

HEALTHCARE REALTY TRUST INC

FORM 10-Q (Quarterly Report)

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Sector	Services
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11852

HEALTHCARE REALTY TRUST INCORPORATED

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

3310 West End Avenue
Suite 700
Nashville, Tennessee 37203
(Address of principal executive offices)

(615) 269-8175
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

As of May 1, 2007, 47,824,508 shares of the Registrant's Common Stock were outstanding.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
March 31, 2007

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Part I. FINANCIAL INFORMATION

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

	(Unaudited) March 31, 2007	December 31, 2006
ASSETS		
Real estate properties:		
Land	\$ 110,622	\$ 129,658
Buildings, improvements and lease intangibles	1,445,715	1,741,126
Personal property	15,674	22,707
Construction in progress	32,355	38,835
	<u>1,604,366</u>	<u>1,932,326</u>
Less accumulated depreciation	(312,290)	(373,706)
Total real estate properties, net	1,292,076	1,558,620
Cash and cash equivalents	3,833	1,950
Mortgage notes receivable	16,893	73,856
Assets held for sale and discontinued operations, net	257,001	—
Other assets, net	<u>88,053</u>	<u>102,177</u>
Total assets	<u>\$ 1,657,856</u>	<u>\$ 1,736,603</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$ 743,960	\$ 849,982
Dividends payable	227,166	—
Accounts payable and accrued liabilities	37,420	32,448
Liabilities held for sale and discontinued operations	15,113	—
Other liabilities	<u>29,179</u>	<u>28,501</u>
Total liabilities	1,052,838	910,931
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 50,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 150,000,000 shares authorized; 47,824,537 and 47,805,448 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	478	478
Additional paid-in capital	1,212,845	1,211,234
Accumulated other comprehensive loss	(3,915)	(4,035)
Cumulative net income	671,464	635,120
Cumulative dividends	<u>(1,275,854)</u>	<u>(1,017,125)</u>
Total stockholders' equity	<u>605,018</u>	<u>825,672</u>
Total liabilities and stockholders' equity	<u>\$ 1,657,856</u>	<u>\$ 1,736,603</u>

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, are an integral part of these financial statements.

Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For The Three Months Ended March 31, 2007 and 2006
(Dollars in thousands, except per share data)
(Unaudited)

	<u>2007</u>	<u>2006</u>
REVENUES		
Master lease rent	\$ 15,772	\$ 13,833
Property operating	31,850	31,792
Straight-line rent	61	383
Mortgage interest	352	1,679
Other operating	4,997	4,167
	<u>53,032</u>	<u>51,854</u>
EXPENSES		
General and administrative	6,175	4,395
Property operating	18,154	18,028
Bad debt	5	455
Interest	13,515	12,912
Depreciation	10,971	9,873
Amortization	1,415	2,867
	<u>50,235</u>	<u>48,530</u>
INCOME FROM CONTINUING OPERATIONS	2,797	3,324
DISCONTINUED OPERATIONS		
Income from discontinued operations	5,950	5,907
Impairments	(2,792)	—
Gain on sales of real estate properties, net	30,389	3,264
INCOME FROM DISCONTINUED OPERATIONS	<u>33,547</u>	<u>9,171</u>
NET INCOME	<u>\$ 36,344</u>	<u>\$ 12,495</u>
BASIC EARNINGS PER COMMON SHARE		
Income from continuing operations per common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>
Discontinued operations per common share	<u>\$ 0.72</u>	<u>\$ 0.20</u>
Net income per common share	<u>\$ 0.78</u>	<u>\$ 0.27</u>
DILUTED EARNINGS PER COMMON SHARE		
Income from continuing operations per common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>
Discontinued operations per common share	<u>\$ 0.70</u>	<u>\$ 0.19</u>
Net income per common share	<u>\$ 0.76</u>	<u>\$ 0.26</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING – BASIC	<u>46,547,152</u>	<u>46,491,863</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING – DILUTED	<u>47,598,736</u>	<u>47,467,598</u>
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	<u>\$ 5.410</u>	<u>\$ 0.660</u>

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, are an integral part of these financial statements.

Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For The Three Months Ended March 31, 2007 and 2006
(Dollars in thousands)
(Unaudited)

	<u>2007</u>	<u>2006</u>
Operating Activities		
Net income	\$ 36,344	\$ 12,495
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	14,574	15,887
Stock-based compensation	1,712	1,183
Increase in straight-line rent receivable	(61)	(361)
Gain on sales of real estate, net	(30,389)	(3,264)
Impairments	2,792	—
Equity in losses from unconsolidated LLCs	97	15
Provision for bad debt, net of recoveries	5	737
Changes in operating assets and liabilities:		
(Increase) decrease in other assets	45	(186)
Increase in accounts payable and accrued liabilities	2,535	7,606
Increase in other liabilities	825	1,249
Net cash provided by operating activities	<u>28,479</u>	<u>35,361</u>
Investing Activities		
Acquisition and development of real estate properties	(17,806)	(9,490)
Funding of mortgages and notes receivable	(3,926)	(16,494)
Investments in unconsolidated LLCs	—	(9,365)
Distributions from unconsolidated LLCs	262	212
Proceeds from sales of real estate	110,205	11,245
Proceeds from mortgages and notes receivable repayments	13,007	27,527
Net cash provided by investing activities	<u>101,742</u>	<u>3,635</u>
Financing Activities		
Borrowings on notes and bonds payable	72,839	110,000
Repayments on notes and bonds payable	(169,873)	(121,063)
Dividends paid	(31,563)	(31,533)
Proceeds from issuance of common stock	273	266
Common stock redemption	(14)	—
Debt issuance costs	—	(1,331)
Net cash used in financing activities	<u>(128,338)</u>	<u>(43,661)</u>
Increase (decrease) in cash and cash equivalents	<u>1,883</u>	<u>(4,665)</u>
Cash and cash equivalents, beginning of period	<u>1,950</u>	<u>7,037</u>
Cash and cash equivalents, end of period	<u>\$ 3,833</u>	<u>\$ 2,372</u>
Supplemental Cash Flow Information:		
Interest paid (including interest on interest rate swaps)	\$ 4,341	\$ 2,378
Capitalized interest	722	107
Capital expenditures accrued	5,120	1,570
Mortgage note payable assumed	1,840	—

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, are an integral part of these financial statements.

Healthcare Realty Trust Incorporated
Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the “Company”) is a real estate investment trust that integrates owning, developing, financing and managing income-producing real estate properties associated with the delivery of healthcare services throughout the United States. The Company had investments of approximately \$1.6 billion in 175 owned real estate properties and mortgages as of March 31, 2007 (excluding assets classified as held for sale), including investments in three unconsolidated joint venture limited liability companies (“LLCs”). The Company’s 170 owned real estate properties (excluding assets classified as held for sale) are comprised of six facility types, located in 24 states, totaling approximately 10.3 million square feet. In addition, the Company provided property management services to approximately 6.9 million square feet nationwide. See Note 2 for more details on the assets classified as held for sale at March 31, 2007.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, consolidated variable interest entities (“VIEs”) and certain other affiliated entities with respect to which the Company controls the operating activities and receives substantially all of the economic benefits. Investments in entities that the Company does not consolidate but for which the Company has the ability to exercise significant influence over operating and financial policies are reported under the equity method. Under the equity method of accounting the Company’s share of the investee’s earnings or loss is included in the Company’s operating results.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements that are included in the Company’s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006. Management believes, however, that all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. All significant inter-company accounts and transactions have been eliminated in the Condensed Consolidated Financial Statements.

This interim financial information should be read in conjunction with the financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) included in the Company’s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2007 due to many reasons including, but not limited to, acquisitions, dispositions (including the disposition of the senior living assets), capital financing transactions, changes in interest rates and the effect of trends as discussed in MD&A.

Unconsolidated Limited Liability Companies

At March 31, 2007, the Company had investments in three joint venture LLCs which had investments in healthcare-related real estate properties. The Company accounts for two of the investments under the equity method and one of the investments under the cost method. The Company recognized \$259,000 in income for the three months ended March 31, 2007 related to the LLC accounted

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for under the cost method. The Company's net investments in the LLCs accounted for under the equity method are included in "Other assets" on the Company's Condensed Consolidated Balance Sheet and equity losses recognized related to these LLCs are included in "Other operating income" on the Company's Condensed Consolidated Income Statement.

(Dollars in thousands)	March 31,	
	2007	2006
Net LLC investments, beginning of period	\$20,079	\$10,720
New investments during the period	—	9,046
Additional investments during the period	—	320
Equity losses recognized during the period	(97)	(15)
Distributions received during the period	(262)	(212)
Net LLC investments, end of period	\$19,720	\$19,859

Segment Reporting

The Company is in the business of owning, developing, managing, and financing healthcare-related properties. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision making. Therefore, the Company has concluded that it operates as a single segment, as defined by the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information."

Accumulated Other Comprehensive Loss

SFAS No. 130, "Reporting Comprehensive Income," requires, among other things, foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains or losses on available-for-sale securities to be included in comprehensive income (loss). The Company has included in accumulated other comprehensive loss its cumulative adjustment to adopt SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS No. 87, 88, 106 and 132(R), ("SFAS No. 158")."

Total comprehensive income for the three months ended March 31, 2007 and 2006 is detailed in the following table.

(Dollars in thousands)	Three Months Ended March 31,	
	2007	2006
Net income	\$36,344	\$12,495
Minimum pension liability adjustment	120	—
Total comprehensive income	\$36,464	\$12,495

Federal Income Taxes

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

State Income Taxes

For the three months ended March 31, 2007 and 2006, the Company recorded state income tax expense totaling approximately \$118,000 and \$30,000, respectively, which was included in "General and administrative expenses" on the Company's Condensed Consolidated Statements of Income and paid state income taxes for the same periods totaling approximately \$0 and \$16,000, respectively. Effective January 1, 2007, the State of Texas implemented a new gross margins tax that taxes gross receipts from operations in Texas, less a 30% deduction for expenses, at 1%. In the first quarter of 2007, the Company

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accrued approximately \$98,000 related to the Texas gross margins tax which is included in its state income tax accrual. The payment of the gross margins tax for 2007 is not due until May 2008.

Use of Estimates in the Consolidated Financial Statements

Preparation of the Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made in the Condensed Consolidated Financial Statements for the three months ended March 31, 2006 and year ended December 31, 2006 to conform to the March 31, 2007 presentation.

Stock Plans

The Company follows the provisions of SFAS No. 123R, "Share-Based Payment," for accounting for its stock-based awards. During 2007 and 2006, the Company issued and had outstanding various employee and non-employee stock-based awards. These awards included restricted stock issued to employees pursuant to the 2003 Employees Restricted Stock Incentive Plan (the "Restricted Stock Plan") and its predecessor plan, restricted stock issued to its Board of Directors under the 1995 Restricted Stock Plan for Non-Employee Directors, and options issued to employees pursuant to the 2000 Employee Stock Purchase Plan ("Employee Stock Purchase Plan") and its predecessor plan.

Restricted Stock Plans

A summary of activity and related information under the Restricted Stock Plan, and its predecessor plan, and the 1995 Restricted Stock Plan for Non-Employee Directors for the three months ended March 31, 2007 and 2006 is included in the table below.

	Three Months Ended March 31,	
	2007	2006
Nonvested shares, beginning of period	1,261,613	1,271,548
Granted	20,374	30,058
Vested (1)	(26,360)	(524)
Forfeited	(2,251)	(747)
Nonvested shares, end of period	1,253,376	1,300,335
Weighted-average grant date fair value of nonvested shares, beginning of period	\$ 24.85	\$ 24.37
Weighted-average grant date fair value of shares granted during the period	\$ 40.18	\$ 33.29
Weighted-average grant date fair value of shares vested during the period	\$ 34.21	\$ 25.99
Weighted-average grant date fair value of shares forfeited during the period	\$ 39.54	\$ 34.15
Weighted-average grant date fair value of nonvested shares, end of period	\$ 24.88	\$ 24.57
Grant date fair value of shares granted during the period	\$ 818,697	\$1,000,580

- (1) The three months ended March 31, 2007 includes the accelerated vesting of 25,875 shares of stock related to the retirement or termination of two officers during the first quarter of 2007.

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Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, each eligible employee in January of each year is able to purchase up to \$25,000 of Common Stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option (the "Exercise Date"). The number of shares subject to each year's option becomes fixed on the date of grant. Options granted under the Employee Stock Purchase Plan expire if not exercised 27 months after each such option's date of grant.

A summary of the Employee Stock Purchase Plan activity and related information for the three months ended March 31, 2007 and 2006 is included in the table below.

	Three Months Ended March 31,	
	2007	2006
Outstanding, beginning of period	171,481	158,026
Granted	128,928	148,698
Exercised	(4,320)	(9,579)
Forfeited	(20,214)	(30,483)
Expired	—	—
Outstanding and exercisable at end of period	275,875	266,662
Weighted-average exercise price of options outstanding, beginning of period	\$ 30.55	\$ 28.28
Weighted-average exercise price of options granted during the period	\$ 33.61	\$ 28.28
Weighted-average exercise price of options exercised during the period	\$ 30.33	\$ 28.52
Weighted-average exercise price of options forfeited during the period	\$ 30.38	\$ 29.90
Weighted-average exercise price of options expired during the period	\$ 0	\$ 0
Weighted-average exercise price of options outstanding, end of period	\$ 30.60	\$ 29.82
Weighted-average fair value of options granted during the period (calculated as of the grant date)	\$ 8.69	\$ 6.67
Intrinsic value of options exercised during the period	\$ 30,124	\$ 84,820
Intrinsic value of options outstanding and exercisable (calculated as of March 31)	\$ 1,847,360	\$ 2,016,662
Range of exercise prices of options outstanding (calculated as of March 31)	\$28.28-\$31.71	\$28.28-\$31.77
Weighted-average contractual life of outstanding options (calculated as of March 31, in years)	1.19	1.27

The fair values of these options were estimated using the Black-Scholes options pricing model with the weighted-average assumptions for the options granted during the period noted in the following table. The risk-free interest rate was based on the U.S. Treasury constant maturity-nominal two-year rate whose maturity is nearest to the date of the expiration of the latest option outstanding and exercisable; the expected life of each option was estimated using the historical exercise behavior of employees;

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expected volatility was based on historical volatility of the Company's stock; and expected forfeitures were based on historical forfeiture rates within the look-back period.

	2007	2006
Risk-free interest rates	4.82%	4.82%
Expected dividend yields	4.50%	7.24%
Expected life (in years)	1.59	1.46
Expected volatility	22.3%	19.9%
Expected forfeiture rates	79%	76%

Accounting for Defined Benefit Pension Plans

The Company has pension plans under which the Company's Board of Directors and certain designated employees may receive retirement benefits upon retirement and the completion of five years of service with the Company. The plans are unfunded and benefits will be paid from earnings of the Company. The pension plans are accounted for in accordance with SFAS No. 158. The pension plans are described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Net periodic benefit cost recorded related to the Company's pension plans for the three months ended March 31, 2007 and 2006 is detailed in the table below.

	Three Months Ended March 31,	
(In thousands)	2007	2006
Service costs	\$ 263	\$249
Interest costs	208	186
Amortization of net gain/loss	67	103
	538	538
Other comprehensive income recognized in accumulated other comprehensive loss	(120)	—
Total recognized in net periodic benefit cost and accumulated other comprehensive loss	\$ 418	\$538

Revenue Recognition

The Company recognizes revenue when collectibility is reasonably assured, in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"). In the event the Company determines that collectibility is not reasonably assured, it will discontinue recognizing amounts contractually owed or will establish an allowance for estimated losses.

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

Rental Income

Rental income related to non-cancelable operating leases is recognized as earned over the life of the lease agreements on a straight-line basis. Additional rent, generally defined in most lease agreements as the cumulative increase in a Consumer Price Index ("CPI") from the lease start date to the CPI as of the end of the previous year, is calculated as of the beginning of each year, and is then billed and recognized as income during the year as provided for in the lease. Rental income from properties under a master lease arrangement with the tenant is included in master lease rental income and rental income from

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properties with multiple tenant lease arrangements is included in property operating income on the Company's Condensed Consolidated Statements of Income.

Mortgage Interest Income

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

Other Operating Income

Other operating income on the Company's Condensed Consolidated Statements of Income generally includes shortfall income recognized under its property operating agreements, revenues from its consolidated VIEs, management fee income, annual inspection fee income, loan exit fee income, prepayment penalty income, and interest income on notes receivable.

Operating Leases

As described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, the Company is obligated under operating lease agreements consisting primarily of the corporate office lease and various ground leases related to the Company's real estate investments. During the first quarter of 2007, the Company concluded that straight-line rent expense recognition was required on ground leases related to four real estate properties acquired by the Company in 2004 where the Company was the lessee as well as its corporate office lease. Management reviewed the effects of the required adjustment from both a quantitative and qualitative perspective and concluded that the required adjustment was not material to the estimated operating results or financial position for the current year or any prior years' operating results or financial position. Therefore, the Company recorded the necessary adjustment totaling \$0.8 million, or \$0.02 per basic and diluted common share, to property operating expense and general and administrative expense with a corresponding increase to straight-line rent payable in the first quarter of 2007, of which \$0.7 million, or \$0.02 per basic and diluted share, was related to prior years.

Discontinued Operations

The operating results of properties that have been sold or are held for sale are reported as discontinued operations in the Company's Condensed Consolidated Statements of Income in accordance with the criteria established in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). Pursuant to SFAS No. 144, a company must report discontinued operations when a component of an entity has either been disposed of or is deemed to be held for sale if (i) both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Long-lived assets classified as held for sale are reported at the lower of their carrying amount or their fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Losses resulting from the sale of such properties are characterized as impairment losses relating to discontinued operations in the Condensed Consolidated Statements of Income.

Variable Interest Entities

In accordance with FASB Financial Interpretation No. 46R, "Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51," the Company has included in its Condensed Consolidated Financial Statements six VIEs in which the Company has concluded that it is the primary beneficiary. The Company's VIEs are discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The properties related to the Company's VIEs will be sold as part of the Company's disposal of its senior living assets. As such, the assets and liabilities and related operations of the Company's properties and related variable interest entities have been classified as held for sale and have been included in discontinued operations in the Company's Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2007.

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New Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (“SFAS No. 157”). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value, which should increase the consistency and comparability of fair value measurements and disclosures. This statement applies to other current pronouncements that require or permit fair value measurements but does not require any new fair value measurements. SFAS No. 157 will be effective for the Company beginning January 1, 2008, but early adoption is allowed. The Company does not believe that SFAS No. 157 will have a material impact on its consolidated financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” (“SFAS No. 159”). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different fair value measurement attributes for similar types of assets and liabilities. SFAS No. 159 will be effective for the Company beginning January 1, 2008, but early adoption is allowed. The Company does not believe that SFAS No. 159 will have a material impact on its consolidated financial statements.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes”, (“FIN No. 48”). FIN No. 48 prescribes how the Company should recognize, measure and present in the financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN No. 48, the Company can recognize a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and local jurisdictions but, as a REIT, generally is not subject to income tax on taxable net income distributed as dividends to shareholders. The Company adopted FIN No. 48, as required, effective January 1, 2007 and has concluded that the adoption has had no material impact on the Company’s consolidated financial statements. Accordingly, the Company did not record a cumulative effect adjustment related to the adoption of FIN No. 48.

The Company classifies interest and penalties related to uncertain tax positions, if any, in the consolidated financial statements as a component of general and administrative expense. No such amounts were recognized in the periods ended March 31, 2007 and 2006.

Tax returns filed for the 2003 through 2006 tax years are currently still subject to examination by taxing authorities.

Note 2. Discontinued Operations

Disposition of the Portfolio of Senior Living Assets

The Company announced on February 26, 2007 its plan to dispose of its portfolio of senior living assets. The portfolio includes 62 real estate properties and 16 mortgage notes and notes receivable, including properties related to all of the Company’s 21 VIEs, six of which were consolidated by the Company. During the first quarter of 2007, 16 of the 62 real estate properties in which the Company had a \$99.6 million gross investment (\$73.9 million, net) and 2 of the 16 mortgage notes and notes receivable in which the Company had an \$11.4 million investment were disposed of for aggregate cash proceeds totaling approximately \$121.6 million. Disposition of the remaining senior living properties and notes is expected to close during the second and third quarters of 2007, subject to the terms of definitive agreements customary to these types of transactions. Proceeds from the disposition will be used to pay a

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special dividend, pay transaction costs and to repay debt. See Notes 3 and 9 for details regarding the disposition of these assets.

Sale of Other Real Estate Assets

During the first quarter of 2007, the Company decided to sell six other real estate property investments in which the Company had an \$8.0 million gross investment (\$5.5 million, net) at March 31, 2007, after the related impairment charges. In accordance with SFAS No. 144, based on its intent to sell, management concluded that impairment charges totaling approximately \$2.8 million should be recorded to lower the properties' carrying values to their estimated fair values less costs to sell. See Note 3 for more details on the impairment charges. The impairment charges are reflected in discontinued operations for the three months ended March 31, 2007.

Discontinued Operations

In accordance with SFAS No. 144, management concluded that the assets discussed above met the "held for sale" criteria during the first quarter of 2007. As such, the major categories of assets and liabilities, to the extent not sold as of March 31, 2007, are classified as held for sale on the Company's Condensed Consolidated Balance Sheet and results of operations are included in discontinued operations for all periods on the Company's Condensed Consolidated Income Statements as detailed in the following tables.

<i>(Dollars in thousands)</i>	March 31, 2007
Balance Sheet data (as of the period ended) :	
Land	\$ 16,104
Buildings, improvements and lease intangibles	226,311
Personal property	6,770
	<u>249,185</u>
Accumulated depreciation	(49,823)
Real estate properties, net	199,362
 Mortgage notes receivable	 46,111
Other assets, net	6,082
Assets held for sale, net	251,555
 Cash and cash equivalents	 480
Other assets, net	4,966
Assets included in discontinued operations, net (3)	5,446
 Assets held for sale and discontinued operations, net (1)	 <u>\$257,001</u>
 Notes and bonds payable	 \$ 5,062
Liabilities held for sale	5,062
 Notes and bonds payable	 3,907
Accounts payable and accrued liabilities	5,043
Other liabilities	1,101
Liabilities included in discontinued operations (4)	10,051
 Liabilities held for sale and discontinued operations (2)	 <u>\$ 15,113</u>

-
- (1) Includes \$251.5 million related to the disposal of the senior living assets and \$5.5 million related to the sale of the six other properties.
- (2) Relates to the senior living assets.
- (3) Includes \$2.9 million in cash and patient receivables related to the Company's six consolidated VIEs that will be deconsolidated upon disposal of the senior living properties and the remaining \$2.5 million is generally comprised of tenant receivables due to the Company that will be collected prior to or upon disposition of the properties.
- (4) Includes one mortgage note payable totaling \$3.9 million that will be repaid by the Company upon disposition of the property securing the note, accounts payable and accrued liabilities related to the properties that will generally be paid by the Company prior to disposition of the properties and security deposits that will be refunded upon disposition of the properties.

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	Three Months Ended March 31,	
	2007	2006
<i>(Dollars in thousands, except per share data)</i>		
Statements of Income data (for the period ended) :		
Revenues (1)		
Master lease rent	\$ 6,102	\$ 7,434
Property operating	—	152
Straight-line rent	—	(21)
Mortgage interest	1,511	1,377
Other operating	4,783	4,936
	<u>12,396</u>	<u>13,878</u>
Expenses (2)		
General and administrative	—	22
Property operating	227	179
Other operating	4,213	4,305
Bad debt expense, net	—	282
Interest	149	282
Depreciation	1,857	2,882
Amortization	—	19
	<u>6,446</u>	<u>7,971</u>
Net Income from Discontinued Operations	5,950	5,907
Impairments (3)	(2,792)	—
Gain on sales of real estate properties, net (4)	<u>30,389</u>	<u>3,264</u>
Total Income from Discontinued Operations	<u><u>\$33,547</u></u>	<u><u>\$ 9,171</u></u>
Income from Discontinued Operations per basic common share	<u><u>\$ 0.72</u></u>	<u><u>\$ 0.20</u></u>
Income from Discontinued Operations per diluted common share	<u><u>\$ 0.70</u></u>	<u><u>\$ 0.19</u></u>

- (1) Total Revenues include \$12.4 million and \$12.1 million, respectively, for 2007 and 2006 related to the disposal of the senior living assets and 2006 also includes \$1.8 million related to properties sold during 2006.
- (2) Total Expenses include \$6.3 million and \$7.5 million, respectively, for 2007 and 2006 related to the disposal of the senior living assets and \$0.1 million and \$0.1 million, respectively, related to the sale of the six other properties. 2006 also includes \$0.4 million related to properties sold during 2006.
- (3) Impairment charges recorded on four properties, lowering the carrying values of the properties to their estimated fair values less costs to sell, based on management conclusion during the first quarter of 2007 that the Company would sell the properties.
- (4) The net gain in 2007 is related to the disposal of senior living assets during the first quarter of 2007, less certain expenses. The net gain in 2006 is related to the sale of assets during the first quarter of 2006.

Note 3. Real Estate and Mortgage Notes Receivable Investments

The Company invests in healthcare-related properties and mortgages located throughout the United States. The Company provides management, leasing and development services, and capital for the construction of new facilities as well as for the acquisition of existing properties. The Company had investments of approximately \$1.6 billion in 175 real estate properties and mortgage notes receivable as of March 31, 2007 (excluding assets classified as held for sale), including investments in three unconsolidated limited liability companies. The Company's 170 owned real estate properties, excluding assets classified as held for sale, are located in 24 states with approximately 10.3 million total square feet. The table below details the Company's investments.

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<i>(Dollars and Square Feet in thousands)</i>	Number of Investments	Investment	Square Feet	
Owned properties				
<i>Master leases</i>				
Medical office	19	\$ 127,449	7.8%	886
Physician clinics	21	139,582	8.5%	820
Ambulatory care/surgery	8	62,849	3.8%	165
Specialty outpatient	6	27,700	1.7%	118
Specialty inpatient	13	232,470	14.1%	977
Other	4	25,905	1.6%	347
	71	615,955	37.5%	3,313
<i>Financial support agreements</i>				
Medical office	15	164,918	10.1%	1,123
	15	164,918	10.1%	1,123
<i>Multi-tenanted with occupancy leases</i>				
Medical office	68	724,488	44.2%	5,358
Physician clinics	12	37,125	2.3%	229
Ambulatory care/surgery	4	38,197	2.3%	283
Other	—	10,045	0.6%	—
	84	809,855	49.4%	5,870
<i>Corporate property</i>				
	—	13,638	0.8%	—
	—	13,638	0.8%	—
Total owned properties	170	1,604,366	97.8%	10,306
Mortgage notes receivable				
Other	2	16,893	1.0%	
	2	16,893	1.0%	
Unconsolidated LLC investments, net				
Medical office	2	13,093	0.8%	
Other	1	6,627	0.4%	
	3	19,720	1.2%	
Total real estate investments	175	\$1,640,979	100.0%	

Asset Acquisitions

During the first quarter of 2007, the Company acquired a 75,000 square foot building in Tennessee for a total investment of \$7.3 million, including \$5.4 million in cash consideration and the assumption of a mortgage note of \$1.9 million.

Asset Dispositions

During the first quarter of 2007, as part of the disposition of its portfolio of senior living assets discussed in Note 2, the Company disposed of 16 properties in which it had a total gross investment of \$99.6 million (\$73.9 million, net). The Company received \$121.6 million in proceeds from the disposition which included the repayment of a mortgage note receivable and a note receivable totaling \$11.4 million. As of March 31, 2007, the Company had recognized a net gain of approximately \$30.4 million relating to the disposition of the senior living assets.

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Impairments

In accordance with SFAS No. 144, long-lived assets (e.g., properties) must be evaluated for possible impairment whenever facts or circumstances indicate that the carrying value might not be recoverable. During the first quarter of 2007, management identified six real estate properties, other than its senior living assets, that it intends to sell. In accordance with the provisions of SFAS No. 144, management analyzed these properties for potential impairment. Based on the Company's decision to sell these assets, management concluded that the estimated future cash flows of certain of these properties were not expected to recover the carrying values of such properties. The Company's aggregate net investment in the properties, before impairment, was approximately \$8.3 million. During the first quarter 2007, the Company recorded impairment losses totaling approximately \$2.8 million, included in discontinued operations, which lowered the aggregate carrying values of the properties to their estimated fair value less costs to sell of approximately \$5.5 million. These impairment charges are included in discontinued operations on the Company's Condensed Consolidated Statements of Income.

Future Minimum Lease Payments

Excluding leases related to those properties sold during the first quarter of 2007 or classified as held for sale at March 31, 2007, the Company's future minimum lease payments to be collected under its non-cancelable operating leases and financial support arrangements as of March 31, 2007 for the years 2007 and after were as follows (in thousands):

2007	\$170,698
2008	152,202
2009	120,206
2010	93,884
2011	77,422
2012 and thereafter	239,143
	<u>\$853,555</u>

Purchase Options Exercised

In March 2007, an operator gave notice to the Company of its intent to purchase a building it leases from the Company pursuant to a purchase option under its lease agreement with the Company. The Company's gross investment in the building was approximately \$46.3 million (\$34.4 million, net) at March 31, 2007. The Company also had a mortgage note payable on the building with a principal balance of \$20.3 million at March 31, 2007 that the Company would repay upon sale of the building. The parties have yet to agree on the terms of the transaction and, accordingly, the Company is uncertain as to when the transaction might close, if at all. As such, no reclassification to discontinued operations has been made as of March 31, 2007.

Note 4. Notes and Bonds Payable

The table below details the Company's notes and bonds payable as of March 31, 2007 and December 31, 2006. At March 31, 2007, the Company had classified 2 mortgage notes payable totaling \$9.0 million as held for sale on the Company's Condensed Consolidated Balance Sheet. As such, those mortgage notes are not reflected in the March 31, 2007 balances in the table below.

(In thousands)	Principal Balance at		Maturity Dates	Contractual Interest Rates	Principal Payments	Interest Payments
	March 31, 2007	Dec. 31, 2006				
Unsecured Credit Facility due 2009	\$ 92,000	\$190,000	1/09	LIBOR + 0.90%	At maturity	Quarterly
Senior Notes due 2011, including premium	301,029	301,083	5/11	8.125%	At maturity	Semi-Annual
Senior Notes due 2014, net of discount	298,872	298,838	4/14	5.125%	At maturity	Semi-Annual
Mortgage notes payable	52,059	60,061	5/11-10/32	5.49%-8.50%	Monthly	Monthly
	<u>\$743,960</u>	<u>\$849,982</u>				

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At March 31, 2007, the Company was in compliance with the covenant requirements under its various debt instruments.

Unsecured Credit Facility due 2009

In January 2006, the Company entered into a \$400.0 million credit facility (the “Unsecured Credit Facility due 2009”) with a syndicate of 12 banks. The facility may be increased to \$650.0 million during the first two years at the Company’s option, subject to it obtaining additional capital commitments from the banks. The credit facility matures in January 2009, but the term may be extended one additional year. Loans outstanding under the Unsecured Credit Facility due 2009 (other than swing line loans and competitive bid advances) will bear interest at a rate equal to (x) LIBOR or the base rate (defined as the higher of the Bank of America prime rate and the Federal Funds rate plus 0.50%) plus (y) a margin ranging from 0.60% to 1.20% (currently 0.90%), based upon the Company’s unsecured debt ratings. The weighted-average rate on the borrowings outstanding as of March 31, 2007 was 6.22%. Additionally, the Company pays a facility fee per annum on the aggregate amount of commitments. The facility fee may range from 0.15% to 0.30% per annum (currently 0.20%), based on the Company’s unsecured debt ratings. The Credit Facility due 2009 contains certain representations, warranties, and financial and other covenants customary in such loan agreements. The Company had borrowing capacity remaining, under its financial covenants, of \$56.6 million under the facility as of March 31, 2007.

Senior Notes due 2011

In 2001, the Company publicly issued \$300.0 million of unsecured senior notes due 2011 (the “Senior Notes due 2011”). The Senior Notes due 2011 bear interest at 8.125%, payable semi-annually on May 1 and November 1, and are due on May 1, 2011, unless redeemed earlier by the Company. The notes were originally issued at a discount of approximately \$1.5 million, which yielded an 8.202% interest rate per annum upon issuance. In 2001, the Company entered into interest rate swap agreements for notional amounts totaling \$125.0 million to offset changes in the fair value of \$125.0 million of the notes. In 2003, the Company terminated these interest rate swap agreements, received cash equal to the fair value of the terminated swaps of \$18.4 million, and then entered into new swap agreements. The swap agreements entered into in 2003 were then terminated in June 2006 and the Company paid cash equal to the fair value of the terminated swaps of \$10.1 million. The net premium resulting from the terminations of the interest rate swaps, net of the original discount, is combined with the principal balance of the Senior Notes due 2011 on the Company’s Condensed Consolidated Balance Sheets and will be amortized against interest expense over the remaining term of the notes yielding an effective interest rate on the notes of 7.896%.

The following table reconciles the balance of the Senior Notes due 2011 on the Company’s Condensed Consolidated Balance Sheets.

<i>(In thousands)</i>	March 31, 2007	December 31, 2006
Senior Notes due 2011 face value	\$300,000	\$300,000
Unamortized net premium	1,029	1,083
Senior Notes due 2011 carrying amount	<u>\$301,029</u>	<u>\$301,083</u>

Senior Notes due 2014

On March 30, 2004, the Company publicly issued \$300.0 million of unsecured senior notes due 2014 (the “Senior Notes due 2014”). The Senior Notes due 2014 bear interest at 5.125%, payable semi-annually on April 1 and October 1, and are due on April 1, 2014, unless redeemed earlier by the Company. The notes were issued at a discount of approximately \$1.5 million, yielding an effective interest rate of 5.19% per annum.

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The following table reconciles the balance of the Senior Notes due 2014 on the Company's Condensed Consolidated Balance Sheets.

<i>(In thousands)</i>	March 31, 2007	December 31, 2006
Senior Notes due 2014 face value	\$300,000	\$300,000
Unamortized discount	(1,128)	(1,162)
Senior Notes due 2014 carrying amount	<u>\$298,872</u>	<u>\$298,838</u>

Mortgage Notes Payable

The following table details the Company's mortgage notes payable, with related collateral, at March 31, 2007. At March 31, 2007, the Company had classified 2 mortgage notes payable totaling \$9.0 million as held for sale on the Company's Condensed Consolidated Balance Sheet. As such, those mortgage notes are not reflected in the March 31, 2007 balances in the table below.

<i>(Dollars in millions)</i>	Original Balance	(6) Effective Interest Rate	Maturity Date	Number of Notes Payable	(8) Collateral	Investment in Collateral at March 31, 2007	Contractual Balance at	
							March 31, 2007	Dec. 31, 2006 (7)
Life Insurance Co. (1)	\$23.3	7.765%	7/26	1	MOB	\$ 46.3	\$20.3	\$20.5
Life Insurance Co. (2)	4.7	7.765%	1/17	1	MOB	11.1	3.2	3.2
Commercial Bank (3)	23.4	7.220%	5/11	5	7 MOB's	53.7	12.0	12.6
Commercial Bank (4)	1.8	5.550%	10/32	1	OTH	7.3	1.8	—
Life Insurance Co. (5)	15.1	5.490%	1/16	1	MOB	32.5	14.8	14.8
				<u>9</u>		<u>\$150.9</u>	<u>\$52.1</u>	<u>\$51.1</u>

- (1) Payable in monthly installments of principal and interest based on a 30-year amortization with the final payment due at maturity.
- (2) Payable in monthly installments of principal and interest based on a 20-year amortization with the final payment due at maturity.
- (3) Payable in fully amortizing monthly installments of principal and interest due at maturity.
- (4) Payable in monthly installments of principal and interest based on a 27-year amortization with the final payment due at maturity.
- (5) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity.
- (6) The contractual interest rates at March 31, 2007 ranged from 5.49% to 8.50%.
- (7) The contractual balance at December 31, 2006 excludes two mortgage notes payable totaling \$9.0 million that were classified as held for sale and discontinued operations on the Company's Condensed Consolidated Balance Sheet at March 31, 2007.
- (8) MOB-Medical office building; OTH-Other.

Other Long-Term Debt Information

Future maturities of the Company's notes and bonds payable as of March 31, 2007, excluding mortgage notes payable classified as held for sale, were as follows (dollars in thousands):

2007	\$ 2,671	0.4%
2008	3,802	0.5%
2009 (1)	96,096	12.9%
2010	4,411	0.6%
2011	302,030	40.6%
2012 and thereafter	334,950	45.0%
	<u>\$743,960</u>	<u>100.0%</u>

- (1) Includes \$92,000 outstanding on the Unsecured Credit Facility due 2009.

In its 1998 acquisition of Capstone Capital Corporation ("Capstone"), the Company acquired four interest rate swaps previously entered into by Capstone. In order to set the liabilities assumed by the

Company, the Company, concurrently with the acquisition, acquired offsetting swaps. The remaining liability as of March 31, 2007 and 2006 was approximately \$174,000 and \$356,000, respectively.

Note 5. Commitments and Contingencies

Construction in Progress

As of March 31, 2007, the Company had a net investment of approximately \$20.4 million in two developments in progress, which have a total remaining funding commitment of approximately \$16.2 million. The Company anticipates completion of these developments in the second and third quarters of 2007. In addition, during the first quarter of 2007, the Company began an approximate \$26.3 million development project, involving two medical office buildings in Colorado, with an anticipated completion date in the first quarter of 2008. As of March 31, 2007, the Company had a net investment of \$1.3 million in the project. The Company also had an investment of \$10.6 million in a land parcel in Hawaii on which the Company anticipates it will begin construction of an approximate \$74.2 million medical office building in early 2008. The Company had a total remaining funding commitment of approximately \$63.6 million and anticipates completion of the building in 2009.

Other Construction Commitments

Construction continues on a 61,000 square foot, \$20.1 million medical office building in the state of Washington. The project is being developed by a joint venture in which the Company holds a 75% non-controlling equity interest. Construction of the building is being funded by mortgage debt of approximately \$15.0 million and by partnership capital of approximately \$5.1 million, of which the Company will contribute \$3.8 million. As of March 31, 2007, the Company had funded approximately \$3.3 million of its capital contribution. Completion of the building is expected in the second quarter of 2007.

The Company also had various remaining first-generation tenant improvement obligations totaling approximately \$14.0 million as of March 31, 2007 related to properties that were developed by the Company.

Legal Proceedings

On October 9, 2003, HR Acquisition I Corporation (f/k/a Capstone Capital Corporation, “Capstone”), a wholly owned affiliate of the Company, was served with the Third Amended Verified Complaint in a shareholder derivative suit which was originally filed on August 28, 2002 in the Jefferson County, Alabama Circuit Court by a shareholder of HealthSouth Corporation. The suit alleges that certain officers and directors of HealthSouth, who were also officers and directors of Capstone, sold real estate properties from HealthSouth to Capstone and then leased the properties back to HealthSouth at artificially high values, in violation of their fiduciary obligations to HealthSouth. The Company acquired Capstone in a merger transaction in October, 1998. None of the Capstone officers and directors remained in their positions following the Company’s acquisition of Capstone. The complaint seeks unspecified compensatory and punitive damages. Following the recent settlement of a number of claims unrelated to the claims against Capstone, the court lifted a lengthy stay on discovery in April 2007 and discovery is now proceeding. The Company will defend itself vigorously and believes that the claims brought by the plaintiff are not meritorious.

In May 2006, Methodist Health System Foundation, Inc. (“the Foundation”) filed suit against a wholly owned affiliate of the Company in the Civil District Court for Orleans Parish, Louisiana. The Foundation is the sponsor under financial support agreements which support the Company’s ownership and operation of two medical office buildings adjoining the Methodist Hospital in east New Orleans. The Foundation received substantial cash proceeds from the sale of the Pendleton Memorial Methodist Hospital to an affiliate of Universal Health Services, Inc. in 2003. The Foundation’s assets and income are not primarily dependent upon the operations of Methodist Hospital, which has remained closed since Hurricane Katrina struck in August 2005. The Foundation’s suit alleges that Hurricane Katrina and its

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aftermath should relieve the Foundation of its obligations under the financial support agreements. The agreements do not contain any express provision allowing for termination upon a casualty event. The Company believes the Foundation's claims are not meritorious and will vigorously defend the enforceability of the financial support agreements.

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

Note 6. Stockholders' Equity

Earnings per share

The table below sets forth the computation of basic and diluted earnings per share as required by SFAS No. 128, "Earnings Per Share" for the three months ended March 31, 2007 and 2006.

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2007	2006
Weighted Average Shares		
Weighted Average Shares Outstanding	47,822,755	47,784,440
Unvested Restricted Stock Shares	(1,275,603)	(1,292,577)
Weighted Average Shares – Basic	46,547,152	46,491,863
Weighted Average Shares – Basic	46,547,152	46,491,863
Dilutive effect of Restricted Stock Shares	994,487	925,199
Dilutive effect of Employee Stock Purchase Plan	57,097	50,536
Weighted Average Shares – Diluted	47,598,736	47,467,598
Net Income		
Income from Continuing Operations	\$ 2,797	\$ 3,324
Discontinued Operations	33,547	9,171
Net income	\$ 36,344	\$ 12,495
Basic Earnings per Common Share		
Income from Continuing Operations per common share	\$ 0.06	\$ 0.07
Discontinued Operations per common share	0.72	0.20
Net income per common share	\$ 0.78	\$ 0.27
Diluted Earnings per Common Share		
Income from Continuing Operations per common share	\$ 0.06	\$ 0.07
Discontinued Operations per common share	0.70	0.19
Net income per common share	\$ 0.76	\$ 0.26

Common Stock Dividend Declarations

On January 23, 2007, the Company's Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.660 per share payable to shareholders of record on February 15, 2007. This dividend was paid on March 2, 2007.

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On March 26, 2007, the Company's Board of Directors declared a one-time special common stock cash dividend in the amount of \$4.75 per share payable to shareholders of record on April 16, 2007. This dividend was paid on May 2, 2007.

Authorization to Repurchase Common Stock

On July 25, 2006, the Company's Board of Directors authorized the repurchase of up to 3,000,000 shares of the Company's common stock. As of March 31, 2007, the Company had not repurchased any shares.

Note 7. Retirement and Termination Benefits

During the first quarter of 2007, the Company recorded a \$1.5 million charge, included in "General and administrative expenses" in the Company's Condensed Consolidated Income Statement, and established a \$1.5 million severance and payroll tax liability, included in "Accounts payable and accrued liabilities" on the Company's Condensed Consolidated Balance Sheet, relating to the retirement of the Company's Chief Operating Officer and elimination of five other officer and employee positions in the Company's corporate and regional offices. The officer retirement and position eliminations were effective during the first quarter of 2007. During the quarter ended March 31, 2007, the Company made payments related to the liability totaling \$0.4 million, leaving a remaining liability at March 31, 2007 of \$1.1 million that will be paid through the third quarter of 2008. The following table represents items included in the charge and liability as well as payments made related to the liability during the quarter ended March 31, 2007.

<i>(In thousands)</i>		March 31, 2007
Expense		
Severance, payroll taxes and related charges		\$ 1,078
Accelerated vesting of deferred compensation		443
Total Expense		<u>\$ 1,521</u>
Liability		
Balance at January 1, 2007		\$ —
Severance, payroll taxes and related charges		1,513
Payments made during the period		(425)
Balance at March 31, 2007		<u>\$ 1,088</u>

Note 8. Taxable Income

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

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

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

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The following table reconciles the Company's consolidated net income to taxable income for the three months ended March 31, 2007 and 2006:

(In thousands)	Three Months Ended March 31,	
	2007	2006
Net income	\$36,344	\$12,425
Items to Reconcile Net Income to Taxable Income:		
Depreciation and amortization	4,064	3,766
Gain or loss on disposition of depreciable assets	11,677	(423)
Straight-line rent	749	(361)
VIE Consolidation	206	427
Receivable allowances	4,142	(4,489)
Stock-based compensation	1,892	1,240
Other	(334)	(2,240)
Taxable income (1)	\$58,740	\$10,345

(1) Before REIT dividend paid deduction.

Note 9. Subsequent Events

Common Stock Dividend

On April 24, 2007, the Company's Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.660 per share payable on June 1, 2007 to shareholders of record on May 15, 2007.

On May 2, 2007, the Company paid a one-time special dividend in the amount of \$4.75 per share from proceeds from the disposition of the Company's portfolio of senior living assets.

Purchase Option Exercised

On April 27, 2007, an operator gave notice to the Company of its intent to purchase a building it leases from the Company pursuant to a purchase option under its lease agreement with the Company. The operator acquired the building on April 30, 2007 for \$2.1 million in cash. The Company's gross investment in the building was approximately \$2.2 million (\$1.9 million, net) at March 31, 2007.

Disposition of Portfolio of Senior Living Assets

In connection with the Company's disposition of its portfolio of senior living assets, on April 25, 2007, the Company entered into a definitive purchase agreement (the "Purchase Agreement") to dispose of 33 real estate properties and 11 mortgage and note investments in which the Company had a \$217.8 million gross investment (\$191.4 million, net) at December 31, 2006. On April 26, 2007, pursuant to the Purchase Agreement, the Company completed the disposition of 29 properties and 10 mortgage and note investments for total consideration of \$169.0 million, all cash at closing. The Company expects the disposition of the remaining four properties and one note investment will be completed by July 15, 2007. Also, in connection with the disposal of the portfolio of senior living assets, on April 30, 2007, the Company disposed of 4 properties in which the Company had a \$44.1 million gross investment (\$32.8 million, net) at December 31, 2006, for total consideration of \$37.8 million, all cash at closing.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Healthcare Realty Trust Incorporated (the “Company”) operates under the Internal Revenue Code of 1986, as amended, as an indefinite life real estate investment trust (“REIT”). The Company, a self-managed and self-administered REIT, integrates owning, managing and developing income-producing real estate properties and mortgages associated with the delivery of healthcare services throughout the United States. Management believes that by providing a complete spectrum of real estate services, the Company can differentiate its competitive market position, expand its asset base and increase revenues over time.

Substantially all of the Company’s revenues are derived from rentals on its healthcare real estate properties, from interest earned on mortgage loans, and from revenues from the consolidation of variable interest entities (“VIEs”) related to the operations of six senior living facilities owned by the Company. See Note 1 to the Consolidated Financial Statements regarding these VIEs. The Company typically incurs operating and administrative expenses, including compensation, office rental and other related occupancy costs, as well as various expenses incurred in connection with managing its existing portfolio and acquiring additional properties. The Company also incurs interest expense on its various debt instruments and depreciation and amortization expense on its real estate portfolio.

Executive Overview

Since its inception, the Company has been selective about the properties it acquires and develops. Management believes that by investing in properties associated with or adjacent to leading healthcare providers and in markets with a robust demand for outpatient healthcare facilities, the Company will enhance its prospects for long-term stability and growth. The Company believes that its portfolio, diversified by facility type, geography, and tenant mix, helps mitigate its exposure to fluctuating economic conditions, tenant and sponsor credit risks, and changes in clinical practice patterns.

Management continues to see high valuations in the medical office sector based on market transactions. Despite the highly competitive market for these assets, the Company continues to aggressively pursue existing property investments and is focused on improving operations in its existing portfolio of managed, multi-tenanted properties.

Given the competitive environment for acquisitions of healthcare properties, the Company has increased its efforts on developing outpatient medical facilities, which management believes offer higher returns and long-term growth potential. While the time required to construct and lease some of these developments may take two or three years, management believes that the Company’s ability to identify promising development opportunities, construct quality facilities, and lease them strategically will lead to higher returns over the long-term.

The Company has five development projects underway – two with Baylor Health Care System in Texas, and one each in Colorado, Washington state, and Hawaii with budgets totaling approximately \$157.1 million. The Company expects completion of the Texas and Washington state projects in 2007, the Colorado project (which includes two buildings) in 2008, and the Hawaii project in 2009. Management expects its development pipeline, with selective acquisitions and dispositions in the ordinary course of business, should result in net new investments of approximately \$150 — \$200 million annually .

During the first quarter, the Company commenced a plan to dispose of its portfolio of senior living assets. The Company’s portfolio, after the disposition, will consist predominantly of medical office and outpatient-related facilities. These types of facilities typically have higher occupancy and lower turnover rates, tenant diversity with high rent coverage ratios, and are largely private pay which

management believes results in a portfolio with lower-risk, higher-growth characteristics. See Notes 2 and 9 to the Condensed Consolidated Financial Statements for more details on this transaction.

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and REIT industry in order to gauge the potential impact on the operations of the Company. Discussed below and in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 are some of the factors and trends that management believes may impact future operations of the Company.

Sale of Senior Living and Certain Other Real Estate Assets

In February 2007, the Company announced it plans to dispose of its portfolio of senior living assets, consisting of 62 properties and 16 mortgage and other note investments. The Company's investment in the real estate properties and mortgage notes receivable included in this portfolio was approximately \$398.0 million (\$326.0 million, net) at December 31, 2006 which produced approximately \$50.0 million in revenues, \$20.0 million in net income, for the year ended December 31, 2006. The Company expects to receive approximately \$401.6 million in cash consideration for the portfolio which will be used to pay a special dividend of \$227.2 million, or \$4.75 per share, to pay transaction costs of approximately \$3.7 million, and to reduce debt by approximately \$170.7 million. As of April 30, 2007, the Company had disposed of, in a series of closings, a total of 49 of the 62 properties and 15 of the 16 mortgage and note investments for consideration totaling \$336.1 million and anticipates that the remaining properties and note investment will be sold during the second and third quarters of 2007 for estimated aggregate consideration of \$65.5 million. See Notes 2, 3 and 9 to the Condensed Consolidated Financial Statements for further details regarding the disposition of the portfolio.

Also, in the first quarter of 2007, the Company made the decision to sell six other properties. In accordance with SFAS No. 144, the Company recorded impairment charges totaling approximately \$2.8 million on the properties which is included in discontinued operations on the Company's Condensed Consolidated Income Statement as of March 31, 2007. See Note 3 to the Condensed Consolidated Financial Statements for further details.

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 generally accepted accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." In 2003, the Securities and Exchange Commission issued a statement that impairment charges could not be added back to net income in calculating FFO. As such, the impairments discussed below negatively impacted FFO. Impairment charges will be recognized from time to time and will negatively impact FFO. In the first quarter of 2007, the Company recorded impairment charges totaling \$2.8 million, or \$0.06 FFO per basic and diluted common share, based on management's decision to sell certain properties.

Management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Management uses FFO and FFO per share to compare and evaluate its own operating results from period to period, and to monitor the operating results of the Company's peers in the REIT industry. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs; because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs; and finally, because research analysts publish their

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earnings estimates and consensus estimates for healthcare REITs only in terms of fully diluted FFO per share and in terms of net income or earnings per share. 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 accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

The table below reconciles FFO to net income for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
<i>(Dollars in thousands, except per share data)</i>		
Net income	\$ 36,344	\$ 12,495
Gain on sales of real estate properties, net	(30,389)	(3,264)
Real estate depreciation and amortization	14,371	15,694
Total adjustments	(16,018)	12,430
Funds from Operations — Basic and Diluted	\$ 20,326	\$ 24,925
Funds from Operations per Common Share – Basic	\$ 0.44	\$ 0.54
Funds from Operations per Common Share – Diluted	\$ 0.43	\$ 0.53
Weighted Average Common Shares Outstanding – Basic	46,547,152	46,491,863
Weighted Average Common Shares Outstanding – Diluted	47,598,736	47,467,598

Results of Operations

First Quarter 2007 Compared to First Quarter 2006

Net income for the quarter ended March 31, 2007 totaled \$36.3 million, or \$0.78 per basic common share (\$0.76 per diluted common share), on total revenues from continuing operations of \$53.0 million. This compares with net income of \$12.5 million, or \$0.27 per basic common share (\$0.26 per diluted common share), on total revenues from continuing operations of \$51.9 million for the quarter ended March 31, 2006. Included in net income for the three months ended March 31, 2007 is (1) a net gain on the disposal of the senior living properties totaling \$30.4 million, or \$0.65 per basic common share (\$0.64 per diluted common share); (2) impairment charges related to four properties classified as held for sale as of March 31, 2007 totaling \$2.8 million, or \$0.06 per basic and diluted common share; and (3) charges related to the retirement of one officer and the termination of several other employees totaling \$1.5 million, or \$0.03 per basic and diluted common share. FFO was \$20.3 million, or \$0.43 per diluted common share for the three months ended March 31, 2007 compared to \$24.9 million, or \$0.53 per diluted common share for the same period in 2006. FFO and FFO per diluted common share decreased in 2007 compared to 2006 due mainly to impairment charges totaling \$2.8 million and charges related to the retirement of one officer and the termination of several other employees totaling \$1.5 million recorded in the first quarter of 2007.

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(Dollars in thousands)	Three Month Ended March 31,		Change	
	2007	2006	\$	%
REVENUES				
Master lease rent	\$15,772	\$13,833	\$ 1,939	14.0%
Property operating	31,850	31,792	58	0.2%
Straight-line rent	61	383	(322)	(84.1%)
Mortgage interest	352	1,679	(1,327)	(79.0%)
Other operating	4,997	4,167	830	19.9%
	53,032	51,854	1,178	2.3%
EXPENSES				
General and administrative	6,175	4,395	1,780	40.5%
Property operating	18,154	18,028	126	0.7%
Bad debt	5	455	(450)	(98.9%)
Interest	13,515	12,912	603	4.7%
Depreciation	10,971	9,873	1,098	11.1%
Amortization	1,415	2,867	(1,452)	(50.6%)
	50,235	48,530	1,705	3.5%
INCOME FROM CONTINUING OPERATIONS	2,797	3,324	(527)	(15.9%)
DISCONTINUED OPERATIONS				
Income from discontinued operations	5,950	5,907	43	0.7%
Impairments	(2,792)	—	(2,792)	—
Gain on sales of real estate properties, net	30,389	3,264	27,125	831.0%
INCOME FROM DISCONTINUED OPERATIONS	33,547	9,171	24,376	265.8%
NET INCOME	\$36,344	\$12,495	\$23,849	190.9%

Total revenues from continuing operations for the quarter ended March 31, 2007 increased \$1.2 million, or 2.3%, compared to the same period in 2006, mainly for the reasons discussed below:

- Master lease rental income increased \$1.9 million, or 14.0%, due mainly to additional revenues of \$1.3 million in the first quarter of 2007 resulting from the acquisition of a medical office building and an adjoining orthopaedic hospital during 2006 and the receipt of a lease termination fee of \$0.4 million in the first quarter of 2007.
- Mortgage interest income decreased \$1.3 million, or 79.0%, due mainly to the loss of revenues totaling \$1.7 million from the repayment of seven mortgages in 2006, offset partially by additional revenues totaling \$0.4 million, resulting in the addition of two new mortgages in 2006.
- Other operating income increased \$0.8 million, or 19.9%, due mainly to a property substitution deferral fee totaling \$0.6 million received from one operator during the first quarter of 2007.

Total expenses for the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006 increased \$1.7 million, or 3.5%, mainly for the reasons discussed below:

- General and administrative expenses increased \$1.8 million, or 40.5%, due mainly to charges related to the retirement of one officer and the termination of several other employees totaling \$1.5 million recorded in the first quarter of 2007.
- Interest expense increased \$0.6 million, or 4.7%, as compared to the same period in 2006. The increase is mainly due to a \$2.0 million increase in interest expense on the unsecured credit facility due to higher interest rates and a higher average outstanding balance on the credit facility in 2007 than in 2006,

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offset partially by a decrease in interest expense of approximately \$0.7 million from the repayment of principal in 2006 on the senior notes due 2006 and a decrease to interest expense due to an increase in capitalized interest of \$0.6 million on development projects during 2007.

- Depreciation expense increased \$1.1 million, or 11.1%, due mainly to the acquisition of \$72.3 million of depreciable real estate properties since the first quarter of 2006, as well as various building and tenant improvements.

- Amortization expense decreased \$1.5 million, or 50.6%, mainly due to a decrease in total amortization expense related to the lease intangibles which have been fully amortized.

Income from discontinued operations totaled \$33.5 million and \$9.2 million, respectively, for the three months ended March 31, 2007 and 2006, which includes the results of operations and gains or impairments related to property disposals during 2007 and 2006, as well as the results of operations related to assets classified as held for sale at March 31, 2007. See Notes 2 and 9 to the Condensed Consolidated Financial Statements for more information about discontinued operations and the assets classified as held for sale at March 31, 2007.

Liquidity and Capital Resources

The Company derives most of its revenues from its real estate property and mortgage note receivables portfolio based on contractual arrangements with its tenants, sponsors or borrowers. The Company may, from time to time, also generate funds from capital market financings, sales of real estate properties or mortgages, borrowings under its unsecured credit facility, or from other private debt or equity offerings. For the quarter ended March 31, 2007, the Company generated \$28.5 million in cash from operations and used \$26.6 million in total cash from investing and financing activities as detailed in the Company's Condensed Consolidated Cash Flow Statement.

The Company had certain contractual obligations as of March 31, 2007 and is also required to pay dividends to its shareholders at least equal to 90% of its taxable income in order to maintain its qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. The Company's material contractual obligations for the remainder of 2007 through 2008 are detailed in the table below.

<i>(In thousands)</i>	2007	2008	Total
Long-term debt obligations, including interest ⁽¹⁾	\$ 45,760	\$47,688	\$ 93,448
Common stock dividends declared ⁽²⁾	227,166	—	227,166
Operating lease commitments ⁽³⁾	2,323	3,073	5,396
Construction in progress ⁽⁴⁾	45,871	44,630	90,501
Tenant improvements ⁽⁵⁾	14,040	—	14,040
Note agreements with VIEs ⁽⁶⁾	1,485	—	1,485
Pension obligations ⁽⁷⁾	—	—	—
	<u>\$336,645</u>	<u>\$95,391</u>	<u>\$432,036</u>

(1) Includes estimated cash interest due on total debt other than the unsecured credit facility. See Note 4 to the Condensed Consolidated Financial Statements.

(2) Includes the special dividend of \$4.75 per share declared on March 26, 2007 to be paid on May 2, 2007.

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

(4) Includes remaining commitments on the construction of four buildings. The timing of the obligations are based on estimated cash funding projections of each project.

(5) Includes tenant improvement allowance obligations remaining on seven properties constructed by the Company. The Company has assumed they will all be funded during 2007.

(6) The Company intends to dispose of the properties related to these note agreements during 2007. Once disposed, the Company will no longer be obligated to fund additional amounts under these notes.

(7) At March 31, 2007, the Company had three employees and three non-employee directors eligible to retire. If these individuals retired at normal retirement age and received full retirement benefits, the future benefits to be paid were estimated to be approximately \$32 million at March 31, 2007.

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As of March 31, 2007, approximately 85.6% of the Company's outstanding debt balances were due after 2010, with the majority of the debt balances due prior to 2010 relating to the Unsecured Credit Facility due 2009. The Company's stockholders' equity at March 31, 2007 totaled approximately \$605.0 million, which included a \$227.2 million dividend payable accrual for the one-time special dividend, thereby lowering stockholders' equity, and its debt-to-total capitalization ratio, on a book basis, was approximately 55.4%. For the three months ended March 31, 2007, the Company's earnings covered fixed charges at a ratio of 1.15 to 1.0. At March 31, 2007, the Company had borrowing capacity remaining, under its financial covenants, of \$56.6 million under the Unsecured Credit Facility due 2009 and was in compliance with the covenant requirements under its various debt instruments.

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

Shelf Registration

The Company may from time to time raise additional capital or make investments by issuing, in public or private transactions, equity and debt securities. The availability and terms of any such issuance will depend upon market and other conditions. As of March 31, 2007, the Company can issue an aggregate of approximately \$504.1 million of securities remaining under its currently effective shelf registration statements.

Security Deposits and Letters of Credit

As of March 31, 2007, the Company had approximately \$6.0 million in letters of credit, security deposits, debt service reserves or capital replacement reserves for the benefit of the Company in the event the obligated lessee or operator fails to make payments under the terms of their respective lease or mortgage. Generally, the Company may, at its discretion and upon notification to the operator or tenant, draw upon these instruments if there are any defaults under the leases or mortgage notes.

Acquisitions and Dispositions in 2007

Asset Acquisitions

During the first quarter of 2007, the Company acquired a 75,000 square foot building in Tennessee for a total investment of \$7.3 million, including \$5.4 million in cash consideration and the assumption of a mortgage note of \$1.9 million.

Asset Dispositions

During the first quarter of 2007, as part of the disposition of its portfolio of senior living assets, the Company disposed of 16 properties in which it had a total gross investment of \$99.6 million (\$73.9 million, net). The Company received \$121.6 million in proceeds from the disposal which included the repayment of a mortgage note receivable and a note receivable totaling \$11.4 million.

Disposition of the Portfolio of Senior Living Assets

On February 26, 2007, Healthcare Realty Trust Incorporated (the "Company") announced its intention to dispose of its portfolio of senior living assets. The Company estimates that it will receive cash of approximately \$401.6 million from the disposition which will be used to pay a special dividend of \$227.2 million, or \$4.75 per share, to pay transaction costs of approximately \$3.7 million, and to reduce debt by approximately \$170.7 million. As of April 30, 2007, the Company had received \$336.1 million in cash from the disposition of 49 of the 62 properties and 15 of the 16 mortgage and note investments included in its portfolio of senior living assets and anticipates that it will receive approximately \$65.5 million in additional cash from the disposition of the remaining properties and note investment in the portfolio. The Company anticipates that the remaining properties and note investment will be sold during the second and third quarters of 2007, which will include two of the Company's consolidated VIEs which have not yet been sold. The special dividend of \$227.2 million, or \$4.75 per share, was paid from the \$336.1 million in proceeds received, with the remainder of the proceeds received totaling \$108.9

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million and estimated proceeds yet to be received totaling \$65.5 million used to repay debt and to pay transaction costs.

Sale of Other Real Estate Assets

Based on management's analysis during the first quarter, the Company made the decision to sell six other property investments in which the Company had an \$8.0 million gross investment (\$5.5 million, net) at March 31, 2007.

Purchase Options Exercised

In March 2007, an operator gave notice to the Company of its intent to purchase a building it leases from the Company pursuant to a purchase option under its lease agreement with the Company. The Company's gross investment in the building was approximately \$46.3 million (\$34.4 million, net) at March 31, 2007. The Company also had a mortgage note payable on the building with a principal balance of \$20.3 million at March 31, 2007 which the Company would repay upon sale of the building. The parties have yet to agree on the terms of the transaction and, accordingly, the Company is uncertain as to when the transaction might close, if at all.

On April 27, 2007, an operator gave notice to the Company of its intent to purchase a building it leases from the Company pursuant to a purchase option under its lease agreement with the Company. The operator acquired the building on April 30, 2007 for \$2.1 million in cash. The Company's gross investment in the building was approximately \$2.2 million (\$1.9 million, net) at March 31, 2007.

Construction in Progress

As of March 31, 2007, the Company had construction projects under various stages of development and pre-development. See Note 5 to the Condensed Consolidated Financial Statements for more information on these developments.

- Four medical office buildings were under construction. The Company had invested \$21.7 million in these developments as of March 31, 2007 and was committed to fund an additional \$41.1 million in these projects.
- One medical office project was in pre-development. The Company had invested \$10.6 million in the project, including land and land development, and anticipates investing an additional \$63.5 million in the project.
- Construction also continues on a \$20.1 million medical office building. The project is being developed by a joint venture in which the Company holds a 75% equity interest. Construction of the building will be funded by mortgage debt of approximately \$15.0 million and by partnership capital of approximately \$5.1 million, of which the Company will contribute \$3.8 million. As of March 31, 2007, the Company had funded approximately \$3.3 million of its capital contribution.
- Finally, the Company had various remaining first-generation tenant improvement obligations totaling approximately \$14.0 million as of March 31, 2007 related to properties that were developed by the Company.

Dividends

During 2007, the Company's Board of Directors has declared common stock cash dividends as shown in the table below:

Dividend	Per Share Amount	Date of Declaration	Date of Record	Date Paid (* Payable)
4 th Quarter 2006	\$0.66	January 23, 2007	February 15, 2007	March 2, 2007
Special Dividend	\$4.75	March 26, 2007	April 16, 2007	May 2, 2007
1 st Quarter 2007	\$0.66	April 24, 2007	May 15, 2007	* June 1, 2007

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As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 under the heading "Risk Factors," the ability of the Company to pay dividends is dependent upon its ability to generate funds from operations, cash flows, and to make accretive new investments. The special dividend declared on March 26, 2007 was paid with proceeds from the disposition of the senior living assets.

The dividend declared for the first quarter of 2007 exceeded cash flows from operations. The dividends paid in excess of cash flows from operations was funded by the Company's Unsecured Credit Facility due 2009.

Commensurate with the smaller asset base due to the disposal of the portfolio of the senior living assets, the Company expects to reset its dividend, beginning with its dividend related to the second quarter of 2007, to approximately \$1.54 per share, per annum, subject to the determination by the Board of Directors.

Liquidity

Net cash provided by operating activities was \$28.5 million and \$35.4 million for the three months ended March 31, 2007 and 2006, respectively. Cash flow from operations reflects increased revenues offset by higher costs and expenses, as well as changes in receivables, payables and accruals. The Company's cash flows are dependent upon rental rates on leases, occupancy levels of the multi-tenanted buildings, acquisition and disposition activity during the year, and the level of operating expenses, among other factors.

The Company is in the process of disposing of its portfolio of senior living assets which will impact the Company's cash flows from operations for 2007. The Company will use the proceeds from the disposal to fund repayments on its Unsecured Credit Facility due 2009 and the payment of a one-time special dividend. Subsequent to the anticipated disposition, the Company intends to reset its quarterly dividend to an amount commensurate with the smaller asset base resulting from the disposition.

The Company plans to continue to meet its liquidity needs, including funding additional investments in 2007, paying dividends, and funding debt service, with cash flows from operations, proceeds from the Unsecured Credit Facility due 2009, proceeds of mortgage notes receivable repayments, and proceeds from sales of real estate investments or additional capital market 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.

Impact of Inflation

Inflation has not significantly affected the Company's earnings due to the moderate inflation rate in recent years and the fact that most of the Company's leases and financial support arrangements require tenants and sponsors to pay all or some portion of the increases in operating expenses, thereby reducing the Company's risk of the adverse effects of inflation. In addition, inflation will have the effect of increasing gross revenue the Company is to receive under the terms of certain leases and financial support arrangements. Leases and financial support arrangements vary in the remaining terms of obligations, further reducing the Company's risk of any adverse effects of inflation. Interest payable under the Unsecured Credit Facility due 2009 is calculated at a variable rate; therefore, the amount of interest payable under the unsecured credit facility will be influenced by changes in short-term rates, which tend to be sensitive to inflation. Generally, changes in inflation and interest rates tend to move in the same direction. During periods where interest rate increases outpace inflation, the Company's operating results should be negatively impacted. Conversely, when increases in inflation outpace increases in interest rates, the Company's operating results should be positively impacted.

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Off-Balance Sheet Arrangements

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

Cautionary Language Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q and other materials the Company has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures which 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," "intend," "plan," "estimate," "project," "continue," "should," "anticipate" 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. 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. Shareholders 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. For a detailed discussion of the Company's risk factors, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2006.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage notes and other notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. Additionally, from time to time, the Company may utilize interest rate swaps to either (i) convert fixed rates to variable rates in order to hedge the exposure related to changes in the fair value of obligations, or to (ii) convert variable rates to fixed rates in order to hedge risks associated with future cash flows.

At March 31, 2007, approximately \$652.0 million, or 87.6%, of the Company's total debt bore interest at fixed rates. Additionally, the Company's mortgage and other notes receivable portfolio, totaling \$17.4 million, 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 rates (dollars in thousands).

	Outstanding Principal Balance as of March 31, 2007	Calculated Annual Interest Expense (1)	Impact on Earnings and Cash Flows	
			Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates
<i>Variable Rate Debt:</i>				
Unsecured Credit Facility due 2009 (\$400 Million)	\$92,000	\$5,722	\$(489)	\$489

	Carrying Value at March 31, 2007	Fair Value March 31, 2007	Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates	December 31, 2006 (2)
<i>Fixed Rate Debt:</i>					
Senior Notes due 2011, including premium	\$301,029	\$319,342	\$314,372	\$324,323	\$312,777
Senior Notes due 2014, net of discount	298,872	294,103	286,425	302,002	288,434
Mortgage Notes Payable	52,059	54,037	52,592	55,544	61,688
	<u>\$651,960</u>	<u>\$667,482</u>	<u>\$653,389</u>	<u>\$681,869</u>	<u>\$662,899</u>

<i>Fixed Rate Receivables:</i>					
Mortgage Notes Receivable	\$ 16,893	\$ 16,754	\$ 15,855	\$ 17,724	\$ 70,389
Other Notes Receivable	509	501	474	529	9,233
	<u>\$ 17,402</u>	<u>\$ 17,255</u>	<u>\$ 16,329</u>	<u>\$ 18,253</u>	<u>\$ 79,622</u>

- (1) Annual interest expense is calculated using the market rate as of March 31, 2007, or 6.22%, and assumes a constant principal balance.
- (2) Fair values as of December 31, 2006 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.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Management has excluded from its evaluation the effectiveness of the disclosure controls of the variable interest entities ("VIEs") consolidated by the Company since it does not have the contractual right, authority or ability, in practice, to assess the VIEs' disclosure controls and does not have the ability to dictate or modify those controls. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

Changes in Internal Control over Financial Reporting . Throughout the history of the Company, common stock dividends were declared and paid within the same quarter, and the dividend was recorded when paid. In the first quarter of 2007, the Company declared a one-time special dividend, the payment of which was to occur in a subsequent quarter. As such, the Company initiated a procedure whereby dividends on common stock are recorded as dividends payable when such dividends are declared. The revised procedure will reduce the possibility of an unrecorded dividend payable when a reporting period ends between the dates a dividend is declared and paid.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On October 9, 2003, HR Acquisition I Corporation (f/k/a Capstone Capital Corporation, “Capstone”), a wholly owned affiliate of the Company, was served with the Third Amended Verified Complaint in a shareholder derivative suit which was originally filed on August 28, 2002 in the Jefferson County, Alabama Circuit Court by a shareholder of HealthSouth Corporation. The suit alleges that certain officers and directors of HealthSouth, who were also officers and directors of Capstone, sold real estate properties from HealthSouth to Capstone and then leased the properties back to HealthSouth at artificially high values, in violation of their fiduciary obligations to HealthSouth. The Company acquired Capstone in a merger transaction in October, 1998. None of the Capstone officers and directors remained in their positions following the Company’s acquisition of Capstone. The complaint seeks unspecified compensatory and punitive damages. Following the recent settlement of a number of claims unrelated to the claims against Capstone, the court lifted a lengthy stay on discovery in April 2007 and discovery is now proceeding. The Company will defend itself vigorously and believes that the claims brought by the plaintiff are not meritorious.

In May 2006, Methodist Health System Foundation, Inc. (“the Foundation”) filed suit against a wholly owned affiliate of the Company in the Civil District Court for Orleans Parish, Louisiana. The Foundation is the sponsor under financial support agreements which support the Company’s ownership and operation of two medical office buildings adjoining the Methodist Hospital in east New Orleans. The Foundation received substantial cash proceeds from the sale of the Pendleton Memorial Methodist Hospital to an affiliate of Universal Health Services, Inc. in 2003. The Foundation’s assets and income are not primarily dependent upon the operations of Methodist Hospital, which has remained closed since Hurricane Katrina struck in August 2005. The Foundation’s suit alleges that Hurricane Katrina and its aftermath should relieve the Foundation of its obligations under the financial support agreements. The agreements do not contain any express provision allowing for termination upon a casualty event. The Company believes the Foundation’s claims are not meritorious and will vigorously defend the enforceability of the financial support agreements.

The Company is not aware of any other pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company’s financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect the Company’s business, financial condition or future results. The risks described in the Company’s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company’s business, financial condition or operating results.

Item 6. Exhibits

Exhibit 3.1	Second Articles of Amendment and Restatement of the Registrant (1)
Exhibit 3.2	Amended and Restated Bylaws of the Registrant (2)
Exhibit 4.1	Specimen Stock Certificate (1)
Exhibit 4.2	Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.3	First Supplemental Indenture, dated as of May 15, 2001, by the Company to HSBC Bank USA, National Association, as Trustee, (formerly First Union National Bank, as Trustee) (3)
Exhibit 4.4	Form of 8.125% Senior Note Due 2011 (3)
Exhibit 4.5	Second Supplemental Indenture, dated as of March 30, 2004, by the Company to HSBC Bank USA, National Association, as Trustee (formerly Wachovia Bank, National Association, as Trustee) (4)
Exhibit 4.6	Form of 5.125% Senior Note Due 2014 (4)
Exhibit 10.1	Credit Agreement, dated as of January 25, 2006, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders named herein (5)
Exhibit 10.2	Retirement Agreement entered into as of March 1, 2007 by and between the Company and J.D. Carter Steele (filed herewith)
Exhibit 10.3	Agreement of Sale and Purchase dated as of March 7, 2007 between the Company and Emeritus Corporation (filed herewith)
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 6 to the Condensed Consolidated Financial Statements)
Exhibit 31.1	Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 31.2	Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

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- (1) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
- (2) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 1999 and hereby incorporated by reference.
- (3) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated by reference.
- (4) Filed as an exhibit to the Company's Form 8-K filed March 29, 2004 and hereby incorporated by reference.
- (5) Filed as an exhibit to the Company's Form 8-K filed January 26, 2006 and hereby incorporated by reference.

SIGNATURE

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

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ SCOTT W. HOLMES

Scott W. Holmes
Senior Vice President
and Chief Financial Officer

Date: May 9, 2007

Exhibit Index

Exhibit	Description
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RETIREMENT AGREEMENT

THIS RETIREMENT AGREEMENT (this "Agreement") is entered into as of March 1, 2007 by and between HEALTHCARE REALTY TRUST INCORPORATED (the "Company") and J.D. CARTER STEELE (hereinafter "Employee").

WITNESSETH:

WHEREAS, Employee served as Senior Vice President and Chief Operating Officer of the Company pursuant to an Employment Agreement dated January 1, 2003 (the "Employment Agreement"), and

WHEREAS, Employee has elected to retire from the Company subject to the terms of this Agreement;

NOW, THEREFORE, in consideration of (1) the mutual promises and covenants herein contained, (2) the release from restrictions of restricted stock in the Company, and (3) for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Retirement . Subject to the terms and conditions set forth in this Agreement, Employee hereby retires from the Company and resigns his employment as an employee and officer of the Company, and as an officer and director of all subsidiaries and affiliates of the Company, effective as of March 1, 2007 (the "Retirement Date"), and acknowledges the termination of the Employment Agreement effective as of the Retirement Date. Employee hereby releases any rights that he may have to compensation or other benefits as an employee of the Company, including but not limited to any rights to receive additional shares of stock in the Company under any plan, contract or otherwise, except to the extent otherwise provided in the Agreement.

2. Retirement benefits .

(a) Within five business days following the Retirement Date, the Company shall take all steps necessary to cause Employee's 25,406 shares of restricted stock awarded under the Company's 1993 and 2003 Employee Stock Incentive Plans to be fully vested without restriction. The Company shall satisfy federal income tax, FICA, and Medicare withholding requirements by withholding and cancelling restricted shares having a value equal to the amount required to be withheld, or a greater value at the written request of Employee.

(b) The Company shall pay to Employee the sum of \$29,198.50 per month for a period of eighteen (18) months following the Retirement Date. Such monthly payments shall be made in equal semi-monthly installments on the 15th and 30th of each month (or nearest business day), beginning March 15, 2007 and ending on August 31, 2008. Such payments shall be made through the Company's regular payroll system and shall be reduced by applicable federal income tax, FICA, and Medicare withholding requirements, or amounts greater than the minimum withholding requirements at the written request of Employee. Employee may participate in the Company's group health insurance program during such eighteen-month period on the same terms as are applicable to employees of the Company during such period.

(c) The Company shall pay to Employee, within five business days following the Retirement Date, the sum of \$286,153, representing the value of Company shares reserved for issuance to Employee under the Fourth Implementation of the Company's 2003 Employee Restricted Stock Incentive Plan. Such payment shall be reduced by applicable federal income tax, FICA, and Medicare withholding requirements, or amounts greater than the minimum withholding requirements at the written request of Employee.

3. Releases. (a) Except as provided in Section 8, Employee does hereby release and forever discharge for himself and his heirs, representatives and assigns, the Company (including any parent, subsidiary or affiliated organization) and its agents, directors, officers or employees (in whatever capacity) from any and all legal claims, causes of action, agreements, obligations, liabilities, damages, compensation (including stock in the Company) and/or demands whatsoever at law or in equity, known or unknown, in any federal or state court or before any federal or state commission, agency or board which he or his heirs, representatives or assigns had, has or may have, against the Company (including any parent, subsidiary or affiliated organization) or its agents, directors, officers or employees (in whatever capacity) (collectively referred to as "the Releasees"), their successors or assigns relating in any way to or arising out of his employment with the Company, his Employment Agreement and/or termination of his employment with the Company. Employee acknowledges that he is releasing the Releasees from all claims of discrimination, wrongful discharge and/or unlawful treatment under all employment laws. Employee understands that he is intentionally giving up any right that he may have to pursue legal action against the Releasees in the future.

(b) Except as set out specifically below, the Company does hereby release and forever discharge for itself and its successors and assigns Employee from any and all legal claims, causes of action, agreements, obligations, liabilities, or damages arising out of Employee's previous service as an officer of the Company. Provided, however, the Company does not waive any claim that it may have against Employee for fraud on the part of Employee or any breach of a fiduciary duty owed to the Company by virtue of Employee's previous service as an officer of the Company.

4. Trade Secrets and Customer Lists. Employee agrees to hold in strict confidence all information concerning any matters affecting or relating to the "Company's Business" (as defined in Section 6(a) below), including, without limiting the generality of the foregoing, its manner of operation, business plans, business prospects, agreements, protocols, processes, computer programs, customer lists, market strategies, internal performance statistics, financial data, marketing information and analyses, or other data, without regard to the capacity in which such information was acquired (collectively, the "Confidential Information"). Employee agrees that he will not, directly or indirectly, use any Confidential Information for the benefit of any person or entity other than the Company or disclose or communicate any Confidential Information in any manner whatsoever other than to the directors, officers, employees, agents, and representatives of the Company, or in the ordinary course of business acting on behalf of the Company. "Confidential Information" does not include information which (i) was or becomes generally available to the public other than as a result of a disclosure by Employee or his representatives, or (ii) was or becomes available to Employee on a non-confidential basis from a source other than the Company or its advisors provided that such source is not known to Employee to be bound by a confidentiality agreement with the Company, or otherwise prohibited from transmitting the information to Employee by a contractual, legal or fiduciary obligation. Upon the Company's request, Employee will return all Confidential Information furnished to him related to the Company's Business. The parties hereto stipulate that all Confidential Information gravely affects the effective and successful conduct of the business of the Company and the Company's goodwill, and that any breach of the terms of this Section 4 shall be a

material breach of this Agreement. The terms of this Section 4 shall remain in effect up to and including February 28, 2009.

5. Release of Proprietary Information. Employee recognizes that the Company possesses a proprietary interest in all of the Confidential Information and has the exclusive right and privilege to use, protect by copyright, patent or trademark, manufacture or otherwise exploit the processes, ideas and concepts described therein to the exclusion of Employee, except as otherwise agreed between the Company and Employee in writing. Employee expressly agrees that any products, inventions, discoveries or improvements made by Employee, his agents or affiliates based on or arising out of the information described in Section 4 shall be (i) deemed a work made for hire under the terms of United States Copyright Act, 17 U.S.C. § 101 *et seq.*, and the Company shall be the owner of all such rights with respect thereto and (ii) the property of and inure to the exclusive benefit of the Company.

6. Covenant Not to Compete. Employee agrees that, for the period of time up to and including February 28, 2009:

(a) Employee shall not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, control, be connected with as an officer, employee, partner, consultant or otherwise, or otherwise engage or participate in any corporation or other business entity engaged in the business of buying, selling, developing, building and/or managing real estate facilities for the medical, healthcare and retirement sectors of the real estate industry (the "Company's Business"); provided, however, that this Section 6 shall not prohibit Employee from accepting employment with a hospital operator which owns real estate solely for its own use and such real estate is ancillary to the other operations of such employer. Employee understands and acknowledges that the Company carries on business nationwide and that the nature of the Company's activities cannot be confined to a limited area. Accordingly, Employee agrees that the geographic scope of this Section 6 shall include the United States of America. Notwithstanding the foregoing, the ownership by Employee of less than 2% of any class of the outstanding capital stock of any corporation conducting such a competitive business which is regularly traded on a national securities exchange or in the over-the-counter market shall not be a violation of the foregoing covenant.

(b) Employee shall not solicit, directly or indirectly, any customer, client, tenant or account whose identity Employee obtained through association with the Company, regardless of the geographic location of such customer, client, tenant or account, nor shall Employee, directly or indirectly, entice or induce, or attempt to entice or induce, any employee of the Company to leave such employ, nor shall Employee employ any such person in any business conducting the Company's Business. Employee hereby acknowledges and agrees that the provisions set forth in this Section 6 constitute a reasonable restriction on his ability to compete with the Company and will not adversely affect his ability to earn income sufficient to support himself and/or his family.

(c) The parties hereto agree that, in the event a court of competent jurisdiction shall determine that the geographic or durational elements of this covenant are unenforceable, such determination shall not render the entire covenant unenforceable. Rather, the excessive aspects of the covenant shall be reduced to the threshold which the court deems enforceable, and the remaining aspects shall not be affected thereby.

7. Injunctive Relief. Employee specifically acknowledges and agrees that the restrictions and provisions set forth in Sections 4, 5 and 6 hereof are reasonable and necessary to protect the legitimate interests of the Company and that the Company would not have entered into this Agreement in the absence of such restrictions and provisions. Employee further acknowledges that the extent of damages to the Company from a breach of Sections 4, 5 and 6 of this Agreement would not be readily quantifiable or

ascertainable, that monetary damages would be inadequate to make the Company whole in case of such a breach, and that there is not and would not be an adequate remedy at law for such a breach. Therefore, Employee specifically agrees that the Company is entitled to injunctive or other equitable relief from a breach of Sections 4, 5, and 6 of this Agreement, and hereby agrees and covenants not to assert against a prayer for such relief that there exists an adequate remedy at law, in monetary damages or otherwise.

8. No Liability; Indemnification . In addition to any rights to indemnification to which Employee is entitled by reason of his service as an employee of the Company or by separate agreement, the Company shall indemnify Employee at all times during and after the term of this Agreement to the maximum extent permitted under Section 2-418 of the General Corporation Law of the State of Maryland or any successor provision thereof and any other applicable state law, and shall pay Employee's expenses in defending any civil or criminal action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding, to the maximum extent permitted under such applicable state laws, arising out of, or in connection with, the performance of his duties as Employee.

9. Voluntary Agreement . Employee acknowledges that he has been advised to seek legal counsel before executing this Agreement and that he has obtained the advice of legal counsel prior to executing this Agreement. Employee acknowledges he signs this Agreement of his own free will and in exchange for the consideration to be given which is acknowledged to be adequate and satisfactory and in excess of anything he might be entitled otherwise to receive. Employee declares that he is competent to execute this Agreement.

10. Miscellaneous . This Agreement contains the entire agreement of the parties and supersedes all prior agreements and understandings between the parties hereto with respect to the subject matter hereof. No modification of this Agreement shall be valid unless it is in writing and signed by both parties hereto. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Tennessee. This Agreement in no way shall be construed as an admission by the Company that it acted wrongfully toward Employee or that Employee has any rights against the Company. If any part of this Agreement is found to be unenforceable, the other provisions shall remain fully valid and enforceable.

THE COMPANY:

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ Scott W. Holmes
Name: Scott W. Holmes
Title: Senior Vice President and Chief Financial
Officer

EMPLOYEE:

/s/ J.D. Carter Steele
J.D. Carter Steele

AGREEMENT OF SALE AND PURCHASE

THIS AGREEMENT OF SALE AND PURCHASE (the “Agreement”) is dated as of March 7, 2007, to be effective as of the Effective Date, and is made and entered into by and between the entities that have executed this Agreement on the signature pages hereto as sellers (individually, a “Seller” and collectively, the “Sellers”), and **EMERITUS CORPORATION**, a Washington corporation, as purchaser (the “Purchaser”). Each Seller and Purchaser are sometimes individually referred to as a “Party” and collectively referred to as the “Parties”.

WHEREAS, Sellers are the owners of the Facilities, the Emeritus Mortgage Loan and the Term Mortgage Loan as provided herein; and

WHEREAS, Sellers desire to sell and Purchaser desires to purchase the Facilities and to terminate the Tenant Leases; and

WHEREAS, in connection with the sale and purchase of the Facilities and the termination of the Tenant Leases, Purchaser has agreed either to pay the unpaid amounts owed under the Emeritus Mortgage Loan required to pay the Emeritus Mortgage Loan in full or to cause the purchase of the Emeritus Mortgage Loan at the Closing as provided herein; and

WHEREAS, in connection with the sale and purchase of the Facilities and the termination of the Tenant Leases, Purchaser has agreed to pay the unpaid amounts owed under the Term Mortgage Loan required to pay the Term Mortgage Loan in full at the Closing;

NOW, THEREFORE, in consideration of the sum of Ten Dollars (\$10.00), the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATION

1.1 Definitions. As used herein, the following defined terms shall have the meanings set forth below:

“*Affiliate*” shall mean any Person that directly or indirectly controls, is under common control with, or is controlled by any other Person. For purposes of this definition, “controls”, “under common control with” and “controlled by” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or otherwise.

“*Appurtenant Rights*” shall mean all rights, privileges and easements appurtenant to the Land that permissibly pass by operation of law with the conveyance by the applicable Seller of the fee simple estate in the Land.

“*Assumed Business Agreements*” shall mean all Business Agreements that (i) Purchaser agrees to assume as provided in Section 4.3 hereof, and (ii) are assigned to Purchaser pursuant to the General Assignment for a Facility.

“Assumed Liabilities” shall mean the following:

- (a) all obligations of Sellers that arise or accrue under the Assumed Business Agreements relating to a particular Facility on and after the effective date of the General Assignment for such Facility;
- (b) all obligations under any Permit and Warranty assigned to Purchaser that arise or accrue on or after the effective date of the General Assignment for the Facility to which such Permit and Warranty relates;
- (c) all Property Taxes and all other obligations with respect to a Facility that accrued prior to the Closing Date for such Facility but which are not due for payment until after the Closing Date;
- (d) all Property Taxes and all other obligations with respect to a Facility that accrue on and after the Closing Date; and
- (e) all obligations, liabilities, damages, losses, claims, expenses and costs relating to the Facilities arising or accruing on or prior to the Closing Date that the Tenant under each of the Tenant Leases was obligated, liable or responsible to pay or perform under the terms of such Tenant Lease.

“Bankruptcy/Dissolution Event” shall mean the occurrence of any of the following: (a) the commencement of a case under Title 11 of the U.S. Code, as now constituted or hereafter amended, or under any other applicable federal or state bankruptcy law or other similar law; (b) the appointment of a trustee or receiver of any property interest; (c) an assignment for the benefit of creditors; (d) an attachment, execution or other judicial seizure of a substantial property interest; (e) the taking of, failure to take, or submission to any action indicating an inability to meet financial obligations as they accrue; or (f) a dissolution or liquidation.

“Bill of Sale” shall mean a bill of sale substantially in the form of **Exhibit A** hereto by which the applicable Seller for a Facility conveys to Purchaser such Seller’s right, title and interest, if any, in and to the Personal Property located at such Facility.

“Business Agreement” shall mean any management agreement, service contract, contractor agreement, construction contract or other agreement or instrument affecting all or a portion of the Facilities or the operation thereof to which a Seller is party and that is assignable by such Seller without the consent or approval of any other Person.

“Business Day” shall mean any calendar day other than a Saturday, a Sunday or a day on which national banks are not required or authorized by law to remain closed.

“Closing” shall mean the closing of the purchase and sale of the Facilities contemplated by this Agreement.

“Closing Date” shall mean March 16, 2007.

“*Code*” shall mean the United States Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

“*Deeds*” shall mean special warranty deeds substantially in the form of **Exhibit B** hereto, modified to reflect a special warranty deed (or the equivalent) for the applicable states where each of the Facilities is located, by which the applicable Seller conveys the Land, the Improvements and Appurtenant Rights comprising or relating to a Facility to Purchaser.

“*Earnest Money*” shall have the meaning set forth in **Section 2.1** hereof.

“*Effective Date*” shall mean the latest of the dates of the execution of this Agreement by a Seller and Purchaser as evidenced by the dates appearing under their respective signatures hereto.

“*Emeritus Mortgage Loan*” shall mean the mortgage loan identified on **Exhibit G-1** hereto that encumbers one or more of the Tenant Leases.

“*Escrow Agreement*” shall mean an escrow agreement substantially in the form of **Exhibit C** hereto by and among Sellers, Purchaser and Title Company with respect to the terms of the escrow of the Earnest Money.

“*Facilities*” shall mean the Land, the Improvements and the Appurtenant Interests associated therewith comprising the senior living facilities identified on **Exhibit D** hereto.

“*Forum*” shall mean any federal, state, local or municipal court, governmental agency, administrative body or agency, tribunal, private alternative dispute resolution system or arbitration panel.

“*General Assignment*” shall mean one of the assignments between Purchaser and the applicable Seller, substantially in the form of **Exhibit E** hereto, pursuant to which the right, title and interest of such Seller in and to the Assumed Business Agreements and the Permits and Warranties relating to a Facility are assigned to, and obligations thereunder are assumed by, Purchaser.

“*Government*” shall mean any federal, state, local or municipal government or any department, commission, board, bureau, agency, instrumentality, unit or taxing authority thereof.

“*Governmental Requirements*” shall mean any notices, filings or pre-approvals required by a Government in connection with the transfer of ownership of any of the Facilities.

“*HR*” shall mean Healthcare Realty Trust Incorporated, a Maryland corporation and an Affiliate of Sellers.

“*Improvements*” shall mean all buildings, improvements, structures and fixtures to the extent now, and on the Closing Date, owned by Sellers and comprising the Facilities, including landscaping, parking lot improvements and structures, drainage facilities and all above ground and underground utility structures and other so-called infrastructure improvements comprising a part thereof to the extent any of the same may be owned by Sellers.

“*Land*” means the real property owned in fee simple by Sellers upon which the Facilities are located.

“*Laws*” means all federal, state and local laws, moratoria, initiatives, referenda, ordinances, rules, regulations, standards, orders and other governmental requirements, including those relating to the environment, health and safety, disabled or handicapped persons, and as applicable, to the licensing of a Facility.

“*Lease Termination*” shall mean a lease termination agreement, substantially in the form of **Exhibit F** hereto, pursuant to which the applicable Seller and the Tenant under a Tenant Lease agree to terminate such Tenant Lease effective as of the Closing Date.

“*Mortgage Loan Assignee*” shall mean an Affiliate of Purchaser designated by Purchaser in accordance with Section 2.3(a) hereto to purchase the Emeritus Mortgage Loan as provided herein.

“*Mortgage Assignment*” shall mean an assignment and assumption agreement, substantially in the form of **Exhibit J** hereto, pursuant to which HR’s right, title and interest in and to the Emeritus Mortgage Loan and the Mortgage Loan Documents relating thereto are assigned to, and HR’s obligations thereunder are assumed by, the Mortgage Loan Assignee.

“*Mortgage Loan Documents*” shall mean all promissory notes, mortgages, deeds of trust, loan agreements, participation agreements and other documents evidencing or securing the Emeritus Mortgage Loan.

“*Orders*” shall mean all applicable orders, writs, judgments, decrees, rulings, consent agreements and awards of or by any Forum or entered by consent of the party to be bound.

“*Permits and Warranties*” shall mean the following, to the extent that they relate exclusively to the Facilities and are assignable by the applicable Seller without the consent or approval of any other Person: (i) certificates of occupancy and permits or approvals of any nature from any Government; and (ii) guarantees, warranties and indemnities, if any, pertaining to the ownership of the Land or the Improvements.

“*Permitted Exceptions*” shall mean (a) all liens for Property Taxes that are not yet due and payable; (b) easements, restrictions, covenants and other encumbrances of record as of the Effective Date; (c) any state of facts that would be disclosed by an accurate survey or independent inspection of the Facilities; (d) all applicable building and zoning ordinances, Laws, regulations and restrictions of any Government; (e) such easements, restrictions, covenants and other encumbrances that become matters of public record after the Effective Date and before the Closing to the extent that such matters are waived or accepted, or deemed to be waived or accepted, by Purchaser; and (f) the rights of residents of the Facilities.

“*Person*” shall mean an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization, a Government and any other legal entity.

“Personal Property” shall mean all tangible personal property of any kind located on or in the Facilities and owned by Sellers, including, without limitation, equipment, appliances, machinery, furniture, furnishings, signage and fixtures.

“Property Taxes” shall mean all ad valorem, real property and personal property taxes, all general and special private and public assessments, all other property taxes, and all similar obligations relating to the Land and the Improvements.

“Purchase Price” shall mean the amount of Ninety-Eight Million Nine Hundred Ninety-Eight Thousand Eight Hundred Fourteen and No/100 Dollars (\$98,998,814.00).

“Rent” shall mean all rental payments due under the Tenant Leases prior to the Closing Date.

“Tenant” shall mean each party named as the tenant or lessee under any Tenant Lease.

“Tenant Lease” shall mean each of the leases, license agreements and other occupancy agreements for the rental of a Facility identified on **Exhibit H** hereto, as amended, modified or extended through the Effective Date, together with all renewals, modifications, addenda, guarantees and other security documents relating to any and all such leases, license agreements or other occupancy agreements.

“Term Mortgage Loan” shall mean the mortgage loan identified on **Exhibit G-2** hereto that encumbers one or more of the Tenant Leases.

“Title Company” shall mean Fidelity National Title Insurance Company.

1.2 Interpretation . In this Agreement, the singular includes the plural and the plural the singular; words importing any gender include the other gender; references to statutes, regulations or ordinances are to be construed as including all provisions consolidating, amending or replacing the referenced statute, regulation or ordinance; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments to or changes in such agreements or instruments entered into in accordance with their respective terms; references to Persons include their permitted successors and assigns; use of the term “include” or “including” shall mean to include or including without limitation; and references to a “Section” or “Article” shall mean a section or article of this Agreement unless otherwise expressly stated.

ARTICLE II PURCHASE AND SALE

2.1 Purchase and Sale . Upon the terms and subject to the conditions set forth in this Agreement, Sellers at the Closing shall sell, transfer and assign to Purchaser all right, title and interest of Sellers in and to the Facilities free and clear of any mortgage, security interest, lien, charge, claim or other encumbrance except the Permitted Exceptions, and Purchaser shall purchase such Facilities for the Purchase Price. Prior to the Effective Date, Purchaser has deposited with Title Company the amount of One Million Three Hundred Fourteen Thousand Two Hundred Seventy-Two and No/100 Dollars (\$1,314,272.00) as an earnest money deposit

(the "Earnest Money"), which Title Company shall continue to hold pursuant to the Escrow Agreement. Purchaser shall be entitled to apply the Earnest Money to the payment of the portion of the Purchase Price due from Purchaser at the Closing. The Earnest Money is refundable only in the event that this Agreement is terminated pursuant to Sections 9.1(a)(i), 9.1(a)(ii), 9.1(a)(iii) or 9.1(a)(iv) hereof. Except as set forth in the immediately preceding sentence, the Earnest Money is not refundable to Purchaser under any circumstances and shall be deemed to be consideration earned by Sellers for the execution and delivery of this Agreement, and the forfeiture of any Earnest Money pursuant to this Agreement shall not be deemed to be liquidated damages or otherwise to limit Seller's remedies for a breach or default by Purchaser under this Agreement.

2.2 Assumption of Liabilities . Upon the terms and subject to the conditions set forth in this Agreement, Purchaser, as of the Closing Date, shall assume all of the Assumed Liabilities.

2.3 Purchase Price .

(a) The Purchase Price shall be subject to adjustment only as set forth in this Section 2.3 . Property Taxes, water/sewer charges, gas, electric, telephone and other utilities, and other operating expenses relating to the Facilities are the responsibility of the Tenants under the Tenant Leases and shall not be prorated. All unpaid Rent and any other amounts due and payable under the Tenant Leases as of the Closing Date shall be charged to Purchaser and paid at the Closing, and Rent for the month in which Closing occurs shall be prorated through the Closing Date. Sellers shall retain all security deposits and other similar deposits relating to the Tenant Leases, and Purchaser shall receive a credit for such deposits at the Closing. In addition to the payment of the Purchase Price, Purchaser shall, at and as a condition to the Closing, be obligated (i) to pay all unpaid amounts that are owed under the Term Mortgage Loan which are required to pay the Term Mortgage Loan in full, and (ii) either (A) to pay all unpaid amounts that are owed under the Emeritus Mortgage Loan which are required to pay the Emeritus Mortgage Loan in full or (B) to cause the Mortgage Loan Assignee to purchase the Emeritus Mortgage Loan from HR for a purchase price equal to all unpaid amounts that are owed under the Emeritus Mortgage Loan in consideration of HR's execution and delivery of the Mortgage Assignment to the Mortgage Loan Assignee at the Closing. If Purchaser elects to pay the Emeritus Mortgage Loan in full at the Closing, Purchaser must provide, not less than two (2) Business Days prior to the Closing Date, written notice to Sellers of any such election, and, in the absence of such written notice of Purchaser's election, Purchaser shall cause the Mortgage Loan Assignee to purchase the Emeritus Mortgage Loan from HR at the Closing for a purchase price equal to all unpaid amounts that are owed under the Emeritus Mortgage Loan. Purchaser shall identify the Mortgage Loan Assignee in a written notice to Sellers not less than three (3) Business Days prior to the Closing Date. Sellers shall cause HR to accept, or cause the acceptance of, prepayment of the Term Mortgage Loan and, as applicable, accept the prepayment, or complete the sale as contemplated herein, of the Emeritus Mortgage Loan irrespective of the failure of Purchaser to satisfy any applicable prepayment notice requirements, and to deliver a payoff letter to Purchaser at least three (3) Business Days prior to the Closing Date.

(b) In addition to any adjustments to the Purchase Price pursuant to Section 2.3(a) hereof, the Purchase Price shall be subject to further adjustment as set forth below:

(i) the Purchase Price shall be adjusted to reflect any expense paid by one Party that the other Party has agreed to pay or share pursuant to Section 11.1 hereof or otherwise pursuant to this Agreement; and

(ii) for any Facility that is not purchased by Purchaser pursuant to Section 10.2 hereof, the Purchase Price shall be decreased by an amount determined in accordance with Section 10.2 hereof.

(c) After taking into account any adjustments to the Purchase Price as set forth above, the Purchase Price (plus the unpaid amounts owed under the Term Mortgage Loan required to pay the Term Mortgage Loan in full and either the unpaid amounts owed under the Emeritus Mortgage Loan required to pay the Emeritus Mortgage Loan in full or the purchase price of the Emeritus Mortgage Loan if it is to be purchased as provided herein) shall be paid by Purchaser (and the Mortgage Loan Assignee as provided herein) by wire transfer of immediately available funds to an escrow account maintained by Title Company for delivery to Sellers (and HR, as applicable) upon the consummation of the Closing. As soon as possible after the Closing (but not later than thirty (30) days after the Closing Date), the Parties shall reconcile the actual amount of any prorations that were estimated as of the Closing. To the extent that a Party subsequently verifies that the actual amounts differ from the amounts estimated and so prorated, the Parties agree to remit the correct amount of such items to the appropriate Party as and when they are determined. The terms of this Section 2.3 shall survive the Closing.

2.4 Deliveries at Closing .

(a) At the Closing, Sellers shall deliver to Purchaser, or cause the delivery to Purchaser of, the following:

(i) A certificate of an authorized representative of each Seller, dated the Closing Date, certifying that attached thereto is a true and complete copy of resolutions or limited partnership documentation, as applicable, adopted by such Seller authorizing the execution, delivery and performance of this Agreement and the documents and instruments to be executed and delivered by such Seller pursuant hereto, and that all such resolutions or limited partnership documentation, as applicable, are still in full force and effect and have not been amended or modified;

(ii) A General Assignment, duly executed by the applicable Seller, assigning to Purchaser the Permits and Warranties and Assumed Business Agreements relating to the Facilities that are sold and transferred on the Closing Date;

(iii) A separate Lease Termination, duly executed by the applicable Seller, for each Tenant Lease by which such Seller agrees to the termination of such Tenant Lease as of the Closing Date;

(iv) A separate Bill of Sale, duly executed by the applicable Seller, for each Facility conveyed by such Seller to Purchaser;

- (v) The Deeds, duly executed by the applicable Sellers, relating to the Facilities that are sold and transferred on the Closing Date;
 - (vi) Releases of the leasehold mortgages or deeds of trust and other instruments that secure the repayment of the Term Mortgage Loan and the Emeritus Mortgage Loan;
 - (vii) A statement executed by each Seller in form and substance acceptable under Section 1445 of the Internal Revenue Code, as amended, setting forth such Seller's United States taxpayer identification number and certifying that Seller is not a "foreign person" as that term is used under Section 1445(b)(2) of the Internal Revenue Code, as amended;
 - (viii) Copies of any engineering plans, drawings, specifications and blueprints in the possession of Sellers and relating to the Improvements;
 - (ix) A closing statement executed by the applicable Sellers itemizing the Purchase Price and all adjustments thereto as provided herein;
 - (x) An owner's title affidavit substantially in the form of **Exhibit I** hereto duly executed by each applicable Seller relating to the Land and Improvements that are sold and transferred on the Closing Date and owned by such Seller; and
 - (xi) In the event that the Emeritus Mortgage Loan is to be purchased by the Mortgage Loan Assignee as permitted by this Agreement, the Mortgage Assignment duly executed by HR.
- (b) At the Closing, Purchaser shall deliver to Sellers or HR, as applicable, or cause the delivery to Sellers or HR, as applicable of, the following:
- (i) A certificate of the Secretary or an Assistant Secretary of Purchaser, dated the Closing Date, certifying that attached thereto is a true and complete copy of resolutions adopted by the board of directors of Purchaser authorizing the execution, delivery and performance of this Agreement and the documents and instruments to be executed and delivered by Purchaser pursuant hereto, and that all such resolutions are still in full force and effect and have not been amended or modified;
 - (ii) The funds constituting the portion of the Purchase Price allocable to the Facilities that are sold and transferred on the Closing Date, as required under Section 2.3 hereof;
 - (iii) All unpaid amounts that are owed under the Term Mortgage Loan which are required to pay the Term Mortgage Loan in full as of the Closing Date;
 - (iv) All unpaid amounts that are owed under the Emeritus Mortgage Loan which are required to pay the Emeritus Mortgage Loan in full as of the Closing Date, or, if the Emeritus Mortgage Loan is to be purchased and sold as provided herein, the purchase price of the Emeritus Mortgage Loan equal to all unpaid amounts under the Emeritus Mortgage Loan that would be required to pay the Emeritus Mortgage Loan in full;

(v) A General Assignment, duly executed by Purchaser, by which Purchaser assumes the payment and performance of the obligations of the applicable Seller under the Permits and Warranties and Assumed Business Agreements assigned to Purchaser thereby and relating to a Facility that is sold and transferred by such Seller on the Closing Date;

(vi) A separate Lease Termination, duly executed by Purchaser, for each Tenant Lease by which the Tenant thereunder agrees to the termination of such Tenant Lease;

(vii) Executed waivers of the rights of first refusal under the Tenant Leases held by any Tenants (other than Purchaser) in a form acceptable to Sellers;

(viii) A closing statement executed by Purchaser itemizing the Purchase Price and all adjustments thereto as provided herein;

(ix) In the event that the Emeritus Mortgage Loan is to be purchased by the Mortgage Loan Assignee as permitted by this Agreement, the Mortgage Assignment duly executed by the Mortgage Loan Assignee.

2.5 Further Assurances . From time to time after the Closing, Sellers shall, upon Purchaser's reasonable request and at Purchaser's sole expense, execute, acknowledge and deliver to Purchaser such other instruments of transfer and conveyance and shall take such other actions and execute and deliver such other documents, certifications and further assurances as Purchaser may reasonably require to vest more effectively in Purchaser, or to put Purchaser more fully in possession of, any of the Facilities, or to better enable Purchaser to complete, perform and discharge the Assumed Liabilities. Each Party shall cooperate with the other and shall execute and deliver to another Party such other instruments and documents and take such other actions as may be reasonably requested from time to time by another Party hereto as necessary to carry out, evidence and confirm the intended purposes of this Agreement.

2.6 Delivery of Possession . Possession of the Facilities sold, transferred and assigned at the Closing shall be delivered to Purchaser effective as of the Closing Date.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers hereby represent and warrant to Purchaser as of the Effective Date as follows:

3.1 Organization, Qualifications and Corporate Power . Each Seller is duly formed or incorporated, as the case may be, and validly existing and in good standing under the laws of its state of formation or incorporation, as the case may be, and is qualified or authorized to conduct business in each state where the failure to be so qualified or authorized could reasonably be expected to have a material adverse effect upon the business of Sellers taken as a whole. Sellers have the power and authority to execute, deliver and perform the Escrow Agreement, this Agreement and the other agreements, documents and certificates contemplated to be delivered by them pursuant to this Agreement.

3.2 Authorization . The execution, delivery and performance by Sellers of this Agreement and the instruments contemplated to be delivered by Sellers pursuant to this Agreement at the Closing have been duly authorized by necessary corporate or partnership action, as applicable.

3.3 Validity. This Agreement has been duly executed and delivered by Sellers and constitutes the legal, valid and binding obligation of Sellers, enforceable in accordance with its terms, subject to general equity principles and to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect affecting the enforcement of creditors' rights. The Escrow Agreement and each Deed, General Assignment, Bill of Sale, Lease Termination and other agreement, document and certificate to be executed and delivered by Sellers hereunder shall, when so executed and delivered in accordance with this Agreement by the applicable Sellers, constitute the legal, valid and binding obligation of the applicable Sellers enforceable in accordance with its terms, subject to general equity principles and to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect affecting the enforcement of creditors' rights.

3.4 Non-Contravention. The execution and delivery of this Agreement and the other agreements, documents and certificates contemplated to be executed and delivered by Sellers pursuant to this Agreement do not, and the consummation by Sellers of the transactions contemplated hereby and thereby shall not, violate any provision of their respective articles of incorporation or bylaws or partnership agreement, as the case may be.

3.5 Litigation. No Seller is a party to or subject to any judgment, decree or order entered in any lawsuit or proceeding brought by any Government or other party seeking to prevent the execution of this Agreement or the consummation of the transactions contemplated hereby.

3.6 Assets. The applicable Seller has good and marketable title to each Facility to be conveyed by such Seller. At the Closing, each Facility shall be free and clear of any and all mortgages, pledges, security interests, liens, charges and conditional sales agreements granted by Sellers, except for the Permitted Exceptions and subject to execution and delivery by the Tenants of the Lease Terminations. To Sellers' Knowledge, the zoning classification for each of the Facilities located in the Commonwealth of Pennsylvania is set forth in **Schedule 3.6** hereto.

3.7 No Bankruptcy or Dissolution . No Bankruptcy/Dissolution Event has occurred with respect to any Seller.

ARTICLE IV COVENANTS OF SELLERS

4.1 Transfer of Permits. Sellers shall use commercially reasonable efforts to assist Purchaser with the assumption, transfer or reissuance of any licenses, permits or approvals required for the operation of the Facilities that do not constitute Permits and Warranties; provided, however, that Sellers shall not incur any material cost, expense or liability in connection with such efforts or in connection with the assumption, transfer or reissuance of any such licenses, permits or approvals that do not constitute Permits and Warranties.

4.2 Cooperation. Insofar as such conditions are within their reasonable control or influence, Sellers shall use commercially reasonable efforts to cause the conditions set forth in Section 7.2 hereof to be satisfied and to facilitate and cause the consummation of the transactions contemplated hereby; provided, however, that no Seller shall be required to make any payment to any party (other than reimbursement of expenses), guarantee any Business Agreement or remain liable for the payment thereof following the Closing Date with respect to any matters arising on or after the Closing Date, or agree to any concessions or amendments to other contracts, leases or arrangements with such party in order to obtain any such consent or approval.

4.3 Delivery of Documents. No later than five (5) Business Days after the Effective Date, Sellers shall provide, or otherwise make available, to Purchaser the following, to the extent such information and materials are in Sellers' possession and available without immediate disclosure of the confidential nature of this Agreement:

- (a) True copies of all Business Agreements;
- (b) True copies of any existing surveys of any of the Facilities to the extent in the possession of Sellers; and
- (c) True copies of title commitments with respect to the Facilities, each of which has an effective date that is not earlier than seventy-five (75) days prior to the date of this Agreement.

Purchaser shall have the right to assume any such Business Agreements relating to a Facility pursuant to the General Assignment therefor so long as Purchaser provides written notice to Sellers no later than three (3) Business Days prior to the Closing Date that identifies those Business Agreements which Purchaser has elected to assume as of the Closing Date, and any Business Agreements not so assumed by Purchaser shall be terminated by Seller at its sole cost and expense.

4.4 No New Business Agreements. During the period commencing on the Effective Date and continuing through the earlier of the Closing Date or the prior termination of this Agreement, no Seller shall, without the prior written consent of Purchaser, which may be given or withheld in Purchaser's sole and absolute discretion, enter into or modify any Business Agreements, or any agreements for the use and occupancy of any of the Facilities, that will survive the Closing.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Sellers as follows:

5.1 Organization, Corporate Power and Authorization. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington and in each other jurisdiction in which it is lawfully required to qualify to conduct business. Purchaser has the corporate power and authority to execute, deliver and perform this Agreement and the other agreements, documents and certificates contemplated to be executed and delivered

by Purchaser pursuant to this Agreement. If the Emeritus Mortgage Loan is to be purchased as provided in Section 2.3(a) hereof, the Mortgage Loan Assignee shall have the legal power and authority to execute, deliver and perform the Mortgage Loan Assignment.

5.2 Authorization. The execution, delivery and performance by Purchaser of this Agreement and the other agreements, documents and certificates contemplated to be executed and delivered by Purchaser pursuant to this Agreement have been duly authorized by all corporate action required by law. If the Emeritus Mortgage Loan is to be purchased as provided in Section 2.3(a) hereof, the execution, delivery and performance by the Mortgage Loan Assignee of the Mortgage Assignment shall have been duly authorized by all action required by law.

5.3 Non-Contravention. The execution and delivery of this Agreement and the other agreements, documents and certificates contemplated to be executed and delivered by Purchaser pursuant to this Agreement do not, and the consummation by Purchaser of the transactions contemplated hereby and thereby shall not, violate any provision of its articles of incorporation or bylaws. If the Emeritus Mortgage Loan is to be purchased as provided in Section 2.3(a) hereof, the execution and delivery of the Mortgage Assignment by the Mortgage Loan Assignee shall not, and the consummation by the Mortgage Loan Assignee of the transaction contemplated thereby shall not, violate any provision of the Mortgage Loan Assignee's articles of incorporation, bylaws, partnership agreement, operating agreement or other instrument governing the organization or operation thereof.

5.4 Validity. This Agreement has been duly executed and delivered by Purchaser and constitutes the legal, valid and binding obligation of Purchaser, enforceable in accordance with its terms, subject to general equity principles and to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect affecting the enforcement of creditors' rights. The Escrow Agreement and each General Assignment, Lease Termination and other agreement, document and certificate to be executed and delivered by Purchaser hereunder, shall, when so executed and delivered, constitute the legal, valid and binding obligation of Purchaser, enforceable in accordance with its terms, subject to general equity principles and to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect affecting the enforcement of creditors' rights. If the Emeritus Mortgage Loan is to be purchased as provided in Section 2.3(a) hereof, the Mortgage Assignment to be executed and delivered by the Mortgage Loan Assignee shall, when so executed and delivered, constitute the legal, valid and binding obligation of the Mortgage Loan Assignee, enforceable in accordance with its terms, subject to general equity principles and to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect affecting the enforcement of creditors' rights.

5.5 Litigation. Purchaser is not a party to or subject to any judgment, decree or order entered in any lawsuit or proceeding brought by any Government or other party seeking to prevent the execution of this Agreement or the consummation of the transactions contemplated hereby.

5.6 Tenant Leases. Purchaser and ESC IV, L.P. (d/b/a Texas-ESC IV, L.P.), a Washington limited partnership, are the sole Tenants under the Tenant Leases. ESC IV, L.P. (d/b/a Texas-ESC IV, L.P.), a Washington limited partnership, is a wholly-owned subsidiary of Purchaser.

5.7 AS IS, WHERE IS. Purchaser acknowledges, represents and warrants that any information supplied or made available by Sellers, whether written or oral or in the form of maps, surveys, plats, environmental reports, engineering studies, inspection reports, plans, specifications or any other information whatsoever, without exception, pertaining to the Facilities, any and all records, rent rolls and other documents pertaining to the use or occupancy of the Facilities or any portion thereof, the income thereof, the costs and expenses of the maintenance thereof, and any and all other matters concerning the condition, suitability, integrity, marketability, compliance with Laws or other attributes of the Facilities or any part thereof, has been furnished to Purchaser solely to assist in Purchaser's review and investigation of the Facilities. Further, Purchaser acknowledges that, as of the Effective Date, Purchaser is in possession of the Facilities and is familiar with the Facilities and has made all such independent investigations as Purchaser deems necessary or appropriate concerning the Facilities. AS SUCH, THE FACILITIES ARE SOLD BY SELLERS, AND ARE HEREBY ACCEPTED BY PURCHASER, AS IS, WHERE IS AND WITH ALL FAULTS, AND WITHOUT ANY REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESSED OR IMPLIED, WRITTEN OR ORAL. PURCHASER HEREBY UNCONDITIONALLY WAIVES AND EXCLUDES, AND SELLERS DISCLAIM, ALL REPRESENTATIONS AND WARRANTIES, INCLUDING ANY AND ALL EXPRESS OR IMPLIED REPRESENTATIONS AND WARRANTIES AS TO: (i) THE CONDITION OF THE FACILITIES OR ANY ASPECT THEREOF, INCLUDING ANY AND ALL EXPRESS OR IMPLIED REPRESENTATIONS AND WARRANTIES RELATED TO SUITABILITY FOR HABITATION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE; (ii) THE NATURE OR QUALITY OF CONSTRUCTION, STRUCTURAL DESIGN OR ENGINEERING OF THE IMPROVEMENTS; (iii) THE QUALITY OF THE LABOR OR MATERIALS INCLUDED IN THE IMPROVEMENTS; (iv) THE SOIL CONDITIONS, DRAINAGE, TOPOGRAPHICAL FEATURES OR OTHER CONDITIONS OF THE FACILITIES OR WHICH AFFECT ANY THEREOF; (v) ANY FEATURES OR CONDITIONS AT OR WHICH AFFECT THE FACILITIES WITH RESPECT TO ANY PARTICULAR PURPOSE, USE, DEVELOPMENTAL POTENTIAL, CASH FLOW OR OTHERWISE; (vi) ALL EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES CREATED BY ANY AFFIRMATION OF FACT OR PROMISE OR BY ANY DESCRIPTION OF ANY OF THE FACILITIES; (vii) ANY ENVIRONMENTAL, GEOLOGICAL, METEOROLOGICAL, STRUCTURAL OR OTHER CONDITION OR HAZARD OR THE ABSENCE THEREOF HERETOFORE, NOW OR HEREAFTER AFFECTING IN ANY MANNER ANY OF THE FACILITIES; (viii) CLAIMS REGARDING DEFECTS WHICH WERE NOT OR ARE NOT DISCOVERABLE; (ix) PRODUCT LIABILITY CLAIMS IN ANY MANNER RELATED TO ANY OF THE FACILITIES; AND (x) ALL OTHER EXPRESS OR IMPLIED WARRANTIES AND REPRESENTATIONS BY SELLERS WHATSOEVER.

ARTICLE VI
COVENANTS OF PURCHASER

6.1 Purchaser Performance. After the Closing, Purchaser shall promptly pay as they become due and otherwise perform all obligations of Sellers under the Assumed Liabilities relating to the Facilities and otherwise perform and fulfill all other obligations with respect to the Facilities to the extent relating to the period on and after the Closing.

6.2 Confidentiality. Purchaser hereby agrees that any information, documents, financial records, architectural and construction plans or other materials provided to Purchaser pursuant to this Agreement shall be deemed to be confidential information and shall not be disclosed to others except (i) to Purchaser's attorneys, accountants, investors, lenders and agents who have agreed to treat such information, documents, financial records, architectural and construction plans and other materials as confidential information and not to disclose any thereof to others and (ii) insofar as any such information, documents, financial records, architectural and construction plans or other materials are published or are a matter of public knowledge (other than as a result of the disclosure thereof by Purchaser or any of its attorneys, accountants, investors, lenders or agents) or is required to be disclosed by applicable Laws.

6.3 Filings and Notices . Within seven (7) Business Days after the Effective Date, Purchaser agrees to complete and submit such notices, filings and requests necessary to satisfy all Governmental Requirements imposed upon Purchaser as transferee of the Facilities.

ARTICLE VII
CONDITIONS PRECEDENT

7.1 Purchaser's Conditions. Purchaser's obligations under this Agreement are subject to the satisfaction of the following conditions:

(a) All representations and warranties of Sellers in this Agreement shall be true in all material respects at and as of the Closing, and Sellers shall have delivered to Purchaser a certificate to such effect dated as of the Closing Date;

(b) Sellers shall have performed and complied in all material respects with all of their obligations under this Agreement that are to be performed or complied with by Sellers prior to or on the Closing Date;

(c) No Order shall then exist that enjoins or prevents the consummation any of the transactions contemplated hereby; and

(d) Sellers shall have delivered or caused the delivery of the items required by Section 2.4(a) hereof.

In the event that any of the conditions set forth in this Section 7.1 are not satisfied, in the reasonable judgment of Purchaser, prior to the Closing, Purchaser shall have the option either (x) to waive such unsatisfied condition and proceed in accordance with the terms of this Agreement, or (y) to terminate this Agreement.

7.2 Sellers' Conditions. The obligations of Sellers hereunder are subject to satisfaction of each of the following conditions:

(a) All representations and warranties of Purchaser in this Agreement shall be true in all material respects at and as of the Closing Date, and Purchaser shall have delivered to Sellers a certificate to such effect dated as of the Closing Date;

(b) Purchaser shall have performed and complied in all material respects with its obligations under this Agreement to close the transactions contemplated hereby on the Closing Date;

(c) Sellers shall have obtained all consents and approvals required for Seller to sell, transfer and assign the Facilities at the Closing;

(d) All Governmental Requirements shall have been satisfied or obtained;

(e) No Order shall then exist that enjoins or prevents the consummation any of the transactions contemplated hereby; and

(f) Purchaser shall have delivered or caused the delivery of the items required by and performed its obligations under Section 2.4(b) hereof.

In the event that any of the conditions set forth above are not satisfied, in the reasonable judgment of Sellers prior to the Closing, Sellers shall have the option either (x) to waive such unsatisfied condition and proceed in accordance with the terms of this Agreement, or (y) to terminate this Agreement.

ARTICLE VIII INDEMNIFICATION

8.1 Purchaser's Claims . Sellers shall indemnify, defend and hold Purchaser harmless from and against any costs (including reasonable attorneys' fees and court costs and costs of investigation), losses, damages, liabilities or expenses incurred by Purchaser as a result of any claim for brokerage, finder's fees or other commissions relating to this Agreement or any of the other agreements contemplated by this Agreement asserted by or on behalf of any broker or finder claiming to have been retained by Sellers or to have rendered services on Sellers' behalf.

8.2 Sellers' Claims . Purchaser shall indemnify, defend and hold Sellers harmless from and against all costs (including reasonable attorneys' fees and court costs and costs of investigation), losses, damages, liabilities or expenses incurred by Sellers as a result of:

(a) The non-fulfillment of any covenant, agreement or obligation to be performed by Purchaser under or pursuant to this Agreement or any of the other agreements contemplated by this Agreement;

(b) Any claim for brokerage, finder's fees or other commissions relative to this Agreement or any of the other agreements contemplated by this Agreement asserted by or on behalf of any broker or finder claiming to have been retained by Purchaser or to have rendered services on Purchaser's behalf;

(c) Any litigation, proceedings, controversies or claims relating to a Facility and arising from, in connection with or incident to any occurrence on or subsequent to the Closing Date;

(d) Any litigation, proceedings, controversies or claims arising or resulting from the occupancy, possession or operation of the Facilities by the Tenants under the Tenant Leases; and

(e) All obligations, liabilities, damages, losses, claims, expenses and costs relating to the Facilities arising or accruing on or prior to the Closing Date that the Tenant under each of the Tenant Leases is or was obligated, liable or responsible to pay or perform under the terms of such Tenant Lease.

8.3 Defense of Third Party Claims .

(a) In the event of any claim by a Person not a Party to this Agreement with respect to any matter to which Sections 8.1 or 8.2 hereof relates, the indemnified party, after not less than thirty (30) days' written notice to the indemnifying party containing the terms of the proposed settlement, may make settlement of such claim, and such settlement shall be binding on the Parties hereto for the purposes of this Section 8.3; provided, however, that, if within such thirty (30) day period, the indemnifying party shall have requested the indemnified party to contest any such claim at the expense of the indemnifying party, the indemnified party shall promptly comply, and the indemnifying party shall have the right to direct the defense of such claim or any litigation based thereon at its own expense through counsel of its own choosing. The indemnified party also shall have the right to participate in the settlement of any such claim or in any such litigation so long as its participation is at its own expense and with the understanding that the indemnifying party may settle in its own discretion at its sole expense so long as any such settlement provides for a complete release and discharge of the indemnified party and does not impose any liabilities or obligations on the indemnified party. Any payment or settlement made by the indemnifying party in such contest, together with the total expense thereof, shall be binding on the indemnified party and the indemnifying party for the purposes of this Section 8.3.

(b) In the event that any litigation, proceeding, controversy, claim or other matter is initiated by a third party against Purchaser or a Seller, and Purchaser or Sellers, as the case may be, are obligated or potentially obligated to indemnify, defend and hold the other harmless under this Article VIII, the indemnified or potentially indemnified party will reasonably cooperate with the indemnifying or potentially indemnifying party with respect to the investigation and defense of such litigation, proceeding, controversy or claim or other matter.

8.4 Survival of Representations and Warranties .

(a) The representations and warranties of Sellers contained in this Agreement or any certificate delivered by or on behalf of Sellers pursuant to this Agreement or in connection with the transactions contemplated herein shall survive for a period of twelve (12) months after the Closing Date.

(b) The representations and warranties of Purchaser contained in this Agreement or any certificate delivered by or on behalf of Purchaser pursuant to this Agreement or in connection with the transactions contemplated herein shall survive the consummation of the transactions contemplated herein and shall continue in full force and effect for a period of twelve (12) months after the earlier of the (i) the Closing Date or (ii) the prior termination of this Agreement.

(c) Purchaser may not assert any claim against Sellers for breach of any covenant contained in Article IV hereof and all such claims shall be deemed to be waived as of the Closing Date.

ARTICLE IX TERMINATION

9.1 Termination .

(a) This Agreement may be terminated as follows:

(i) At any time by the mutual consent of Sellers and Purchaser;

(ii) By Purchaser because of the failure of any condition set forth in Section 7.1 hereof;

(iii) By Purchaser if Sellers fails to comply with their obligations under this Agreement to close the transactions contemplated hereby;

(iv) By Sellers because of the failure of any condition set forth in Sections 7.2(c), (d) or (e) hereof;

(v) By Sellers because of the failure of any condition set forth in Sections 7.2(a), (b) or (f) hereof; and

(vi) By Sellers if Purchaser fails to comply with its obligations under this Agreement to close the transactions contemplated hereby.

(b) In the event of the termination of this Agreement pursuant to Section 9.1(a) hereof because Sellers or Purchaser, as the case may be, shall have willingly failed to fulfill its obligations hereunder, the other Party shall be entitled to pursue, exercise and enforce any and all remedies, rights, powers and privileges available to it at law or in equity.

(c) Section 2.3, Section 6.2, Article VIII and Sections 11.1, 11.12 and 11.15 hereof shall survive the Closing or the prior termination of this Agreement.

ARTICLE X CASUALTY AND CONDEMNATION

10.1 Casualty Before Closing. In the event of damage to or destruction of all or any portion of a Facility by fire or other casualty prior to the Closing, Sellers shall assign to Purchaser at the Closing all available casualty insurance proceeds to which Sellers are entitled under existing insurance coverages, and this Agreement shall remain in full force and effect as to such damaged Facility with no adjustment to the Purchase Price.

10.2 Condemnation Before Closing. In the event of a condemnation or other exercise of the power of eminent domain with respect to all or any portion of a Facility prior to the Closing that permits the Tenant of such affected Facility to terminate the Tenant Lease for such affected Facility, Purchaser shall have, as its sole and exclusive remedy, the option to exclude and eliminate such affected Facility from the terms of this Agreement and the Purchase Price shall be decreased by the value of such affected Facility, as reasonably determined by the applicable Seller and Purchaser, to reflect the exclusion of such affected Facility from the terms of this Agreement; provided, however, that this Agreement otherwise shall remain in full force and effect. As to any Facility affected by a condemnation or other exercise of the power of eminent domain prior to the Closing that is sold and transferred to Purchaser, the applicable Seller shall assign to Purchaser at the Closing its right to any award resulting from such condemnation or other exercise of the power of eminent domain and the Purchase Price shall not be adjusted. Except as described in the first sentence of this Section 10.2, no condemnation or other exercise of the power of eminent domain with respect to all or any portion of a Facility prior to the Closing shall affect the obligations of Purchaser hereunder with respect to any Facility affected thereby.

ARTICLE XI MISCELLANEOUS

11.1 Expenses . Each Party shall pay its own legal, accounting and similar expenses incidental to the preparation of this Agreement, the implementation of the provisions of this Agreement, and the consummation of the transactions contemplated hereby. If Purchaser elects to obtain owner's title insurance policies for the Facilities, Sellers shall pay the premiums for obtaining such owner's title insurance policies in an aggregate amount not exceeding the Purchase Price (without endorsements thereto or affirmative coverages thereunder). Purchaser shall pay, or reimburse Sellers for, all costs of obtaining title policy endorsements and affirmative coverages, all transfer, intangible, recording taxes and other fees with respect to the transfer of the Facilities, the costs of obtaining any surveys (and updates thereof), environmental investigations, studies, reports and all other costs of any investigation of the Facilities by Purchaser, one-half of any escrow fee charged by the Title Company, any costs associated with the transfer of any Permits and Warranties, the cost of obtaining other licenses, permits or approvals that do not constitute Permits and Warranties and the costs and expenses incurred in

connection with the satisfaction of and compliance with the Governmental Requirements. Sellers shall pay one-half of any escrow fee charged by the Title Company.

11.2 Contents of Agreement; Parties in Interest; etc . This Agreement sets forth the entire understanding of the Parties with respect to the transactions contemplated hereby and constitutes a complete statement of the terms of such transactions. This Agreement shall not be amended or modified except by written instrument duly executed by all of the Parties. Any previous agreements and understandings between or among the Parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. No Party has been induced to enter into this Agreement by any statement, representation or warranty of the other Party not set forth in this Agreement, and no Party has relied upon any statement, representation or warranty of the other Party not set forth in this Agreement.

11.3 Assignment and Binding Effect. Purchaser shall not have the right to assign its rights hereunder unless Purchaser receives the prior written consent of Sellers to any such assignment, which consent Sellers may grant or without in their sole discretion; provided, however, that Purchaser shall have the right to assign this Agreement to one or more wholly owned subsidiaries of Purchaser; provided, further, however, that, regardless of any assignment by Purchaser of any of its rights hereunder, Purchaser shall remain responsible and liable for the payment and performance of all of its liabilities and obligations as set forth herein. Subject to the foregoing, all of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the successors and permitted assigns of Sellers and Purchaser.

11.4 Notices . All notices, requests and other communications under this Agreement shall be in writing and shall be either (a) delivered in person, (b) delivered by a recognized delivery service taking a receipt upon delivery or (c) sent by facsimile transmission and addressed as follows:

If intended for Sellers: c/o Healthcare Realty Trust Incorporated
3310 West End Avenue, Suite 700
Nashville, Tennessee 37203
Attn: General Counsel
Phone: (615) 269-8175
Facsimile: (615) 463-7739

With a copy to: Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
211 Commerce Street, Suite 1000
Nashville, Tennessee 37201
Attn: David J. White.
Phone: (615) 726-5776
Facsimile: (615) 744-5776

If intended for Purchaser: Emeritus Corporation
3131 Elliott Avenue, Suite 500
Seattle, Washington 98121
Attn: Eric Mendelsohn
Phone: (206) 301-4493
Facsimile: (206) 357-7388

With a copy to: Pircher, Nichols & Meeks
900 North Michigan Avenue, Suite 1050
Chicago, Illinois 60611
Attn: Real Estate Notices (JDL/EF)
Phone: (312) 915-3112
Facsimile: (312) 915-3348

or at such other address, and to the attention of such other person, as a Party shall give notice as herein provided. A notice, request and other communication shall be deemed to be duly received if delivered in person or by a recognized delivery service, when left at the address of the recipient, and, if sent by facsimile transmission, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the facsimile transmission was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number; provided, however, that if a notice, request or other communication is delivered or served on a day which is not a Business Day, or after 5:00 p.m. on any Business Day at the recipient's location, such notice or communication shall be deemed to be duly received by the recipient at 9:00 a.m. on the first Business Day thereafter.

11.5 Applicable Laws . This Agreement and the transactions contemplated hereby shall be governed by and construed in accordance with the Laws of the State of Tennessee.

11.6 Exhibits. All Exhibits referred to herein are intended to be and hereby are specifically made a part of this Agreement.

11.7 Severability. Any provision of this Agreement that is invalid or unenforceable in any jurisdiction shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.8 Public Announcements. No Party to this Agreement shall make, or cause to be made, any press release or public announcement with respect to this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other Parties, and the Parties shall cooperate as to the timing and contents of any such press release or public announcement; provided, however, that, to the extent any Party is advised by legal counsel that it is required by Laws or the rules and regulations of any applicable securities exchange to make such a press release or public announcement, such Party may issue such a release or make such an announcement, the contents of which shall be reasonably satisfactory to the other Parties.

11.9 Construction. The Parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event that any ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties hereto and no presumption or burden of proof shall arise by virtue of the authorship of any of the provisions of this Agreement.

11.10 Time. Time is and shall be of the essence of this Agreement.

11.11 Days for Performance. If the date for the performance of any obligation or notification hereunder falls upon a day that is not a Business Day, then such date shall be read and construed for all purposes herein to mean the next day which is a Business Day.

11.12 Delivery of Due Diligence Materials. In the event that Purchaser shall terminate this Agreement as permitted herein, Purchaser shall provide, or cause to be provided, to Sellers, within five (5) Business Days after such termination and to the extent such items are in the possession of Purchaser or its attorneys, original copies of all surveys, original copies of all environmental reports, appraisals, studies and investigations prepared by or at the request of Purchaser with respect to the Facilities, and copies of all other reports, searches, investigations, studies and materials prepared by or at the request of Purchaser with respect to the Facilities, excluding any internal memoranda and attorney work product. Upon the request of Sellers, Purchaser shall consent to and reasonably cooperate with Sellers in any request from Sellers to any preparer of any such surveys, reports, appraisals, searches, studies, investigations or materials to provide to Sellers written confirmation from such preparer that is addressed to Sellers in form and substance reasonably satisfactory to Sellers and stating that its surveys, reports, appraisals, searches, studies, investigations or materials are certified to Sellers and Sellers are entitled to rely thereon.

11.13 Counterparts . This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which, together upon full execution, shall constitute one and the same instrument.

11.14 No Recording . Purchaser shall not record this Agreement or any short form, memorandum or notice thereof in any public or governmental office.

11.15 Attorneys' Fees . In the event of any litigation between the Parties under this Agreement, including with respect to the enforcement of any right or provision herein, the prevailing Party, in addition to those damages and other awards given such Party therein, shall be entitled to reasonable attorneys' fees and court costs at all trial and appellate levels.

11.16 Waiver of Jury Trial . TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAWS WHICH CANNOT BE WAIVED, EACH OF THE PARTIES HERETO (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY FORUM WITH RESPECT TO ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS

CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. PURCHASER ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY SELLERS THAT THIS SECTION 11.16 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH SELLERS ARE RELYING AND WILL RELY IN ENTERING INTO THIS AGREEMENT AND ANY OTHER AGREEMENTS RELATING HERETO OR CONTEMPLATED HEREBY. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 11.16 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement to be effective as of the Effective Date.

PURCHASER:

EMERITUS CORPORATION , a
Washington corporation

By: /s/ Eric Mendelsohn
Title: Director of Real Estate and Legal Affairs

Date: March 8, 2007

SELLERS :

HR ACQUISITION I CORPORATION ,
a Maryland corporation

By: James C. Douglas
Title: Vice President

Date: March 7, 2007

**HR ACQUISITION OF
PENNSYLVANIA, INC.** , a Pennsylvania
corporation

By: James C. Douglas
Title: Vice President

Date: March 7, 2007

**HR ACQUISITION OF SAN ANTONIO,
LTD.** , an Alabama limited partnership

By: **HEALTHCARE ACQUISITION
OF TEXAS, INC.** , an Alabama
corporation, General Partner

By: James C. Douglas
Title: Vice President

Date: March 7, 2007

HRT HOLDINGS, INC. , a Delaware
corporation

By: James C. Douglas
Title: Vice President

Date: March 7, 2007

The undersigned hereby executes this Agreement solely for the purpose of acknowledging its waiver of any notice of prepayment requirements set forth in the Emeritus Mortgage Loan and the Term Mortgage Loan.

**HEALTHCARE REALTY TRUST
INCORPORATED** , a Maryland
corporation

By: James C. Douglas
Title: Vice President

Date: March 7, 2007

EXHIBITS

<u>Exhibits</u>	<u>Title</u>
A	Form of Bill of Sale
B	Form of Special Warranty Deed
C	Form of Escrow Agreement
D	List of Facilities
E	Form of General Assignment
F	Form of Lease Termination
G-1	Emeritus Mortgage Loan
G-2	Term Mortgage Loan
H	List of Tenant Leases
I	Form of Title Affidavit
J	Form of Mortgage Assignment

Exhibit A
to Agreement of Sale and Purchase

Form of Bill of Sale

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS that the undersigned, _____, a _____ (the "Seller"), for and in consideration of the sum of One and No/100 Dollars (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby agree as follows:

Seller hereby grants, bargains, sells, transfers, sets over and delivers to _____, a _____ (the "Buyer"), all of Seller's right, title and interest, if any, in and to the property described in **Exhibit A** hereto (the "Personal Property").

SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PERSONAL PROPERTY, INCLUDING, WITHOUT LIMITATION, THE HABITABILITY, CONDITION OR FITNESS THEREOF FOR ANY PARTICULAR USE OR PURPOSE. BUYER AGREES THAT THE PERSONAL PROPERTY IS CONVEYED BY SELLER AND ACCEPTED BY BUYER IN AN "AS IS, WHERE IS" CONDITION, AND SELLER SPECIFICALLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE.

Executed as of the ____ day of _____, 2007.

_____, a

By: _____
Name:
Title:

A-1

Exhibit A
to Bill of Sale

Personal Property

The following described property to the extent such property is located on the real property described in Exhibit B hereto and owned by Seller:
all tangible personal property, including, without limitation, equipment, appliances, machinery, furniture, furnishings, signage and fixtures.

Exhibit B
to Bill of Sale

Real Property

Description of Real Property from Special
[or Limited] Warranty Deed from Seller to Buyer

A-3

Exhibit B
to Agreement of Sale and Purchase

Form of Special Warranty Deed

This instrument was prepared by:

SPECIAL [OR LIMITED] WARRANTY DEED

THIS SPECIAL [OR LIMITED] WARRANTY DEED is made as of the ____ day of _____, 2007, from _____,
a _____ (the "Grantor"), to _____, a _____ (the "Grantee"), with an address of _____.

WITNESSETH:

That Grantor, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Grantor, has granted, bargained, sold, aliened, conveyed and confirmed, and does hereby grant, bargain, sell, alien, convey and confirm, to Grantee, and Grantee's successors and assigns forever, the real property located in _____ and more particularly described in Exhibit A hereto (the "Property"), subject to the following (the "Permitted Encumbrances"): (a) all liens for ad valorem, real property and personal property taxes, all general and special private and public assessments, all other property taxes, and all similar obligations relating to the Property, not yet due and payable; (b) easements, restrictions, covenants and other such encumbrances of record as of the date hereof; (c) any state of facts that would be disclosed by an accurate survey or independent inspection of the property conveyed hereby; (d) all applicable building and zoning ordinances, moratoria, initiatives, referenda, ordinances, rules, regulations, standards, orders and other governmental requirements, including those relating to the environment, health and safety, disabled or handicapped persons, and as applicable, to the licensing of the use of the improvements on the Property, regulations and restrictions of any federal, state, local or municipal government or any department, commission, board, bureau, agency, instrumentality, unit or taxing authority thereof; and (e) the rights of residents and licensed occupants of the improvements located on the Property;

Together with all of Grantor's right, title and interest, if any, in and to rights, privileges, easements, servitudes, rights-of-way and appurtenances belonging or appurtenant to the Property and all improvements on the Property.

Notwithstanding any reference to acreage or square footage contained in the description of the property conveyed hereby, Grantor makes no representation or warranty, express or implied, as to the exact amount of acreage or square footage in the property conveyed hereby.

Grantor further makes no representation or warranty, express or implied, with respect to the ownership of oil, gas or other minerals located on, under or within the property conveyed hereby.

This is improved property known as _____.

TO HAVE AND TO HOLD the Property, together with all and singular the rights, privileges, easements, servitudes, rights-of-way and appurtenances belonging or appurtenant to the Property, and the rents, issues and profits thereof, and all the estate, right, title, interest, property, claim and demand whatsoever of Grantor, in law, equity or otherwise, and all improvements on the Property, to Grantee, and Grantee's successors and assigns forever, subject to the Permitted Encumbrances.

Grantor does hereby bind itself, and its successors and assigns, to warrant and forever defend all and singular the Property, subject to the terms of this Special [or Limited] Warranty Deed, unto Grantee and unto Grantee's successors and assigns, against every person whomsoever lawfully claiming or to claim the Property or any part thereof by, through or under Grantor, but not otherwise, subject to the Permitted Encumbrances.

EXCEPT FOR THE SPECIAL [OR LIMITED] WARRANTY OF TITLE CONTAINED HEREIN, GRANTOR MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTY, INCLUDING, WITHOUT LIMITATION, THE CONDITION OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, IMPROVEMENTS) CONVEYED HEREBY, INCLUDING, WITHOUT LIMITATION, THE HABITABILITY, CONDITION OR FITNESS THEREOF FOR ANY PARTICULAR USE OR PURPOSE OR THE ENVIRONMENTAL CONDITION OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, IMPROVEMENTS) CONVEYED HEREBY. GRANTEE AGREES THAT THE PROPERTY (INCLUDING, WITHOUT LIMITATION, IMPROVEMENTS) CONVEYED HEREBY IS CONVEYED BY GRANTOR AND ACCEPTED BY GRANTEE IN AN "AS-IS, WHERE-IS" CONDITION.

[PENNSYLVANIA NOTICES TO BE PROVIDED AS REQUIRED:

NOTICE—THIS DOCUMENT DOES NOT SELL, CONVEY, TRANSFER, INCLUDE OR INSURE THE TITLE TO THE COAL AND RIGHT OF SUPPORT UNDERNEATH THE SURFACE LAND DESCRIBED OR REFERRED TO HEREIN, AND THE OWNER OR OWNERS OF SUCH COAL HAVE THE COMPLETE LEGAL RIGHT TO REMOVE ALL OF SUCH COAL AND, IN THAT CONNECTION, DAMAGE MAY RESULT TO THE SURFACE OF THE LAND AND ANY HOUSE, BUILDING OR OTHER STRUCTURE ON OR IN SUCH LAND. THE INCLUSION OF THIS NOTICE DOES NOT ENLARGE, RESTRICT OR MODIFY ANY LEGAL RIGHTS OR ESTATES OTHERWISE CREATED, TRANSFERRED, EXCEPTED OR RESERVED BY THIS INSTRUMENT.

[This notice is set forth in the manner provided in 52 P.S. §1551 and is not intended as notice of unrecorded instruments, if any.]

NOTICE THE UNDERSIGNED, AS EVIDENCED BY THE SIGNATURE TO THIS NOTICE AND THE ACCEPTANCE AND RECORDING OF THIS DEED, IS FULLY COGNIZANT OF THE FACT THAT THE UNDERSIGNED MAY NOT BE OBTAINING THE RIGHT OF PROTECTION AGAINST SUBSIDENCE AS TO THE PROPERTY HEREIN CONVEYED RESULTING FROM COAL MINING OPERATIONS AND THAT THE PURCHASED PROPERTY, HEREIN CONVEYED, MAY BE PROTECTED FROM DAMAGE DUE TO MINE SUBSIDENCE BY A PRIVATE CONTRACT WITH THE OWNERS OF THE ECONOMIC INTEREST IN THE COAL.

[This notice is provided to comply with 52 P.S. §1406.14.]

_____, a

By: _____
Name:
Title:

[INSERT APPROPRIATE ACKNOWLEDGEMENT FORM]]

IN WITNESS WHEREOF , Grantor has caused this Special [or Limited] Warranty Deed to be duly executed and delivered as of the day and year first above written.

_____, a

By: _____
Name:
Title:

[INSERT APPROPRIATE ACKNOWLEDGEMENT
FORM AND RECORDING REQUIREMENTS]

Exhibit A
to Special [or Limited] Warranty Deed

Description of Property from Recorded Vesting Deed(s) of Grantor

B-5

Exhibit C
to Agreement of Sale and Purchase

Form of Escrow Agreement

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the "Agreement") is made as of the ____ day of _____, 2007, by and among the entities that have executed this Agreement on the signature pages hereto as sellers (individually, a "Seller" and collectively, the "Sellers"), and **EMERITUS CORPORATION**, a Washington corporation, as purchaser (the "Purchaser"), and **FIDELITY NATIONAL TITLE INSURANCE COMPANY**, a California corporation (the "Escrow Agent").

WITNESSETH:

WHEREAS, pursuant to the Agreement of Sale and Purchase, dated as of _____, 2007, as hereafter amended or modified by the parties thereto (the "Purchase Agreement"), by and among Sellers and Purchaser, Sellers have agreed to sell and Purchaser has agreed to purchase certain assets of Sellers as set forth therein; and

WHEREAS, pursuant to the Purchase Agreement, Purchaser must deposit the Earnest Money (as herein defined) with Escrow Agent to be held and paid in accordance with the Purchase Agreement and this Agreement;

NOW, THEREFORE, for and in consideration of the above and foregoing premises and the mutual covenants and agreements set forth hereinbelow, together with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, Sellers, Purchaser and Escrow Agent hereby agree as follows:

1. Escrow. Purchaser hereby delivers to Escrow Agent the sum of One Million Three Hundred Fourteen Thousand Two Hundred Seventy-Two and No/100 Dollars (\$1,314,272.00) (the "Earnest Money") to be held by Escrow Agent in accordance with the terms of the Purchase Agreement and this Agreement. Escrow Agent shall deposit the Earnest Money in an interest-bearing account that is maintained at depository institution reasonably acceptable to Sellers and Purchaser.

2. Purpose of Escrow. Purchaser has deposited the Earnest Money with Escrow Agent to comply with Purchaser's obligations pursuant to Section 2.1 of the Purchase Agreement.

3. Disbursement of Earnest Money. Subject to the terms of the Purchase Agreement and this Agreement, Escrow Agent shall disburse the Earnest Money pursuant to the terms of the Purchase Agreement, including, but not limited to, Section 2.1 of the Purchase Agreement. Within two (2) Business Days (the term "Business Day" having the same meaning herein as in the Purchase Agreement) after receipt of written notification from Sellers (the "Sellers' Default Notice") that Purchaser has breached or defaulted under the Purchase Agreement and Sellers are entitled,

pursuant to the Purchase Agreement, to disbursement of the Earnest Money (or so much thereof not previously disbursed pursuant to the terms of the Purchase Agreement), Escrow Agent shall send to Purchaser a written notification (the "Purchaser's Notice") advising Purchaser that Escrow Agent intends to disburse the Earnest Money (or so much thereof not previously disbursed pursuant to the terms of the Purchase Agreement) to Sellers no earlier than two (2) Business Days after Purchaser's receipt of such written notice from Escrow Agent. Sellers also shall provide a copy of Sellers' Default Notice to Purchaser. Escrow Agent shall be entitled to rely, for purposes of this Agreement, upon any statement delivered by Sellers or Purchaser pursuant to this Section 3. Escrow Agent shall disburse the Earnest Money (or so much thereof not previously disbursed pursuant to the terms of the Purchase Agreement) no earlier than two (2) Business Days after Purchaser's receipt of Purchaser's Notice, provided, however, that Purchaser has not notified Escrow Agent that it disputes Sellers' Default Notice. In the event of any disputes among the parties hereto in connection with the Earnest Money or this Agreement, Escrow Agent shall refuse to comply with the claims and demands by Sellers or Purchaser so long as the dispute shall then continue. In so refusing, Escrow Agent shall make no delivery or other disposition of the Earnest Money, except as permitted under Section 6(a) below, and, in so doing, Escrow Agent shall not be or become liable in any way to any person for its failure or refusal to comply with conflicting or adverse demands and it shall continue to refrain from acting and refuse to act until it receives authorization as follows:

- (a) Written authorization to act that is executed by Sellers and Purchaser; or
- (b) A certified and file-stamped copy of a court order resolving the disagreement or directing specific action.

Upon the receipt of either such document, Escrow Agent shall promptly act according to its terms.

4. Termination of Escrow. This Agreement shall terminate upon the disbursement of all of the Earnest Money pursuant to the terms of the Purchase Agreement or this Agreement. Interest that accrues on the Earnest Money shall be combined with and treated as a part of the Earnest Money. In the event all or a portion of the Earnest Money is paid to Sellers pursuant to this Agreement, any interest on the Earnest Money in the possession of Escrow Agent at the time such Earnest Money is paid to Sellers shall be paid to Sellers. Interest on any portion of the Earnest Money that is to be refunded to Purchaser pursuant to the Purchase Agreement shall be paid to Purchaser.

5. No Representations by Escrow Agent. Escrow Agent shall not be liable for the performance or non-performance or delay in performance of any obligation of Sellers, Purchaser or any other person or entity.

6. Escrow Agent. The escrow of the Earnest Money shall be subject to the following provisions:

- (a) Duties and Authorization. The payment of the Earnest Money to Escrow Agent is for the accommodation of Sellers and Purchaser. The duties of Escrow Agent shall be determined solely by the express provisions of this Agreement. Sellers and Purchaser authorize Escrow Agent, without creating any obligation on the part of Escrow Agent, in the

To Purchaser: Emeritus Corporation
3131 Elliott Avenue, Suite 500
Seattle, Washington 98121
Attn: Eric Mendelsohn
Facsimile: (206) 357-7388

with a copy to: Pircher, Nichols & Meeks
900 North Michigan Avenue, Suite 1050
Chicago, Illinois 60611
Attn: Real Estate Notices (JDL/EF)
Facsimile: (312) 915-3348

To Escrow Agent: Fidelity National Title Insurance Company
7130 Glen Forest Drive, Suite 403
Richmond, Virginia 23226
Attn: Melodie T. Rochelle
Facsimile: (804) 673-3308

or at such other address, and to the attention of such other person, as the parties hereto shall give notice as herein provided. A notice, request and other communication shall be deemed to be duly received if delivered in person or by a recognized delivery service, when left at the address of the recipient and if sent by facsimile transmission, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the facsimile transmission was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number; provided, however, that if a notice, request or other communication is delivered or served on a day which is not a Business Day, or after 5:00 p.m. on any Business Day at the recipient's location, such notice or communication shall be deemed to be duly received by the recipient at 9:00 a.m. on the first Business Day thereafter.

IN WITNESS WHEREOF , this Agreement has been executed as of the date and year first set forth above.

SELLERS:

HR ACQUISITION I CORPORATION ,
a Maryland corporation

By: _____
Title:

**HR ACQUISITION OF
PENNSYLVANIA, INC.** , a Pennsylvania
corporation

By: _____
Title:

**HR ACQUISITION OF SAN ANTONIO,
LTD.** , an Alabama limited partnership

By: **HEALTHCARE ACQUISITION
OF TEXAS, INC.** , an Alabama
corporation, General Partner

By: _____
Title:

HRT HOLDINGS, INC. , a Delaware
corporation

By: _____
Title:

PURCHASER:

EMERITUS CORPORATION , a
Washington corporation

By: _____
Title:

ESCROW AGENT:

**FIDELITY NATIONAL TITLE INSURANCE
COMPANY**

By: _____
Title:

Exhibit D
to Agreement of Sale and Purchase

List of Facilities

1. Loyalton at Bloomsburg
420 Shaffer Road
Bloomsburg, PA
2. Loyalton at Danville
432 Hermitage Drive
Danville, VA
3. Loyalton at Harrisburg
3560 N. Progress Ave.
Harrisburg, PA
4. Loyalton at Harrisonburg
2101 Deryerle Ave.
Harrisonburg, VA
5. Loyalton at Creekview
1100 Grandon Way
Mechanicsburg, PA
6. Loyalton at Greensboro
3823 Lawndale Drive
Greensboro, NC
7. Loyalton at Ravenna
141 Chestnut Hill Drive
Ravenna, OH
8. Loyalton at Roanoke
3585 Brambleton Ave.
Roanoke, VA
9. Kingsley Place of Henderson
100 Richardson Drive,
Henderson, TX
10. Kingsley Place of McKinney
1650 S. Stonebridge
McKinney, TX

11. Kingsley Place Medical Oakwell
9000 Floyd Curl Road
San Antonio, TX

12. Kingsley Place of Oakwell
1970 Oakwell Farms Parkway
San Antonio, TX

Exhibit E
to Agreement of Sale and Purchase

Form of General Assignment

GENERAL ASSIGNMENT

THIS GENERAL ASSIGNMENT (this "Assignment") is made and entered into as of the ____ day of _____, 2007, by and between _____, a _____ (the "Assignor"), and _____, a _____ (the "Assignee").

WITNESSETH:

WHEREAS, Assignor and Assignee are parties to that certain Agreement of Sale and Purchase, dated as of _____, 2007, [as amended] (the "Agreement"), pertaining to the sale of the [senior living or skilled nursing facility] (the "Facility") described on Exhibit A hereto and incorporated herein by reference; and

WHEREAS, the Agreement provides that Assignor shall assign to Assignee, and Assignee shall assume, Assignor's rights, title and interest in certain [permits, guarantees, warranties, licenses and agreements] relating to the ownership of the Facility;

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements contained herein and in the Agreement, Assignor and Assignee agree as follows:

1. Assignment and Assumption. Assignor hereby assigns to Assignee all of Assignor's right, title and interest in and to and all of Assignor's obligations under any of the following that are listed in Exhibit B hereto (collectively, the "Assigned Rights"), to the extent that they relate exclusively to the Facility and are assignable by Seller under the terms and conditions thereof without the consent or approval of any other individual, partnership, joint venture, corporation, limited liability company, trust, unincorporated organization, Government (as herein defined) or other legal entity: [(i) certificates of occupancy and permits or approvals of any nature from any federal, state, local or municipal government or any department, commission, board, bureau, agency, instrumentality, unit or taxing authority thereof (a "Government"); (ii) guarantees, warranties and indemnities pertaining to the ownership of the Facility; and (iii) management agreements, service contracts, contractor agreements, construction contracts or other agreements or instruments affecting all or a portion of the Facility.] Assignee hereby accepts all of such right, title and interest to, in and under the Assigned Rights and assumes all of the obligations of Assignor under the Assigned rights and arising or accruing on or after _____, 2007 (the "Effective Date").

2. Indemnification. Assignee agrees to indemnify, defend and hold Assignor harmless from and against any liability, loss, damage, cost, claim or expense directly or indirectly related to or in any way associated with the Assigned Rights arising from the obligations of Assignee to be performed on or after the Effective Date. Assignor agrees to indemnify, defend and hold Assignee

harmless from and against any liability, loss, damage, cost, claim or expense directly or indirectly related to or in any way associated with the Assigned Rights arising from the obligations of Assignor under the Assigned Rights and incurred prior to the Effective Date. Any claim made by Assignee or Assignor against the other under this Section 2 shall be made in accordance with the provisions of Section 8.3 of the Agreement.

IN WITNESS WHEREOF , the parties hereto have caused this Assignment to be duly executed and delivered on the day and year first above written.

ASSIGNOR:

_____, a _____

By: _____
Title: _____

ASSIGNEE:

_____, a _____

By: _____
Title: _____

Exhibit A
to General Assignment

E-3

Exhibit B
to General Assignment

E-4

Exhibit F
to Agreement of Sale and Purchase

Form of Lease Termination

This instrument was prepared by:

LEASE TERMINATION AGREEMENT

THIS LEASE TERMINATION AGREEMENT (the "Termination") is dated as of _____, 2007, and effective at the Effective Time (as defined in **Section 1** hereof), and is by and among _____, _____ (the "Landlord"), with an address of _____, and _____, a _____ (the "Tenant"), with an address of _____.

PRELIMINARY STATEMENTS

A. Pursuant to that certain [Lease Agreement identified on **Exhibit A** attached hereto] (the "Lease"), Tenant leased from Landlord the premises more particularly described as the "_____" in the Lease (the "Premises").

B. In conjunction with the conveyance of the Premises by Landlord to Tenant, Landlord and Tenant wish to agree and consent to the termination of the Lease.

TERMS

NOW, THEREFORE, in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the mutual promises contained in this Termination, the parties, intending to be legally bound, agree as follows:

1. Landlord and Tenant hereby agree and consent to the termination of the Lease, effective as of _____ .m. (Central Time) on the date hereof (the "Effective Time"); provided, however, that Tenant is not released from any liabilities, duties or obligations under the Lease that arose or accrued prior to the Effective Time, including, without limitation, the obligation, responsibility or liability for the payment to Landlord or any other person or entity for any losses, liabilities, damages, injuries, penalties, fines, costs, expenses, claims and other amounts of any and every kind whatsoever (including, without limitation, reasonable attorneys' fees and expenses) that relate to (a) the Lease; (b) Tenant's occupancy of the Premises or the improvements thereon; (c) the use or enjoyment of any appurtenances, easements, rights and privileges belonging to the Premises

by Tenant or its invitees, officers, contractors, subcontractors, agents, representatives or employees; or (d) causes of action, claims, suits, actions or other proceedings (i) pending at the Effective Time or (ii) filed or made at or after the Effective Time and relating to events occurring or liabilities or obligations arising or accruing prior to the Effective Time.

2. Tenant hereby releases and forever discharges Landlord from all known or unknown causes of action, claims, suits, actions, demands or other proceedings of any kind that Tenant has as of the Effective Time or may have after the Effective Time on account of or in any way arising out of or related to the Lease or the Premises.

3. This Termination shall be construed and interpreted in accordance with the laws of the State in which the Premises are located.

4. This Termination shall inure to the benefit of the successors and assigns of the parties hereto.

5. This Termination may be executed in any number of counterparts, each of which shall be deemed an original hereof and all of which together shall constitute but one Termination. In the event of any conflict between the terms of this Termination and the terms of the Lease, the terms of this Termination shall govern and shall be controlling.

IN WITNESS WHEREOF , the parties hereto have executed this instrument effective on the date set forth above.

LANDLORD:

_____, a

By: _____
Name: _____
Title: _____

TENANT:

_____, a

By: _____
Name: _____
Title: _____

[INSERT APPROPRIATE ACKNOWLEDGEMENT
FORM AND RECORDING REQUIREMENTS]

Exhibit A
to Lease Termination

Description of Lease

F-3

Exhibit G-1
to Agreement of Sale and Purchase

Emeritus Mortgage Loan

Promissory Note, dated June 30, 2005, executed by Emeritus Corporation in the principal amount of \$10.8 million and payable to Healthcare Realty Trust Incorporated, as amended, renewed, modified or extended. As of the February 28, 2007, the outstanding principal balance thereunder was \$10.8 million and non-default rate of interest thereunder was 10% per annum.

Exhibit G-2
to Agreement of Sale and Purchase

Term Mortgage Loan

Term Loan Note, dated May 1, 2003, executed by Emeritus Corporation in the principal amount of \$600,000 and payable to HR Acquisition I Corporation, as amended, renewed, modified or extended. As of February 28, 2007, the outstanding principal balance thereunder was \$600,000 and the non-default rate of interest thereunder was 10% per annum.

G-1

Exhibit H
to Agreement of Sale and Purchase

List of Tenant Leases

1. Lease Agreement, dated May 1, 2003, by and between HR Acquisition I Corporation, Capstone Capital of Pennsylvania, Inc., and HRT Holdings, Inc., as lessor, and Emeritus Corporation, as lessee, as amended, modified, extended or assigned, and including any recorded lease memoranda or short form leases thereof, as amended, modified, extended or assigned.
2. Lease Agreement, dated as of December 31, 1996, by and between Capstone Capital of San Antonio, Ltd. (d/b/a Cahaba of San Antonio, Ltd.), as lessor, and Integrated Living Communities of McKinney, Inc., as lessee, as amended, modified, extended or assigned, and including any recorded lease memoranda or short form leases thereof, as amended, modified, extended or assigned.
3. Lease Agreement, dated as of December 31, 1996, by and between Capstone Capital of San Antonio, Ltd. (d/b/a Cahaba of San Antonio, Ltd.), as lessor, and Integrated Living Communities of Henderson, Inc., as lessee, as amended, modified, extended or assigned, and including any recorded lease memoranda or short form leases thereof, as amended, modified, extended or assigned.
4. Lease Agreement, dated as of December 31, 1996, by and among Capstone Capital of San Antonio, Ltd. (d/b/a Cahaba of San Antonio, Ltd.), as lessor, and Integrated Living Communities of Oakwell, Inc., as lessee, and Integrated Living Communities, Inc., as amended, modified, extended or assigned, and including any recorded lease memoranda or short form leases thereof, as amended, modified, extended or assigned.
5. Lease Agreement, dated as of December 31, 1996, by and among Capstone Capital of San Antonio, Ltd. (d/b/a Cahaba of San Antonio, Ltd.), as lessor, and Integrated Living Communities of San Antonio, Inc., as lessee, and Integrated Living Communities, Inc., as amended, modified, extended or assigned, and including any recorded lease memoranda or short form leases thereof, as amended, modified, extended or assigned.

Exhibit I
to Agreement of Sale and Purchase

Form of Title Affidavit

TITLE AFFIDAVIT

BEFORE ME, the undersigned authority, on this day personally appeared _____ (the "Affiant"), personally known to be the person whose name is subscribed hereto, and upon his oath deposes and says as follows:

1. Affiant is the _____ of _____, a _____ (the "Owner"). Deponent has knowledge of the statements made herein and is qualified and authorized to make and deliver this Title Affidavit on behalf of Owner.
2. Owner is the present owner of the property described in Exhibit A attached hereto (the "Property").
3. To the best of Affiant's knowledge, there are no pending disputes concerning the location of the boundary lines, fences, driveways, walks, encroachments or improvements, either onto or from the Property.
4. To the best of Affiant's knowledge, there are no currently pending suits, proceedings or judgments that adversely affect the title to the Property.
5. There are no tenancies, leases, subleases, occupancies or parties in possession of the Property except for _____.
6. No bankruptcy proceedings in any federal court, federal tax liens, state tax liens and/or judgments have been or are being filed against or by Owner.
7. There are no liens for past due taxes of any nature or any unpaid assessments of any kind against the Property, other than shown on Commitment No. ____ (the "Commitment") issued by Fidelity National Title Insurance Company ("Fidelity").
8. As of the closing of the sale of the Property, there will be no financing statements under which Owner is the debtor encumbering the Property and no outstanding indebtedness of Owner for equipment, appliances or other fixtures attached to the Property.
9. This Title Affidavit is being delivered to Fidelity in connection with the conveyance of the Property to _____, a _____.

10. There are no unpaid debts or liens for work, improvements or repairs that have been undertaken by or at the request of Owner on the Property preceding the date of the making of this Title Affidavit.

EXECUTED this _____ day of _____, 2007.

By: _____
Title: _____

SUBSCRIBED AND SWORN TO BEFORE ME this _____ day of _____, 2007.

Notary Public, State of _____

Printed Name

My commission expires:

[SEAL]

Exhibit A
to Title Affidavit

Description of Property

E-4

Exhibit J
to Agreement of Sale and Purchase

Form of Mortgage Assignment

**ASSIGNMENT AND ASSUMPTION
OF LOAN AND LOAN DOCUMENTS**

THIS ASSIGNMENT AND ASSUMPTION OF LOAN AND LOAN DOCUMENTS (the "Assignment") is made as of _____, by and between _____, a _____ (the "Assignor"), and _____, a _____ (the "Assignee").

FOR A VALUABLE CONSIDERATION AND THE MUTUAL COVENANTS HEREIN CONTAINED, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

1. Assignor hereby bargains, sells, assigns, transfers and conveys unto Assignee, without recourse or warranty, all of Assignor's right, title and interest in and to those loan documents (collectively, the "Loan Documents") listed and identified in Exhibit A hereto, the loan indebtedness (the "Loan") evidenced and secured, respectively, by the Note and the [_____] identified in Exhibit A hereto and all rights, options, benefits and privileges granted to Assignor in the Loan Documents. Assignee hereby accepts such assignment and assumes, effective as of _____, 2007 (the "Effective Date"), all liabilities, duties and obligations of Assignor under the Loan Documents and hereby agrees to be bound by and upon all of the covenants, agreements, terms, provisions and conditions of the Loan Documents.

2. ASSIGNOR MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE LOAN, THE LOAN DOCUMENTS, THE COLLATERAL SECURITY FOR THE LOAN, IF ANY, OR THE ABILITY OF THE OBLIGORS UNDER ANY OF THE LOAN DOCUMENTS TO SATISFY THEIR RESPECTIVE OBLIGATIONS THEREUNDER. ASSIGNEE AGREES THAT THE LOAN AND THE LOAN DOCUMENTS ARE ACCEPTED BY ASSIGNEE IN "AS-IS, WHERE-IS" CONDITION, AND ASSIGNOR SPECIFICALLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE.

3. Assignee hereby releases and forever discharges Assignor from all known or unknown causes of action, claims, suits, actions, demands or other proceedings of any kind relating to the Loan, the Loan Documents or the ability of the obligors under any of the Loan Documents to satisfy their respective obligations thereunder. REGARDLESS OF ANY STATEMENTS OR REPRESENTATIONS IN THE LOAN DOCUMENTS TO THE CONTRARY, ASSIGNEE ACKNOWLEDGES AND AGREES THAT REPAYMENT OF THE LOAN IS UNSECURED AND ANY PRIOR COLLATERAL SECURITY FOR THE LOAN WAS RELEASED OR EXTINGUISHED PRIOR TO THIS ASSIGNMENT.

4. This Assignment shall be construed and interpreted in accordance with the laws of the State of _____.

5. This Assignment shall inure to the benefit of the successors and assigns of the parties hereto.

6. This Assignment may be executed in any number of counterparts, each of which shall be deemed an original hereof and all of which together shall constitute but one Assignment. In the event of any conflict between the terms of this Assignment and the terms of the Lease, the terms of this Assignment shall govern and shall be controlling.

IN WITNESS WHEREOF , the parties hereto have executed this Assignment to be effective as of the Effective Date.

ASSIGNOR:

_____, a _____

By: _____
Title:

ASSIGNEE:

_____, a _____

By: _____
Title:

[INSERT APPROPRIATE ACKNOWLEDGEMENT
FORM AND RECORDING REQUIREMENTS]

Exhibit A
to Assignment and Assumption of Loan and Loan Documents

E-3

Schedule 3.6
to Agreement of Sale and Purchase

<u>Facility</u>	<u>Zoning Classification</u>
Loyalton at Bloomsburg 420 Shaffer Road Bloomsburg, Pennsylvania	C (General Commercial District)
Loyalton at Harrisburg 3560 N. Progress Ave. Harrisburg, Pennsylvania	B.O.R. (Business, Office, Residential)
Loyalton at Creekview 1100 Grandon Way Hampden, Pennsylvania	R-T (Residential Towne)

Healthcare Realty Trust Incorporated
Quarterly Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David R. Emery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthcare Realty Trust Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ DAVID R. EMERY

David R. Emery
Chairman of the Board
and Chief Executive Officer

Healthcare Realty Trust Incorporated
Quarterly Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott W. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Healthcare Realty Trust Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ SCOTT W. HOLMES

Scott W. Holmes

Senior Vice President

and Chief Financial Officer

Healthcare Realty Trust Incorporated
Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Healthcare Realty Trust Incorporated (the “Company”) on Form 10-Q for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David R. Emery, Chairman of the Board and Chief Executive Officer of the Company, and I, Scott W. Holmes, Senior Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2007

/s/ DAVID R. EMERY

David R. Emery
Chairman of the Board
and Chief Executive Officer

/s/ SCOTT W. HOLMES

Scott W. Holmes
Senior Vice President
and Chief Financial Officer