The Company reclassifies the property or disposal group as held for sale when all the following criteria for a qualifying plan of sale are met:

- Management, having the authority to approve the action, commits to a plan to sell the property or disposal group;
- The property or disposal group is available for immediate sale (i.e., a seller currently has the intent and ability to transfer the property or disposal group to a buyer) in its present condition, subject only to conditions that are usual and customary for sales of such properties or disposal groups;
- An active program to locate a buyer and other actions required to complete the plan to sell have been initiated;
- The sale of the property or disposal group is probable (i.e., likely to occur) and the transfer is expected to qualify for recognition as a completed sale within one year, with certain exceptions;
- The property or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- Actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn.

A property or disposal group classified as held for sale is initially measured at the lower of its carrying amount or fair value less estimated costs to sell. An impairment charge is recognized for any initial adjustment of the property's or disposal group's carrying amount to its fair value less estimated costs to sell in the period the held for sale criteria are met. The fair value less estimated costs to sell of the property (disposal group) should be assessed each reporting period it remains classified as held for sale. Depreciation ceases as long as a property is classified as held for sale.

If circumstances arise that were previously considered unlikely and a subsequent decision not to sell a property classified as held for sale were to occur, the property is reclassified as held and used. The property is measured at the time of reclassification at the lower of its (a) carrying amount before it was classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the property been continuously classified as held and used or (b) fair value at the date of the subsequent decision not to sell. The effect of any required adjustment is reflected in income from continuing operations at the date of the decision not to sell.

The Company recorded impairment charges totaling $9.9 million, $14.9 million, and $6.7 million, respectively, for the years ended December 31, 2013, 2012, and 2011 related to real estate properties and other long-lived assets. The impairment charges in 2013 included $3.3 million related to one land parcel sold and $6.6 million related to three properties classified as held for sale and two properties sold, reducing the Company's carrying value on the property to the estimated fair value of the property less estimated costs to sell. The impairment charges in 2012 included $11.1 million related to twelve properties sold and $3.8 million related to one property classified as held for sale, reducing the Company's carrying value on the property to the estimated fair value of the property less estimated costs to sell. The impairment charges in 2011 included $1.7 million related to two properties sold and $5.0 million related to five properties classified as held for sale in 2011, reducing the Company's carrying values on the properties to the estimated fair values less estimated costs to sell.

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Depreciation of Real Estate Assets and Amortization of Related Intangible Assets

As of December 31, 2013, the Company had investments of approximately $2.9 billion in depreciable real estate assets and related intangible assets. When real estate assets and related intangible assets are acquired or placed in service, they must be depreciated or amortized. Management's judgment involves determining which depreciation method to use, estimating the economic life of the building and improvement components of real estate assets, and estimating the value of intangible assets acquired when real estate assets are purchased that have in-place leases.

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

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

Allowance for Doubtful Accounts and Credit Losses

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

Payments on the Company's accounts receivable are normally collected within 30 days of billing. When receivables remain uncollected, management must decide whether it believes the receivable is collectible and whether to provide an allowance for all or a portion of these receivables. Unlike a financial institution with a large volume of homogeneous retail receivables such as credit card loans or automobile loans that have a predictable loss pattern over time, the Company's receivable losses have historically been infrequent, and are tied to a unique or specific event. The Company's allowance for doubtful accounts is generally based on specific identification and is recorded for a specific receivable amount once determined that such an allowance is needed.

The Company also evaluates collectability of its mortgage notes and notes receivable. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. This assessment also includes an evaluation of the loan collateral.

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

- type of contractual arrangement under which the receivable was recorded, e.g., a mortgage note, a triple net lease, a gross lease, a property operating agreement or some other type of agreement;
- tenant’s or debtor’s reason for slow payment;
- industry influences and healthcare segment under which the tenant or debtor operates;
- evidence of willingness and ability of the tenant or debtor to pay the receivable;

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- credit-worthiness of the tenant or debtor;
- collateral, security deposit, letters of credit or other monies held as security;
- tenant's or debtor's historical payment pattern;
- other contractual agreements between the tenant or debtor and the Company;
- relationship between the tenant or debtor and the Company;
- state in which the tenant or debtor operates; and
- existence of a guarantor and the willingness and ability of the guarantor to pay the receivable.

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

Item 7A. 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 receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. As of December 31, 2013, $1.1 billion of the Company's $1.3 billion of outstanding debt bore interest at fixed rates. Additionally, all of the Company's mortgage notes and other notes receivable bore interest at fixed rates.

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

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(Dollars in thousands)	Outstanding Principal Balance as of December 31, 2013	Calculated Annual Interest	Impact on Earnings and Cash Flows: Assuming 10% Increase in Market Interest Rates	Impact on Earnings and Cash Flows: Assuming 10% Decrease in Market Interest Rates
Variable Rate Debt:				
Unsecured Credit Facility	$238,000	$ 3,737	$(40)	$40

(Dollars in thousands)	Carrying Value as of December 31, 2013	Fair Value: December 31, 2013	Fair Value: Assuming 10% Increase in Market Interest Rates	Fair Value: Assuming 10% Decrease in Market Interest Rates	Fair Value: December 31, 2012 (1)
Fixed Rate Debt:					
Senior Notes due 2014, net of discount (2)	$—	$—	$—	$—	$ 279,861
Senior Notes due 2017, net of discount (2)	$ 299,008	$321,238	$ 316,999	$325,568	340,624
Senior Notes due 2021, net of discount (2)	397,578	424,931	416,588	440,651	472,180
Senior Notes due 2023, net of discount (2)	248,077	226,168	217,837	234,917	—
Mortgage Notes Payable (2)	165,796	170,351	167,970	172,763	234,508
	$ 1,110,459	$1,142,688	$ 1,119,394	$1,173,899	$ 1,327,173
Fixed Rate Receivables:					
Mortgage Notes Receivable (3)	$ 125,547	$124,461	$ 124,040	$124,885	$ 158,311
Other Notes Receivable (3)	65	65	65	65	115
	$ 125,612	$124,526	$ 124,105	$124,950	$ 158,426

(1) Fair values as of December 31, 2012 represent fair values of obligations or receivables that were outstanding as of that date, and do not reflect the effect of any subsequent changes in principal balances and/or additions or extinguishments of instruments.

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

(3) Level 2 - Fair value based on 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.

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Item 8. Financial Statements and Supplementary Data
Report of
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors and Stockholders
Healthcare Realty Trust Incorporated
Nashville, Tennessee

We have audited the accompanying consolidated balance sheets of Healthcare Realty Trust Incorporated as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Healthcare Realty Trust Incorporated at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Healthcare Realty Trust Incorporated’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 19, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Nashville, Tennessee
February 19, 2014

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

	December 31, 2013	2012
ASSETS		
Real estate properties:		
Land	$178,931	$161,875
Buildings, improvements and lease intangibles	2,861,935	2,625,538
Personal property	9,267	8,739
Land held for development	17,054	25,171
	3,067,187	2,821,323
Less accumulated depreciation	(632,109)	(580,617)
Total real estate properties, net	2,435,078	2,240,706
Cash and cash equivalents	8,671	6,776
Mortgage notes receivable	125,547	162,191
Assets held for sale and discontinued operations, net	6,852	3,337
Other assets, net	153,514	126,962
Total assets	$2,729,662	$2,539,972
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	$1,348,459	$1,293,044
Accounts payable and accrued liabilities	73,741	65,678
Liabilities of discontinued operations	1,112	131
Other liabilities	61,064	60,175
Total liabilities	1,484,376	1,419,028
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 150,000 shares authorized; 95,924 and 87,514 shares issued and outstanding at December 31, 2013 and 2012, respectively.	959	875
Additional paid-in capital	2,325,228	2,100,297
Accumulated other comprehensive income (loss)	51	(2,092)
Cumulative net income attributable to common stockholders	808,362	801,416
Cumulative dividends	(1,891,123)	(1,779,552)
Total stockholders’ equity	1,243,477	1,120,944
Noncontrolling interests	1,809	—
Total equity	1,245,286	1,120,944
Total liabilities and equity	$2,729,662	$2,539,972

See accompanying notes.

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Healthcare Realty Trust Incorporated
Consolidated Statements of Operations
(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011
REVENUES			
Rental income	$318,294	$288,787	$263,740
Mortgage interest	12,701	9,186	6,973
Other operating	5,931	6,101	7,885
	336,926	304,074	278,598
EXPENSES			
Property operating	125,565	116,470	112,152
General and administrative	23,729	20,905	20,988
Depreciation	88,380	81,966	72,036
Amortization	10,645	10,418	8,105
Bad debt, net of recoveries	184	241	(251)
	248,503	230,000	213,030
OTHER INCOME (EXPENSE)			
Loss on extinguishment of debt	(29,638)	—	(1,986)
Interest expense	(73,511)	(74,955)	(75,938)
Gain on sale of cost method investment in real estate	1,492	—	—
Interest and other income, net	966	976	813
	(100,691)	(73,979)	(77,111)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(12,268)	95	(11,543)
DISCONTINUED OPERATIONS			
Income from discontinued operations	4,422	9,474	11,021
Impairments	(9,889)	(14,908)	(6,697)
Gain on sales of real estate properties	24,718	10,874	7,035
INCOME FROM DISCONTINUED OPERATIONS	19,251	5,440	11,359
NET INCOME (LOSS)	6,983	5,535	(184)
Less: Net income attributable to noncontrolling interests	(37)	(70)	(30)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$6,946	$5,465	$(214)
BASIC EARNINGS (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations	$(0.13)	$0.00	$(0.16)
Discontinued operations	0.21	0.07	0.16
Net income (loss) attributable to common stockholders	$0.08	$0.07	$(0.00)
DILUTED EARNINGS (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations	$(0.13)	$0.00	$(0.16)
Discontinued operations	0.21	0.07	0.16
Net income (loss) attributable to common stockholders	$0.08	$0.07	$(0.00)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	90,941	78,845	72,720
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	90,941	80,128	72,720

See accompanying notes.

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Healthcare Realty Trust Incorporated
Consolidated Statements of Comprehensive Income
(Amounts in thousands)

	Year Ended December 31,		
	2013	2012	2011
NET INCOME (LOSS)	$6,983	$5,535	$(184)
Other comprehensive income:			
Defined benefit pension plan net gain arising during the period	2,143	1,240	1,937
Other comprehensive income	2,143	1,240	1,937
COMPREHENSIVE INCOME	9,126	6,775	1,753
Less: Comprehensive income attributable to noncontrolling interests	(37)	(70)	