

# HEALTHCARE REALTY TRUST INC

## FORM 10-Q (Quarterly Report)

Filed 8/9/2006 For Period Ending 6/30/2006

Address	3310 WEST END AVE FOURTH FL SUITE 700 NASHVILLE, Tennessee 37203
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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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

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**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: June 30, 2006

**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**

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**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 August 1, 2006, 47,812,395 shares of the Registrant's Common Stock were outstanding.

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**HEALTHCARE REALTY TRUST INCORPORATED**  
**FORM 10-Q**  
**June 30, 2006**

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**Part I. FINANCIAL INFORMATION**

**Healthcare Realty Trust Incorporated**  
**Condensed Consolidated Balance Sheets**  
(Dollars in thousands)

	(Unaudited) June 30, 2006	December 31, 2005
<b>ASSETS</b>		
Real estate properties:		
Land	\$ 129,272	\$ 133,195
Buildings, improvements and lease intangibles	1,724,053	1,670,884
Personal property	22,113	21,932
Construction in progress	13,814	7,030
	<u>1,889,252</u>	<u>1,833,041</u>
Less accumulated depreciation	(340,961)	(315,794)
Total real estate properties, net	1,548,291	1,517,247
Cash and cash equivalents	4,079	7,037
Mortgage notes receivable	101,823	105,795
Assets held for sale, net	2,250	21,415
Other assets, net	105,790	96,158
Total assets	<u>\$1,762,233</u>	<u>\$ 1,747,652</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Notes and bonds payable	\$ 834,702	\$ 778,446
Accounts payable and accrued liabilities	27,971	30,774
Other liabilities	24,254	25,964
Total liabilities	886,927	835,184
Commitments	—	—
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; issued and outstanding 47,812,395 — 2006 and 47,768,148 — 2005	478	478
Additional paid-in capital	1,222,135	1,220,522
Deferred compensation	(12,697)	(13,013)
Cumulative net income	619,402	595,401
Cumulative dividends	(954,012)	(890,920)
Total stockholders' equity	875,306	912,468
Total liabilities and stockholders' equity	<u>\$1,762,233</u>	<u>\$ 1,747,652</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, 2005, are an integral part of these financial statements.

**Healthcare Realty Trust Incorporated**  
**Condensed Consolidated Statements of Income**  
**For The Three Months Ended June 30, 2006 and 2005**  
(Dollars in thousands, except per share data)  
(Unaudited)

	2006	2005
<b>REVENUES:</b>		
Master lease rental income	\$ 20,217	\$ 17,807
Property operating income	31,397	32,612
Straight-line rent	1,360	(1,663)
Mortgage interest income	3,083	2,315
Other operating income	10,972	8,892
	<u>67,029</u>	<u>59,963</u>
<b>EXPENSES:</b>		
General and administrative	4,365	4,064
Property operating expenses	17,524	17,740
Other operating expenses	4,533	3,850
Bad debt expense	330	0
Interest	12,555	11,532
Depreciation	13,277	11,809
Amortization	2,703	3,063
	<u>55,287</u>	<u>52,058</u>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<u>11,742</u>	<u>7,905</u>
<b>DISCONTINUED OPERATIONS:</b>		
Income (loss) from discontinued operations	(246)	3,019
Gain on sales of real estate properties and impairments, net	10	643
	<u>(236)</u>	<u>3,662</u>
<b>NET INCOME</b>	<u>\$ 11,506</u>	<u>\$ 11,567</u>
<b>BASIC EARNINGS PER COMMON SHARE:</b>		
Income from continuing operations per common share	\$ 0.25	\$ 0.17
Discontinued operations per common share	\$ 0.00	\$ 0.08
Net income per common share	<u>\$ 0.25</u>	<u>\$ 0.25</u>
<b>DILUTED EARNINGS PER COMMON SHARE:</b>		
Income from continuing operations per common share	\$ 0.25	\$ 0.17
Discontinued operations per common share	\$ (0.01)	\$ 0.07
Net income per common share	<u>\$ 0.24</u>	<u>\$ 0.24</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — BASIC</b>	<u>46,531,031</u>	<u>46,476,389</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — DILUTED</b>	<u>47,459,976</u>	<u>47,403,316</u>
<b>DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD</b>	<u>\$ 0.660</u>	<u>\$ 0.655</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, 2005, are an integral part of these financial statements.

**Healthcare Realty Trust Incorporated**  
**Condensed Consolidated Statements of Income**  
**For The Six Months Ended June 30, 2006 and 2005**  
(Dollars in thousands, except per share data)  
(Unaudited)

	<u>2006</u>	<u>2005</u>
<b>REVENUES:</b>		
Master lease rental income	\$ 40,170	\$ 34,767
Property operating income	63,215	65,553
Straight-line rent	1,742	(1,413)
Mortgage interest income	6,139	3,652
Other operating income	19,730	17,316
	<u>130,996</u>	<u>119,875</u>
<b>EXPENSES:</b>		
General and administrative	8,760	7,324
Property operating expenses	35,656	34,412
Other operating expenses	8,838	7,589
Bad debt expense	1,067	0
Interest	25,619	23,308
Depreciation	25,848	23,266
Amortization	5,581	6,127
	<u>111,369</u>	<u>102,026</u>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<u>19,627</u>	<u>17,849</u>
<b>DISCONTINUED OPERATIONS:</b>		
Income from discontinued operations	1,099	7,689
Gain on sales of real estate properties and impairments, net	3,275	6,778
	<u>4,374</u>	<u>14,467</u>
<b>NET INCOME</b>	<u>\$ 24,001</u>	<u>\$ 32,316</u>
<b>BASIC EARNINGS PER COMMON SHARE:</b>		
Income from continuing operations per common share	<u>\$ 0.42</u>	<u>\$ 0.39</u>
Discontinued operations per common share	<u>\$ 0.09</u>	<u>\$ 0.31</u>
Net income per common share	<u>\$ 0.51</u>	<u>\$ 0.70</u>
<b>DILUTED EARNINGS PER COMMON SHARE:</b>		
Income from continuing operations per common share	<u>\$ 0.41</u>	<u>\$ 0.38</u>
Discontinued operations per common share	<u>\$ 0.09</u>	<u>\$ 0.30</u>
Net income per common share	<u>\$ 0.50</u>	<u>\$ 0.68</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — BASIC</b>	<u>46,511,581</u>	<u>46,443,639</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — DILUTED</b>	<u>47,464,377</u>	<u>47,375,895</u>
<b>DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD</b>	<u>\$ 1.320</u>	<u>\$ 1.305</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, 2005, are an integral part of these financial statements.

**Healthcare Realty Trust Incorporated**  
**Condensed Consolidated Statements of Cash Flows**  
**For The Six Months Ended June 30, 2006 and 2005**  
(Dollars in thousands)  
(Unaudited)

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,001	\$ 32,316
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	31,832	30,706
Deferred compensation amortization	1,890	1,767
FAS 123R stock compensation expense	227	0
Increase (decrease) in other liabilities	2,552	(954)
Increase in other assets	(1,214)	(4,730)
Decrease in accounts payable and accrued liabilities	(4,947)	(2,575)
(Increase) decrease in straight-line rent receivable	(1,165)	1,572
Equity in losses from unconsolidated LLCs	74	145
Provision for bad debts	1,067	0
Gain on sales of real estate and impairments, net	(3,275)	(6,778)
Net cash provided by operating activities	51,042	51,469
<b>Cash flows from investing activities:</b>		
Acquisition and development of real estate properties	(80,379)	(61,304)
Funding of mortgages and notes receivable	(20,571)	(64,326)
Investments in unconsolidated LLCs	(9,873)	(11,135)
Distributions from unconsolidated LLCs	424	114
Proceeds from sales of real estate	29,144	124,879
Proceeds from mortgages and notes receivable repayments	40,357	9,161
Net cash used in investing activities	(40,898)	(2,611)
<b>Cash flows from financing activities:</b>		
Borrowings on notes and bonds payable	247,000	122,248
Repayments on notes and bonds payable	(195,489)	(110,726)
Dividends paid	(63,092)	(62,301)
Proceeds from issuance of common stock	293	872
Common stock redemption	(481)	0
Debt issuance costs	(1,333)	0
Net cash used in financing activities	(13,102)	(49,907)
<b>Decrease in cash and cash equivalents</b>	(2,958)	(1,049)
<b>Cash and cash equivalents, beginning of period</b>	7,037	2,683
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,079</u>	<u>\$ 1,634</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, 2005, are an integral part of these financial statements.



**Healthcare Realty Trust Incorporated**

**Notes to Condensed Consolidated Financial Statements**

**June 30, 2006**

(Unaudited)

**Note 1. Significant Accounting Policies**

*Overview*

The accompanying unaudited Condensed Consolidated Financial Statements and Notes of Healthcare Realty Trust Incorporated (the “Company”) 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, 2005. Management believes, however, that all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2006 due to many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effect of trends as discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”).

This interim financial information should be read in conjunction with the financial statements and MD&A included in the Company’s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2005.

Significant inter-company accounts and transactions have been eliminated in the Condensed Consolidated Financial Statements.

The Company is in the business of owning, developing, managing, and financing healthcare-related properties. The Company is managed as one reporting unit 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.”

Certain reclassifications have been made in the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2005 to conform to the June 30, 2006 presentation.

*Stock Issued to Employees*

During 2006 and 2005, the Company issued and had outstanding various 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 shares issued to employees pursuant to the 2000 Employee Stock Purchase Plan (“Employee Stock Purchase Plan”). The Employee Stock Purchase Plan features a “look-back” provision which enables the employee to purchase a fixed number of shares 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, with optional purchase dates occurring once each quarter for twenty-seven months.

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Prior to 2006, the Company followed the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations in accounting for its stock-based awards to employees and followed the disclosure provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended. Effective January 1, 2006, the Company adopted SFAS No. 123R, “Share-Based Payment,” which revised SFAS No. 123 and superseded APB Opinion No. 25. This statement focuses primarily on accounting for transactions in which a company obtains employee services in share-based payment transactions, including employee stock purchase plans under certain conditions, but does not change the accounting guidance for share-based payment transactions with parties other than employees. This statement requires all share-based payments to employees to be recognized in the income statement based on their fair values. SFAS No. 123R permits public companies to adopt its requirements using one of two methods. The Company has elected to follow the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

The compensatory nature of the Restricted Stock Plan and the determination of the related compensation expense under the provisions of SFAS No. 123R are consistent with the accounting treatment prescribed by APB Opinion No. 25. However, the look-back feature under the Employee Stock Purchase Plan does not qualify for non-compensatory accounting treatment under SFAS No. 123R as it did under the provisions prescribed by APB Opinion No. 25, and, instead, requires fair value measurement using the Black-Scholes or other pricing model and the recognition of expense over the vesting period. The accounting for the look-back feature associated with the Employee Stock Purchase Plan under SFAS No. 123R is consistent with the accounting prescribed by SFAS No. 123, and as interpreted in FASB Technical Bulletin (“FTB”) 97-1, “Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option.” Therefore, the compensation expense recognized upon adoption of SFAS No. 123R has been determined in the same manner that the proforma compensation expense was calculated under SFAS No. 123, using the Black-Scholes model. For the three and six months ended June 30, 2006, included in general and administrative expenses, the Company recognized approximately \$0 and \$227,000, respectively, of compensation expense related to the January 1, 2006 grant of options to purchase shares under the Employee Stock Purchase Plan, where such options are immediately vested on the date of grant. The Company grants options under its Employee Stock Purchase Plan once a year, during the first quarter, and thus records compensation expense related to those grants only in that quarter each year.

The following table represents the effect on net income and earnings per share for the three and six months ended June 30, 2005, as if the Company had applied the fair value-based method and recognition provisions of SFAS No. 123 and 123R, as described above:

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	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
<i>(Dollars in thousands, except per share data)</i>		
Net income, as reported	\$ 11,567	\$ 32,316
Add: Compensation expense for equity-based awards to employees, included in net income	869	1,770
Deduct: Compensation expense for equity-based awards to employees under the fair value method	(869)	(1,994)
Pro-forma net income	\$ 11,567	\$ 32,092
Earnings per share, as reported:		
Basic	\$ 0.25	\$ 0.70
Assuming dilution	\$ 0.24	\$ 0.68
Pro-forma earnings per share:		
Basic	\$ 0.25	\$ 0.69
Assuming dilution	\$ 0.24	\$ 0.68

A summary of the Employee Stock Purchase Plan activity and related information for the three and six months ended June 30, 2006 and 2005 follows:

<i>All Options</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Outstanding, beginning of period	266,662	233,967	158,026	141,037
Granted	0	0	148,698	119,730
Exercised	(1,244)	1	(10,823)	(9,675)
Forfeited	(14,683)	(3,067)	(45,166)	(20,191)
Expired	(55,150)	0	(55,150)	0
Outstanding and exercisable at end of period	195,585	230,901	195,585	230,901
Weighted-average fair value of options granted during the year (calculated as of the grant date)	\$ 6.74	\$ 7.74	\$ 6.74	\$ 7.74
Weighted-average exercise price of options exercised during the year	\$ 27.34	\$ 26.38	\$ 27.34	\$ 26.38
Weighted-average exercise price of options outstanding (calculated as of June 30)	\$ 27.07	\$ 29.45	\$ 27.07	\$ 29.45
Range of exercise prices of options outstanding (calculated as of June 30)	\$27.07-\$34.60	\$24.86-\$34.60	\$27.07-\$34.60	\$24.86-\$34.60
Weighted-average contractual life of outstanding options (calculated as of June 30, in years)	1.34	1.31	1.34	1.31

The fair value of these options was estimated at the date of grant using a 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; expected volatility was based on historical volatility of the Company's stock, calculated on a

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quarterly basis; and expected forfeitures were based on historical exercise rates within the look-back period.

	Three and Six Months Ended June 30,	
	2006	2005
Risk-free interest rates	4.41%	3.08%
Dividend yields	6.68%	7.50%
Expected life (in years)	1.48	1.51
Expected volatility	0.198	0.194
Expected forfeiture rates	76%	76%

During the three and six months ended June 30, 2006, the Company granted 870 shares of restricted stock and 30,928 shares of restricted stock to employees under its various benefit plans having a value at the date of grant of approximately \$39,400 and \$1.0 million, respectively. The shares have vesting or amortization periods ranging from three to eight years. The amortization period may be shorter than the vesting period for awards to certain officers having employment agreements, which allow for accelerated vesting of shares upon retirement. During the three and six months ended June 30, 2006, the Company also granted a total of 16,000 shares of restricted stock to its outside directors (2,000 shares to each director). The shares had a value at the date of grant totaling approximately \$0.6 million and have a vesting period of 3 years.

During the second quarter of 2006, the Company withheld 12,757 shares of common stock from one of its officers to pay estimated withholding taxes related to restricted stock that vested in the quarter. The shares were immediately retired.

### Retirement Plans

The Company has retirement plans under which certain employees, as designated by the Compensation Committee of the Board of Directors, and the Company's outside directors, may receive retirement benefits. These benefits are described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The plans are unfunded and benefits will be paid from earnings of the Company. The following table sets forth the benefit obligations for the three and six months ended June 30, 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<i>(in thousands)</i>				
Benefit obligation, beginning of period	\$ 8,345	\$ 6,877	\$ 8,345	\$ 6,615
Service costs	235	150	471	300
Interest costs	177	102	355	204
Other	106	8	210	17
Actuarial gain	508	2	1,017	3
Benefit obligation, end of period	9,371	7,139	10,398	7,139
Unrecognized net actuarial gain	(1,436)	(1,020)	(2,463)	(1,020)
Net pension liability in accrued liabilities	<u>\$ 7,935</u>	<u>\$ 6,119</u>	<u>\$ 7,935</u>	<u>\$ 6,119</u>

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### *Variable Interest Entities*

In accordance with FASB Financial Interpretation No. 46R, “Consolidation of Variable Interest Entities (“VIEs”) 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 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, 2005.

### *New Pronouncements*

In July 2006, the FASB issued Financial Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes,” (“FIN No. 48”) which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company is currently evaluating what impact, if any, FIN No. 48 will have on its results of operations and cash flows. FIN No. 48 will be effective for the Company beginning January 1, 2007.

### **Note 2. 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. These activities constitute a single business segment as defined by the SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” As of June 30, 2006, the Company had investments of approximately \$2.0 billion in 249 real estate properties and mortgage notes receivable, including investments in three unconsolidated limited liability companies (carried in “Other assets” on the Company’s Condensed Consolidated Balance Sheet). The Company’s 235 owned real estate properties, located in 27 states, totaled approximately 12.7 million square feet. See the table below for more detail on the Company’s real estate and mortgage notes receivable investments:

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	Number of Investments	Investment Amounts (in thousands)		Square Feet (in thousands)
<b>Owned properties:</b>				
<i>Long-term net master leases</i>				
Medical office/outpatient facilities	60	\$ 346,824	17.2%	2,266
Assisted living facilities	26	128,071	6.4%	887
Skilled nursing facilities	29	144,711	7.2%	974
Inpatient rehabilitation facilities	9	199,901	9.9%	643
Independent living facilities	7	63,897	3.2%	726
Other inpatient facilities	4	32,569	1.6%	334
	135	915,973	45.5%	5,830
<i>Financial support agreements</i>				
Medical office/outpatient facilities	17	167,933	8.3%	1,184
	17	167,933	8.3%	1,184
<i>Multi-tenanted with occupancy leases</i>				
Medical office/outpatient facilities	82	791,273	39.3%	5,715
	82	791,273	39.3%	5,715
<i>Corporate property</i>				
	—	14,073	0.7%	—
<b>Total owned properties, excluding assets held for sale</b>	<b>234</b>	<b>1,889,252</b>	<b>93.8%</b>	<b>12,729</b>
<i>Assets held for sale</i>				
Medical office/outpatient facilities	1	2,378	0.1%	17
	1	2,378	0.1%	17
<b>Total owned properties</b>	<b>235</b>	<b>1,891,630</b>	<b>93.9%</b>	<b>12,746</b>
<b>Mortgage notes receivable:</b>				
Assisted living facilities	7	64,643	3.2%	N/A
Skilled nursing facilities	2	16,260	0.8%	N/A
Medical office/outpatient facilities	1	14,920	0.8%	N/A
Independent living facilities	1	6,000	0.3%	N/A
	11	101,823	5.1%	N/A
<b>Unconsolidated LLC investments, net:</b>				
Medical office/outpatient facilities	2	13,468	0.7%	N/A
Assisted living facilities	1	6,627	0.3%	N/A
	3	20,095	1.0%	N/A
<b>Total real estate investments</b>	<b>249</b>	<b>\$2,013,548</b>	<b>100.0%</b>	<b>12,746</b>

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### *Asset Acquisitions*

During the second quarter of 2006, the Company acquired a 58,474 square foot medical office building and an adjoining 117,525 square foot orthopaedic hospital in Indiana for \$65.0 million. These properties will operate under absolute net master lease agreements. The Company also invested \$3.9 million in one mortgage note receivable, which is secured by six senior living facilities in Michigan. Additionally, the Company financed in full the sale of one of its owned ancillary hospital facilities in California, in which the Company had a \$16.4 million gross investment (\$13.4 million, net). In the transaction, the Company received a \$14.9 million mortgage note receivable, which is secured by the 87,000 square foot facility. As required by SFAS No. 66, "Accounting for Sales of Real Estate," the Company has deferred the recognition of the gain on sale of approximately \$1.5 million until such time that recognition is allowed under SFAS No. 66.

During the first quarter of 2006, the Company invested \$16.0 million in one mortgage, which is secured by a group of assisted living facilities. Also, during the first quarter of 2006, the Company acquired for \$2.4 million a 50% non-managing member interest in a limited liability company ("LLC") which acquired one medical office building in Oregon, and acquired for \$6.6 million a 10% non-managing member interest in a LLC which acquired six senior living facilities in Utah. The Company accounts for its interests in these LLCs under the equity method. These investments are carried in "Other assets" on the Company's Condensed Consolidated Balance Sheets.

### *Asset Dispositions*

During the second quarter of 2006, the Company sold three ancillary hospital facilities in Alabama, in which the Company had a gross investment totaling \$26.3 million (\$21.1 million, net) and other related assets totaling approximately \$600,000. The purchase price totaled \$21.7 million, and provided for the repayment of three mortgage notes payable totaling \$7.1 million, which were secured by the properties. The Company recognized an immaterial gain on the transaction. Additionally, pursuant to a purchase option exercised in 2005, the Company sold an 87,000 square foot ancillary hospital facility in California and financed the sale transaction. (See "Asset Acquisitions" for more details.) Finally, in the second quarter, two mortgage notes receivable were repaid totaling \$10.9 million. The Company received a \$1.1 million prepayment penalty from these two repayments, which is included in "Other operating income" on the Company's Consolidated Statement of Income.

During the first quarter of 2006, a sponsor under a financial support arrangement exercised a purchase option and purchased two properties, providing net proceeds to the Company totaling \$11.2 million. The Company recognized a \$3.3 million gain from the sale of these properties. Also, mortgage notes receivable were repaid providing net proceeds to the Company totaling \$28.0 million, including interest receivables due to the Company.

### *Purchase Options*

As of December 31, 2005, the Company had a gross investment of approximately \$205.0 million in real estate properties where the respective operators and lessees had outstanding and exercisable contractual options to purchase the properties subject to various conditions and terms. As discussed in the preceding paragraph, the Company sold two properties pursuant to contractual purchase options in the first quarter of 2006 and sold one property in the second quarter of 2006 pursuant to an option exercised by the tenant in late 2005. The Company has not received any additional notices of exercise in 2006 and cannot predict how many, if any, may be received in the future. See the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for a more detailed discussion of the Company's properties that are subject to purchase options.

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### *Prepayments on Mortgage Notes Receivable*

The Company has been notified by three borrowers of their intent to prepay mortgage notes receivable, totaling approximately \$30.8 million at June 30, 2006, during the third and fourth quarters of 2006. The weighted average interest rate on these three mortgage notes receivable was 13.48% at June 30, 2006.

### **Note 3. Notes and Bonds Payable**

Notes and bonds payable consisted of the following (*in thousands*):

	June 30, 2006	December 31, 2005
Unsecured Credit Facility due 2009	\$173,000	\$ 0
Unsecured Credit Facility due 2006	0	73,000
Senior Notes due 2006	0	29,400
Senior Notes due 2011, net	301,183	306,629
Senior Notes due 2014, net	298,772	298,708
Mortgage notes payable	61,747	70,709
	<u>\$834,702</u>	<u>\$ 778,446</u>

At June 30, 2006, 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 June 30, 2006 was 6.18%. Additionally, the Company will pay 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 of \$227.0 million under the facility as of June 30, 2006.

#### *Unsecured Credit Facility due 2006*

In 2003, the Company entered into a \$300.0 million credit facility (the “Unsecured Credit Facility due 2006”) with a syndicate of 12 banks. In January 2006, the Unsecured Credit Facility due 2006 was repaid with proceeds from the Unsecured Credit Facility due 2009. Rates for borrowings under the Unsecured Credit Facility due 2006 were, at the Company’s option, LIBOR based or based on the higher of the Federal Funds Rate plus  $\frac{1}{2}$  of 1% or the agent bank’s prime rate and could vary based on the Company’s debt rating. In addition, the Company incurred an annual facility fee of 0.35% on the commitment, which could fluctuate based on the Company’s debt rating.



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### Senior Notes due 2006

In 2000, the Company privately placed \$70.0 million of unsecured senior notes (the “Senior Notes due 2006”) with multiple purchasers affiliated with two institutions. The Senior Notes due 2006 bore interest at 9.49% and were fully repaid on April 3, 2006.

### 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. The Company paid interest at the equivalent rate of 1.99% over six-month LIBOR. In March 2003, the Company terminated these interest rate swap agreements and entered into new swaps under terms identical to those of the 2001 swap agreements except that the equivalent rate was adjusted to 4.12% over six-month LIBOR. The Company received cash equal to the fair value of the terminated swaps (“premium”) of \$18.4 million, which was combined with the principal balance of the Senior Notes due 2011 on the Company’s Condensed Consolidated Balance Sheets and was being amortized against interest expense over the remaining term of the notes, offsetting the increase in the spread over LIBOR. The derivative instruments met all of the requirements of a fair value hedge and were accounted for using the “shortcut method” as set forth in SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” As such, changes in fair value of the derivative instruments had no impact on the Company’s Condensed Consolidated Statements of Income. In June 2006, the Company terminated these interest rate swap agreements and paid \$10.1 million, equal to the fair value of the interest rate swaps at termination, plus interest due of \$0.3 million. The \$10.1 million paid by the Company was offset against the remaining premium from the 2003 termination. The remaining net premium of \$1.2 million was 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 resulting in a new effective 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 as follows (in thousands):

	June 30, 2006	December 31, 2005
Senior Notes due 2011 principal balance	\$300,000	\$ 300,000
Unamortized net gain (net of discount)	1,183	12,226
Fair value of interest rate swaps	0	(5,597)
	<u>\$301,183</u>	<u>\$ 306,629</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 a 5.19% interest rate per annum. The following table reconciles the balance of the Senior Notes due 2014 on the Company’s Condensed Consolidated Balance Sheets (in thousands):

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	June 30, 2006	December 31, 2005
Senior Notes due 2014 principal balance	\$300,000	\$ 300,000
Unamortized discount	(1,228)	(1,292)
	<u>\$298,772</u>	<u>\$ 298,708</u>

### Mortgage Notes Payable

At June 30, 2006, the Company had outstanding 10 non-recourse mortgage notes payable, with related collateral, as follows (dollars in millions):

	Original Balance	Effective Interest Rate	Maturity Date	Number of Notes Payable	(5) Collateral	Investment in Collateral at June 30, 2006	Contractual Balance at	
							June 30, 2006	Dec. 31, 2005
Life Insurance Co.(1)	\$ 23.3	7.765%	7/26	1	MOB	\$ 46.1	\$ 20.7	\$ 20.8
Life Insurance Co.(2)	4.7	7.765%	1/17	1	MOB	11.0	3.3	3.4
Commercial Bank(3)	23.4	7.220%	5/11	5	7 MOB's	53.6	13.7	22.2
Commercial Bank(1)	5.3	5.550%	4/31	1	SNF	10.1	5.1	5.2
Commercial Bank(1)	4.0	8.000%	4/32	1	SNF	8.1	3.9	4.0
Life Insurance Co.(4)	15.1	5.490%	1/16	1	MOB	32.5	15.0	15.1
				<u>10</u>		<u>\$ 161.4</u>	<u>\$ 61.7</u>	<u>\$ 70.7</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. Originally, the Company had 8 mortgage notes totaling \$35.0 million on 10 MOB's. Three of the mortgage notes, originally totaling \$11.6 million, were defeased during the second quarter of 2006.
- (4) Payable in monthly installments of principal and interest based on a 10-year amortization with the final payment due at maturity.
- (5) MOB-Medical office building  
SNF-Skilled nursing facility

The contractual interest rates for the 10 outstanding mortgage notes ranged from 5.49% to 8.50% at June 30, 2006. Three mortgage notes payable totaling approximately \$7.1 million were repaid in April 2006 related to the sale of three medical office buildings which secured the mortgage notes.

### Other Long-Term Debt Information

Future maturities of the Company's notes and bonds payable as of June 30, 2006 were as follows (dollars in thousands):

2006	\$ 1,720	0.2%
2007	3,645	0.4%
2008	3,922	0.5%
2009	177,224	21.2%
2010	4,548	0.6%
2011 and thereafter	<u>643,643</u>	<u>77.1%</u>
	<u>\$834,702</u>	<u>100.0%</u>

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The Company paid interest and capitalized interest as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest paid	\$ 25,013	\$ 23,437	\$ 27,391	\$ 24,741
Interest capitalized	\$ 569	\$ 485	\$ 676	\$ 924

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 June 30, 2006 and 2005 was approximately \$311,000 and \$489,000, respectively.

### Note 4. Commitments and Contingencies

#### *Construction in Progress*

As of June 30, 2006, the Company had an investment of approximately \$6.3 million in three medical office building developments in progress, which have a total remaining funding commitment of approximately \$56.6 million. The Company anticipates completion of these buildings in 2007. The Company is also in the pre-development stages on one building in Hawaii. As of June 30, 2006, the Company had invested \$7.5 million in the Hawaii land and site preparation, on which the Company anticipates it will begin construction of a \$70.0 million medical office building during 2006.

The Company also had various remaining first-generation tenant improvement obligations totaling approximately \$7.4 million as of June 30, 2006 related to properties that were developed by the Company.

#### *Hurricane Casualty Losses*

As disclosed in the Company’s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2005, three buildings owned by the Company sustained water, flood or wind damage from Hurricane Katrina and Hurricane Rita. In 2005, the Company recorded an estimated net loss related to these events. Based on the work performed through the second quarter of 2006, the Company has determined that the actual cost to repair the damages to these buildings will be more than estimated in 2005. As a result, the Company recorded, in the second quarter of 2006, additional estimated losses totaling \$700,000 which are included in depreciation expense on the accompanying Consolidated Statement of Income.

#### *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 an accounting and disgorgement of monies obtained by the allegedly wrongful conduct and other unspecified

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compensatory and punitive damages. There is currently a stay on discovery in the case. 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 Universal Health Services, Inc. in 2003. Its 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.

### *Purchase Contracts*

The Company has executed purchase agreements to acquire a skilled nursing facility in Tennessee for approximately \$7.3 million and an assisted living facility in Florida for \$8.2 million. Both acquisitions are expected to close during the third quarter of 2006.

## Note 5. 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 and six months ended June 30, 2006 and 2005 (dollars in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Weighted Average Shares</b>				
Weighted Average Shares Outstanding	47,807,916	47,751,015	47,796,243	47,734,070
Unvested Restricted Stock Shares	(1,276,885)	(1,274,626)	(1,284,662)	(1,290,431)
Weighted Average Shares — Basic	46,531,031	46,476,389	46,511,581	46,443,639
Weighted Average Shares — Basic	46,531,031	46,476,389	46,511,581	46,443,639
Dilutive effect of Restricted Stock Shares	894,951	877,848	910,134	882,523
Dilutive effect of Employee Stock Purchase Plan	33,994	49,079	42,662	49,733
Weighted Average Shares — Diluted	47,459,976	47,403,316	47,464,377	47,375,895
<b>Net Income</b>				
Income from Continuing Operations	\$ 11,742	\$ 7,905	\$ 19,627	\$ 17,849
Discontinued operations	(236)	3,662	4,374	14,467
Net income	<u>\$ 11,506</u>	<u>\$ 11,567</u>	<u>\$ 24,001</u>	<u>\$ 32,316</u>
<b>Basic Earnings per Common Share</b>				
Income from Continuing Operations per common share	\$ 0.25	\$ 0.17	\$ 0.42	\$ 0.39
Discontinued Operations per common share	\$ 0.00	\$ 0.08	\$ 0.09	\$ 0.31
Net income per common share	<u>\$ 0.25</u>	<u>\$ 0.25</u>	<u>\$ 0.51</u>	<u>\$ 0.70</u>
<b>Diluted Earnings per Common Share</b>				
Income from Continuing Operations per common share	\$ 0.25	\$ 0.17	\$ 0.41	\$ 0.38
Discontinued Operations per common share	\$ (0.01)	\$ 0.07	\$ 0.09	\$ 0.30
Net income per common share	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.50</u>	<u>\$ 0.68</u>

## Note 6. Subsequent Events

### *Common Stock Dividend*

On July 25, 2006, the Company's Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.660 per share (\$2.64 annualized) payable on September 1, 2006 to shareholders of record on August 15, 2006.

### *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. The Company may elect, from time to time, to repurchase shares either when market conditions are appropriate or as a means to reinvest excess cash flows from investing activities. Such purchases, if any, may be made either in the open market or through privately negotiated transactions.

## **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 (the "Code"), 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 related 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 operations of six senior living facilities consolidated by the Company as variable interest entities ("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 the existing portfolio and acquiring additional properties. The Company also incurs interest expense on its various debt instruments, depreciation and amortization expense on its real estate portfolio, and reports operating expenses of the six consolidated VIEs.

### **Executive Overview**

The Company continues to be well-positioned from a capital structure and liquidity viewpoint. In January 2006, the Company replaced its \$300.0 million unsecured credit facility due 2006 with a \$400.0 million unsecured credit facility due 2009 ("Unsecured Credit Facility due 2009"), which may be increased to \$650.0 million during the first two years. (See Note 3 to the Condensed Consolidated Financial Statements for more details on the Unsecured Credit Facility due 2009.) At June 30, 2006, the Company had \$173.0 million outstanding and had borrowing capacity remaining of \$227.0 million under its Unsecured Credit Facility due 2009. Also, at June 30, 2006, the Company's debt-to-book capitalization ratio was 48.8%, and 77.1% of the Company's existing debt portfolio had maturity dates after 2010 (approximately 90% of the debt due prior to 2010 is related to the Unsecured Credit Facility due 2009).

Since the Company's inception, it has been selective about the properties it acquires and develops. Management believes that by selecting conservative, long-term investments with financially stable healthcare providers and in markets with a robust demand for outpatient healthcare facilities, the Company will enhance its prospects for long-term stability. The Company's portfolio, diversified by facility type, geography, and tenant concentration, helps mitigate its exposure to fluctuating economic conditions, tenant and sponsor credit risks, and changes in clinical practice patterns.

The Company invested \$65.0 million in a medical office building and an adjoining orthopaedic hospital in Indiana during the second quarter of 2006. Notwithstanding this acquisition, the Company continues to see low capitalization rates and minimally accretive investment returns for medical office buildings. Given this market environment, the Company's acquisition activity for the remainder of 2006 will likely be in the senior living sector, where the Company has seen relatively higher capitalization rates. The Company is also using its internal development capabilities to focus on new medical office development opportunities which management believes can generate higher long-term yields. As such, the Company continues its discussions with healthcare systems on several on-campus development projects, and also continues to pursue market-driven development opportunities unaffiliated with any healthcare system.

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The Company is currently in the process of developing three medical office buildings on campuses of Baylor Health Care System in Texas. In addition, the Company has begun to develop buildings unaffiliated with any hospital or health system. Management believes such unaffiliated projects can offer a number of advantages, including fewer use and leasing restrictions, shorter development timelines, and higher returns. For example, the Company is in the pre-development stage on one other building in Hawaii and has signed a letter of intent to develop two medical office buildings totaling approximately 160,000 square feet in Colorado. The Company intends to invest approximately \$27 million in the medical office buildings on the Colorado site and anticipates that construction will be completed in 2008.

The Company is pursuing 17 other development projects in various stages of activity. Though the Company believes some of these projects will materialize into developments, the Company cannot predict which, if any, of these projects will materialize.

### 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 are some of the factors and trends that management believes may impact future operations of the Company.

### 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."

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 significant non-cash items, primarily depreciation and amortization of real estate. 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 and regularly reported, discussed, and compared by research analysts in their notes and publications about REITs; and finally, because research analysts publish their earnings estimates and consensus estimates for healthcare REITs only in terms of fully-diluted FFO per share and not 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 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.

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The table below reconciles FFO to net income for the three and six months ended June 30, 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<i>(Dollars in thousands, except per share data)</i>				
Net income	\$ 11,506	\$ 11,567	\$ 24,001	\$ 32,316
Net gain on sale of real estate properties	(10)	(1,325)	(3,275)	(7,488)
Real estate depreciation and amortization	16,052	15,010	31,747	29,831
Total adjustments	16,042	13,685	28,472	22,343
Funds From Operations — Basic and Diluted	\$ 27,548	\$ 25,252	\$ 52,473	\$ 54,659
Funds From Operations Per Common Share — Basic	\$ 0.59	\$ 0.54	\$ 1.13	\$ 1.18
Funds From Operations Per Common Share — Diluted	\$ 0.58	\$ 0.53	\$ 1.11	\$ 1.15
Weighted Average Common Shares Outstanding — Basic	46,531,031	46,476,389	46,511,581	46,443,639
Weighted Average Common Shares Outstanding — Diluted	47,459,976	47,403,316	47,464,377	47,375,895

## Results of Operations

### Second Quarter 2006 Compared to Second Quarter 2005

Net income for the quarter ended June 30, 2006 totaled \$11.5 million, or \$0.25 per basic common share (\$0.24 per diluted common share), on total revenues from continuing operations of \$67.0 million. This compares with net income of \$11.6 million, or \$0.25 per basic common share (\$0.24 per diluted common share), on total revenues from continuing operations of \$60.0 million for the quarter ended June 30, 2005. FFO was \$27.5 million, or \$0.58 per diluted common share for the three months ended June 30, 2006 compared to \$25.3 million, or \$0.53 per diluted common share for the same period in 2005. FFO and FFO per diluted common share were higher in 2006 compared to 2005 due to several factors, including a \$1.1 million prepayment penalty fee received in the second quarter of 2006 (discussed further in Note 2 to the Consolidated Financial Statements), a \$0.7 million adjustment in straight-line rental income in the second quarter of 2006 related to lease extensions, a \$2.1 million reversal of a straight-line rent receivable in the second quarter of 2005 due to the restructuring of three leases with an operator, offset by a \$1.0 million increase in interest expense and a \$0.5 million increase in operating expenses related to the six variable interest entities (“VIEs”) (See Note 1 to the Condensed Consolidated Financial Statements for further discussion of the Company’s VIEs).

Total revenues from continuing operations for the quarter ended June 30, 2006 increased \$7.1 million, or 11.8%, compared to the same period in 2005. This increase was due mainly to the acquisition of \$177.9 million of real estate properties and mortgages since the first quarter of 2005 and from a \$1.1 million prepayment penalty fee received related to the prepayment of two mortgages in the second quarter of 2006.

Total expenses for the quarter ended June 30, 2006 compared to the quarter ended June 30, 2005 increased \$3.2 million, or 6.2%, mainly for the reasons discussed below:

- Other operating expenses increased \$0.7 million, or 17.7%, due mainly to increasing operating expenses of the six VIEs, whose books the Company is required to consolidate (See Note 1 to the Condensed Consolidated Financial Statements for further discussion of the Company’s VIEs).

- Interest expense increased \$1.0 million, or 8.9%, as compared to the same period in 2005. The increase is comprised of an increase in interest expense of approximately \$1.8 million attributable to increases in interest rates and a higher average outstanding balance in 2006 than in 2005 on the Company’s unsecured credit facilities, offset by a decrease of approximately \$0.7 million from principal reductions in 2005 and 2006 on the senior notes due 2006, which were fully repaid in April 2006.



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- Depreciation and amortization expenses increased \$1.1 million, or 7.5%, due mainly to the acquisition of \$121.6 million of real estate properties since the first quarter of 2005, an additional \$700,000 in casualty losses recorded related to Hurricane Katrina and Hurricane Rita (See Note 4 to the Condensed Consolidated Financial Statements for more detail), as well as various building and tenant improvements.

Income (loss) from discontinued operations totaled (\$0.2) million and \$3.7 million, respectively, for the three months ended June 30, 2006 and 2005, which includes the results of operations and gains or impairments related to property disposals during 2006 and 2005, as well as the results of operations related to assets classified as held for sale. As of June 30, 2006, the Company had classified one property as held for sale. No properties were classified as held for sale as of June 30, 2005.

### *Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

Net income for the six months ended June 30, 2006 totaled \$24.0 million, or \$0.51 per basic common share (\$0.50 per diluted common share), on total revenues from continuing operations of \$131.0 million. This compares with net income of \$32.3 million, or \$0.70 per basic common share (\$0.68 per diluted common share), on total revenues from continuing operations of \$119.9 million for the six months ended June 30, 2005. FFO was \$52.5 million, or \$1.11 per diluted common share for the six months ended June 30, 2006 compared to \$54.7 million, or \$1.15 per diluted common share for the same period in 2005. FFO and FFO per diluted common share were lower in 2006 compared to 2005 for several reasons, described in the paragraphs below.

Total revenues from continuing operations for the six months ended June 30, 2006 increased \$11.1 million, or 9.3%, compared to the same period in 2005, mainly for the reasons discussed below:

- Master lease rental income increased \$5.4 million, or 15.5%, due mainly to acquisitions of properties during 2005 and 2006 resulting in approximately \$2.2 million of revenue and \$2.8 million related to a group of properties whose operations were previously included in property operating income and property operating expenses on the Company's Consolidated Statements of Income. These properties, previously under a financial support arrangement, are now under a master lease arrangement.

- Property operating income decreased \$2.3 million, or 3.6%, attributable to a change in the classification of revenues totaling \$3.9 million related to a group of properties, previously under a financial support arrangement, now under a master lease arrangement, net of an increase in revenue of approximately \$0.9 million related to one medical office building previously under construction which commenced operations during 2005.

- Straight-line rent increased \$3.2 million, or 223.3%, due mainly to a \$0.7 million adjustment in straight-line rental income in the second quarter of 2006 related to lease extensions and a \$2.1 million reversal of a straight-line rent receivable in the second quarter of 2005 due to the restructuring of three leases with an operator.

- Mortgage interest income increased \$2.5 million, or 68.1%, due mainly to additional investments increasing interest income by approximately \$3.1 million, offset partially by the repayment of certain mortgage notes decreasing interest income by approximately \$0.4 million.

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- Other operating income increased \$2.4 million, or 13.9%, due largely to a \$1.1 million prepayment penalty fee received from the prepayment of one mortgage note receivable during the second quarter of 2006 and a \$0.7 million increase in shortfall income related to properties under financial support arrangements.

Total expenses for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 increased \$9.3 million, or 9.2%, mainly for the reasons discussed below:

- General and administrative expenses increased \$1.4 million, or 19.6%, for the six months ended June 30, 2006 compared to the same period in 2005. General and administrative expenses typically approximate 6% of total revenues, but were somewhat higher (at 6.7%) for the first six months of 2006 due primarily to the following reasons. First, the Company adopted and implemented Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” resulting in additional compensation expense in the first quarter of 2006 of \$227,000. (See Note 1 to the Condensed Consolidated Financial Statements for more details.) Also, as discussed in more detail in the Company’s Annual Report on Form 10-K for 2005, the Company entered into a new master lease agreement and terminated property management of a group of medical office and physician clinic buildings in Virginia during the fourth quarter of 2005. In the first quarter of 2006, the Company incurred severance costs and consulting fees related to that transaction totaling approximately \$360,000. Finally, the liability and expense related to the Company’s pension plans increased approximately \$450,000.

- Property operating expenses increased \$1.2 million, or 3.6%, due mainly to the commencement of operations during 2005 of one property that was previously under construction with expenses totaling approximately \$270,000; operations of one property that was previously under a master lease agreement with expenses of approximately \$225,000; and the remainder of the increase related mainly to additional expenses related to the payment of 2005 real estate taxes and the related adjustment to the real estate tax liability estimate for the year 2006 and other maintenance and repairs expenses.

- Other operating expenses increased \$1.2 million, or 16.5%, mainly due to increasing operating expenses of the six VIEs, whose books the Company is required to consolidate (See Note 1 to the Condensed Consolidated Financial Statements for further discussion of the Company’s VIEs).

- Bad debt expense increased \$1.1 million due to net increases in the allowance for doubtful accounts on various receivables.

- Interest expense increased \$2.3 million, or 9.9%, as compared to the same period in 2005. The increase is comprised of an increase in interest expense of approximately \$2.9 million attributable to increases in interest rates and a higher average outstanding balance in 2006 than in 2005 on the Company’s unsecured credit facilities; an increase in interest expense totaling approximately \$0.7 million related to three notes receivable entered into during 2005; an increase in interest expense totaling \$0.2 million related to a decrease in the amount of interest capitalized on development projects; offset by a decrease of approximately \$1.2 million from the repayment of principal during 2006 and 2005 on the senior notes due 2006.

- Depreciation expense increased \$2.6 million, or 11.1%, due mainly to the acquisition of \$121.6 million of real estate properties during 2006 and 2005, an additional \$700,000 in casualty losses recorded related to Hurricane Katrina and Hurricane Rita (See Note 4 to the Condensed Consolidated Financial Statements for more detail), as well as various building and tenant improvements.

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· Amortization expense decreased \$0.5 million, or 8.9%, mainly due to a decrease in total amortization expense related to the lease intangibles recorded as part of our acquisitions during 2003 and 2004, some of which have been fully amortized.

Income from discontinued operations totaled \$4.4 million and \$14.5 million, respectively, for the six months ended June 30, 2006 and 2005, which includes the results of operations and gains or impairments related to property disposals during 2006 and 2005, as well as the results of operations related to assets classified as held for sale. As of June 30, 2006, the Company had classified one property as held for sale. No properties were classified as held for sale as of June 30, 2005.

## Liquidity and Capital Resources

### Debt Obligations

As discussed in more detail in Note 3 to the Condensed Consolidated Financial Statements, the Company is committed to pay interest and outstanding principal balances on its notes and bonds payable as follows:

<i>(dollars in thousands)</i>	<b>Balance at 6/30/06</b>	<b>Maturity Date</b>	<b>Contractual Interest Rate at 6/30/06</b>	<b>Interest Payments</b>	<b>Principal Payments</b>
Unsecured Credit Facility due 2009	\$173,000	1/09	LIBOR + 0.90%	Quarterly	At maturity (1)
Senior Notes due 2011, net	301,183	5/11	8.125%	Semi-Annual	At maturity
Senior Notes due 2014, net	298,772	4/14	5.125%	Semi-Annual	At maturity
Mortgage notes payable	61,747	5/11-4/32	5.49%-8.50%	Monthly	Monthly or at maturity
	<b>\$834,702</b>				

(1) The Company pays a quarterly facility fee of 0.20% on the commitment that can change based on the Company's unsecured credit rating.

As of June 30, 2006, approximately 77.1% 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 shareholders' equity at June 30, 2006 totaled approximately \$875.3 million and its debt-to-total capitalization ratio, on a book basis, was approximately 0.49 to 1. For the six months ended June 30, 2006, the Company's earnings covered fixed charges at a ratio of 1.7 to 1.0. At June 30, 2006, the Company had borrowing capacity of \$227.0 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.

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 its Senior Notes due 2011. During 2006, the Company received an 8.125% fixed rate and paid a variable rate of six-month LIBOR plus 4.12% related to the swap agreements. With the increase in interest rates (six-month LIBOR was 5.59% at June 30, 2006), the Company was in a net-pay position under the swap agreements, which had the effect of increasing the amount of interest expense recorded on the Company's Condensed Consolidated Statements of Income. Because of the additional interest the Company was paying under the swap agreements and because the Company's variable rate debt percentage was exceeding its target range of 15% to 30% of total debt, the Company terminated these interest rate swap agreements in June 2006 and paid \$10.1 million, equal to the fair value of the interest rate swaps at termination, plus interest due of \$0.3 million. (See Note 3 to the Condensed Consolidated Financial Statements for more details.) As a result of the interest rate swaps termination, the Company will pay interest on the Senior Notes due 2011 at the coupon rate of 8.125% and the effective interest rate on the notes will be 7.896%.

### *Shelf Registration*

The Company may from time to time raise additional capital or make investments by issuing, in public or private transactions, its equity and debt securities, but the availability and terms of any such issuance will depend upon market and other conditions. The Company is current on all of its filings with the Securities and Exchange Commission; however, the Company was untimely in filing its Form 10-K for the year ended December 31, 2004 and its Forms 10-Q for 2005. The Company believes it will be eligible to issue securities under a Form S-3 on November 30, 2006, twelve months after the Company became current on its filings with the Securities and Exchange Commission. During that twelve-month period, the Company may not issue securities under its existing registration statements, but it may access the capital markets using other forms of registration statements and through private offerings. When eligible, the Company will have access to approximately \$504.1 million of remaining capacity under its registration statements filed on Form S-3.

### *Security Deposits and Letters of Credit*

As of June 30, 2006, the Company had approximately \$5.7 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.

### *Asset Acquisitions*

During the second quarter of 2006, the Company acquired a 58,474 square foot medical office building and an adjoining 117,525 square foot orthopaedic hospital in Indiana for \$65.0 million. These properties will operate under absolute net master lease agreements. The Company also invested \$3.9 million in one mortgage note receivable, which is secured by six senior living facilities in Michigan. Additionally, the Company financed in full the sale of one of its owned ancillary hospital facilities in California, in which the Company had a \$16.4 million gross investment (\$13.4 million, net). In the transaction, the Company received a \$14.9 million mortgage note receivable, which is secured by the 87,000 square foot facility. As required by SFAS No. 66, "Accounting for Sales of Real Estate," the Company has deferred the recognition of the gain on sale of approximately \$1.5 million until such time that recognition is allowed under SFAS No. 66.

During the first quarter of 2006, the Company invested \$16.0 million in one mortgage, which is secured by a group of assisted living facilities. Also, during the first quarter of 2006, the Company acquired for \$2.4 million a 50% non-managing member interest in a limited liability company ("LLC"), which acquired one medical office building in Oregon, and acquired for \$6.6 million a 10% non-managing member interest in a LLC, which acquired six senior living facilities in Utah.

### *Asset Dispositions*

During the second quarter of 2006, the Company sold three ancillary hospital facilities in Alabama, in which the Company had a gross investment totaling \$26.3 million (\$21.1 million, net) and other related assets totaling approximately \$600,000. The purchase price totaled \$21.7 million and provided for the repayment of three mortgage notes payable totaling \$7.1 million, which were secured by the properties. The Company recognized an immaterial gain on the transaction. Additionally, pursuant to a purchase option exercised in 2005, the Company sold an 87,000 square foot ancillary hospital facility in California and financed the sale transaction. (See "Asset Acquisitions" for more details.) Finally, in the second quarter, two mortgage notes receivable were repaid totaling \$10.9 million. The Company received a \$1.1 million prepayment

penalty from these two repayments, which is included in “Other operating income” on the Company’s Consolidated Statement of Income.

During the first quarter of 2006, a sponsor under a financial support arrangement exercised a purchase option and purchased two properties, providing net proceeds to the Company totaling \$11.2 million. The Company recognized a \$3.3 million gain from the sale of these properties. Also, mortgage notes receivable were repaid providing net proceeds to the Company totaling \$28.0 million, including interest receivables due to the Company.

### *Purchase Options*

As of December 31, 2005, the Company had a gross investment of approximately \$205.0 million in real estate properties where the respective operators and lessees had outstanding and exercisable contractual options to purchase the properties subject to various conditions and terms. As discussed in the preceding paragraph, the Company sold two properties pursuant to contractual purchase options in the first quarter of 2006 and sold one property in the second quarter of 2006 pursuant to an option exercised by the tenant in late 2005. The Company has not received any additional notices of exercise in 2006 and cannot predict how many, if any, may be received in the future. See the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 for a more detailed discussion of the Company’s properties that are subject to purchase options.

### *Prepayments on Mortgage Notes Receivable*

The Company has been notified by three borrowers of their intent to prepay mortgage notes receivable, totaling approximately \$30.8 million at June 30, 2006, during the third and fourth quarters of 2006. The weighted average interest rate on these three mortgage notes receivable was 13.48% at June 30, 2006.

### *Construction in Progress*

As of June 30, 2006, the Company had an investment of approximately \$6.3 million in three medical office building, developments in progress, which have a total remaining funding commitment of approximately \$56.6 million. The Company anticipates completion of these buildings in 2007. The Company is also in the pre-development stages on one building in Hawaii. As of June 30, 2006, the Company had invested \$7.5 million in the Hawaii land and site preparation, on which the Company anticipates it will begin construction of a \$70.0 million medical office building during 2006.

The Company also had various remaining first-generation tenant improvement obligations totaling approximately \$7.4 million as of June 30, 2006 related to properties that were developed by the Company.

### *Purchase Contracts*

The Company has executed purchase agreements to acquire a skilled nursing facility in Tennessee for approximately \$7.3 million and an assisted living facility in Florida for \$8.2 million. Both buildings will be leased under a master lease agreement. The acquisitions are expected to close during the third quarter of 2006.

### *Dividends*

On January 24, 2006, the Company’s Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.66 per share (\$2.64 annualized) payable to shareholders of record on February 15, 2006. This dividend was paid on March 2, 2006.

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On April 25, 2006, the Company's Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.66 per share (\$2.64 annualized) payable to shareholders of record on May 15, 2006. This dividend was paid on June 1, 2006.

On July 25, 2006, the Company's Board of Directors declared a quarterly common stock cash dividend in the amount of \$0.66 per share (\$2.64 annualized) payable on September 1, 2006 to shareholders of record on August 15, 2006.

The Company's Board of Directors intends to maintain future dividend payments at the present level (\$0.66 per share per quarter) in view of the performance of the Company's portfolio, strength of its balance sheet and opportunities for property development, each of which are discussed above in greater detail. As described in the Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, 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.

### *Liquidity*

Net cash provided by operating activities was \$51.0 million and \$51.5 million for the six months ended June 30, 2006 and 2005, 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 plans to continue to meet its liquidity needs, including funding additional investments in 2006, paying quarterly dividends, and funding debt service, with cash flows from operations, borrowings under the Unsecured Credit Facility due 2009, proceeds from 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 many 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 risk of any adverse effects of inflation to the Company. 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 risk of any adverse effects of inflation to the Company. Interest payable under the Unsecured Credit Facility due 2009 is calculated at a variable rate; therefore, the amount of interest payable under the swaps and 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 when interest rate increases outpace inflation, our operating results should be negatively impacted. Conversely, when increases in inflation outpace increases in interest rates, our operating results should be positively impacted.

### *Off-Balance Sheet Arrangements*

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

### *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, 2005.

**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 receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. Additionally, from time to time, the Company has utilized 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 June 30, 2006, approximately \$661.7 million, or 79.3%, of the Company's total debt bore interest at fixed rates. Additionally, approximately \$73.5 million, or 72.2%, of the Company's mortgage notes receivable bore interest based on 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 6/30/06	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	
<b>Variable Rate Debt:</b>					
Unsecured Credit Facility due 2009 (\$400 Million)	\$ 173,000	\$ 10,813	\$ (926)	\$ 926	
<b>Variable Rate Receivables:</b>					
Mortgage Notes Receivable	\$ 8,301	\$ 3,872	\$ 146	\$ (146)	

(1) Annual interest expense is calculated using the current market rate and assuming a constant principal balance.

(2) Except as otherwise noted, fair values as of December 31, 2005 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.

(3) In June 2006, the Company terminated two interest rate swaps on a notional amount of \$125 million, where the underlying debt was \$125 million of the Senior Notes due 2011. Prior to termination, the swaps had the effect of converting fixed rates to variable rates with respect to the notional amount. For comparability purposes, the fair value of the Senior Notes due 2011 has been recalculated as of December 31, 2005 as if the interest rate swaps had not been in effect.



#### **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 the Company 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 the Company’s evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

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

## **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 an accounting and disgorgement of monies obtained by the allegedly wrongful conduct and other unspecified compensatory and punitive damages. There is currently a stay on discovery in the case. 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. The 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 will vigorously defend the enforceability of the financial support agreements and believes the Foundation’s claims are not meritorious.

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, 2005, 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In May 2006, the Company withheld common stock from one of its officers to pay estimated withholding taxes related to restricted stock that vested in that month. The shares were immediately retired. The following table reflects the number of shares and market value of the shares at the time of the withholding.

Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
12,757	\$ 37.735	0	0

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company's annual meeting of shareholders was held on May 9, 2006, and its shareholders voted on the following matters.

(a) David R. Emery, Batey M. Gresham, Jr., and Dan S. Wilford, Charles Raymond Fernandez, M.D., Errol L. Biggs, Ph. D., and Bruce D. Sullivan were elected to serve as Directors. The vote was as follows:

	Director Class	Term Expires	Votes Cast in Favor	Votes Cast Against or Withheld	Non Votes
David R. Emery	3	2008	43,627,178	834,530	3,336,498
Batey M. Gresham, Jr.	3	2008	42,219,921	2,241,787	3,336,498
Dan S. Wilford	3	2008	43,987,042	474,666	3,336,498
Charles R. Fernandez, M.D.	1	2009	42,766,614	1,695,094	3,336,498
Errol L. Biggs, Ph. D.	1	2009	42,759,434	1,702,274	3,336,498
Bruce D. Sullivan	1	2009	43,055,121	1,406,587	3,336,498

The following Class 2 Directors continued in office following the meeting:

	Term Expires
Marliese E. Mooney	2007
Edwin B. Morris III	2007
John Knox Singleton	2007

(b) The shareholders ratified the appointment of BDO Seidman, LLP as the Company's independent auditors for the fiscal year ended December 31, 2006, by the following vote:

Votes Cast in Favor	Votes Cast Against	Abstentions /Non Votes
44,202,656	128,050	3,467,500

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### 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	Purchase and Sale Agreement between the Company and Orthopaedics Indianapolis Surgical Associates, LLP (filed herewith)
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 5 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: August 9, 2006

**Exhibit Index**

<b>Exhibit</b>	<b>Description</b>
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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	Purchase and Sale Agreement between the Company and Orthopaedics Indianapolis Surgical Associates, LLP (filed herewith)
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 5 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)

(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.





**AGREEMENT OF SALE AND PURCHASE**  
**ORTHOPAEDICS INDIANAPOLIS SURGICAL ASSOCIATES, LLC**

An Indiana liability company

as the Seller

and

**HEALTHCARE REALTY TRUST INCORPORATED**

A Maryland corporation

as the Purchaser

For the Sale and Purchase of :

The OrthoIndy Medical Office Building  
8450 Northwest Boulevard  
Indianapolis, Indiana 46278

The Indiana Orthopaedic Hospital Building  
8400 Northwest Boulevard  
Indianapolis, Indiana 46278

June 22, 2006

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## **AGREEMENT OF SALE AND PURCHASE**

**THIS AGREEMENT OF SALE AND PURCHASE** (this “Agreement”) is made and entered into by and between **ORTHOPAEDICS INDIANAPOLIS SURGICAL ASSOCIATES, L.L.C.**, an Indiana liability company (“Seller”), and **HEALTHCARE REALTY TRUST INCORPORATED**, a Maryland corporation (“Purchaser”). Seller and Purchaser are sometimes collectively referred to herein as the “Parties”.

### **Recitals**

A. Seller is the owner of the Property (as hereinafter defined).

B. Seller desires to sell the Property to Purchaser, and Purchaser desires to purchase the Property from Seller on the terms and conditions contained in this Agreement.

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

### **ARTICLE I. Definitions**

In addition to any other terms defined in the body of this Agreement, as used herein (including any Exhibits attached hereto), the following terms shall have the meanings indicated in this Article I:

“Affidavit” shall have the meaning ascribed to such term in Section 4.3 below.

“Bill of Sale” shall mean a Bill of Sale and Assignment in the form attached as **Exhibit B** hereto, and sufficient to transfer the Personal Property to Purchaser.

“Business Day(s)” shall mean calendar days other than Saturdays, Sundays and legal holidays.

“Certificate of Non-Foreign Status” shall mean a certificate dated as of the Closing Date, addressed to Purchaser and duly executed by Seller, in the form of **Exhibit C** attached hereto.

“Closing” shall mean the consummation of the Transaction as provided for herein, to be conducted in escrow by the Title Company, or at such location as the Parties may mutually agree in writing.

“ Closing Certificate ” shall mean a certificate in the form of **Exhibit D** wherein Seller shall represent that the representations and warranties of Seller contained in Article V of this Agreement are true and correct without exception as of the Closing Date as if made on and as of the Closing Date.

“ Closing Date ” shall mean the actual day on which the Transaction is closed with the transfer of title to the Property to Purchaser. The Parties agree that the Closing Date shall be not later than five (5) days following the expiration of the Due Diligence Period, unless extended as specifically provided in this Agreement.

“ Closing Statement ” shall have the meaning ascribed to such term in Section 7.1 below.

“ Deed ” shall mean a deed containing special warranties of title by Seller in the form of **Exhibit E**, executed by Seller, as grantor, in favor of Purchaser (or its permitted assignee) as grantee, conveying the Land and Improvements to Purchaser, subject only to the Permitted Exceptions.

“ Due Diligence Materials ” shall have the meaning ascribed to such term in Section 4.1 hereof.

“ Due Diligence Period ” shall mean that period of time beginning on the Effective Date and ending on the 28th calendar day thereafter (and subject to extension as described in Section 4.1 below).

“ Earnest Money ” shall mean the sum of \$2,500,000.00.

“ Effective Date ” shall mean the later of the two (2) dates on which this Agreement is signed and all changes initialed by the Parties, as indicated by their signatures below.

“ Engineering Documents ” shall mean all site plans, soil and substrata studies, architectural drawings, plans and specifications, engineering plans and studies, floor plans, landscape plans, and other plans and studies, if any, that relate to the Property which are currently in the possession of Seller.

“ Exception Documents ” shall mean true, correct and legible copies of each document listed as an exception to title on the Title Commitment.

“ Existing IOH LLC Lease ” shall mean the 100% net lease in place as of the Effective Date between Seller, as landlord, and IOH LLC, as tenant, with respect to the Hospital and related Improvements.

“ Existing OrthoIndy Lease ” shall mean the 100% net lease in place as of the Effective

Date between Seller, as landlord, and OrthoIndy, as tenant, with respect to the MOB and related Improvements.

“ Existing Leases ” shall mean the Existing IOH LLC Lease and Existing OrthoIndy Lease, collectively.

“ Fixtures ” shall mean all permanently affixed equipment, machinery, fixtures, and other items of real property, including all components thereof, now and hereafter located in, on or used in connection with, and permanently affixed to or incorporated into the Improvements or on the Land, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus, sprinkler systems and fire and theft protection equipment, and built-in vacuum, cable transmission, oxygen and similar systems, all of which, to the greatest extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto. Fixtures shall not include any trade fixtures owned or leased from third parties by OrthoIndy or IOH LLC.

“ Hazardous Materials ” shall mean any substance, including without limitation, asbestos or any substance containing asbestos and deemed hazardous under any Hazardous Materials Law, the group of organic compounds known as polychlorinated biphenyls, flammable explosives, radioactive materials, infectious wastes, biomedical and medical wastes, chemicals known to cause cancer or reproductive toxicity, pollutants, effluents, contaminants, emissions or related materials and any items included in the definition of hazardous or toxic wastes, materials or substances under any Hazardous Materials Law.

“ Hazardous Materials Law ” shall mean any local, state or federal law relating to environmental conditions and industrial hygiene, including, without limitation, the Resource Conservation and Recovery Act of 1976 (“RCRA”), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), as amended by the Superfund Amendments and Reauthorization Act of 1986 (“SARA”), the Hazardous Materials Transportation Act, the Federal Water Pollution Control Act, the Clean Air Act, the Clean Water Act, the Toxic Substances Control Act, the Safe Drinking Water Act, and all similar federal, state and local environmental statutes, ordinances and the regulations, orders, or decrees now or hereafter promulgated thereunder.

“ Hospital ” shall mean the approximately 117,525 square foot space that Indiana Orthopaedic Hospital occupies located on the Land.

“ IOH LLC ” shall mean Indiana Orthopaedic Hospital, LLC.

“ Improvements ” shall mean (a) the Hospital, and (b) the MOB, together with all other

improvements, structures and Fixtures located on the Land, including, without limitation, landscaping, parking lots and structures, roads, drainage facilities and all above ground and underground utility structures, equipment systems and other infrastructure.

“ Independent Consideration ” has the meaning set forth in the preamble.

“ Intangible Property ” means all Permits and other intangible property or any interest therein now or on the Closing Date owned or held by Seller in connection with the Land and/or the Improvements, or with the use thereof, including trade names, water rights and reservations, zoning rights, business licenses and warranties (including those relating to construction or fabrication) related to the Land, the Improvements, or any part thereof; provided, however, “Intangible Property” shall not include the general corporate trademarks, service marks, logos or insignia or books and records of Seller, and accounts receivable.

“ Land ” shall mean the real property described Exhibit A hereto.

“ Laws ” means all federal, state and local laws, moratoria, initiatives, referenda, ordinances, rules, regulations, standards, orders and other governmental requirements, including, without limitation, those relating to the environment, zoning, land use, planning, health and safety, disabled or handicapped persons.

“ MOB ” shall mean the approximately 58,474 medical office building located on the Land.

“ New IOH LLC Master Lease ” shall mean the Master Lease Agreement entered into between Purchaser, as landlord, and IOH LLC, as tenant, on the Effective Date for the lease of the Hospital and related Improvements from and after the Closing, the performance of which by each party is contingent only upon the occurrence of the Closing.

“ New OrthoIndy Master Lease ” shall mean the Master Lease Agreement entered into between Purchaser, as landlord, and OrthoIndy, as tenant, on the Effective Date for the lease of the MOB and related Improvements from and after the Closing, the performance of which by each party is contingent only upon the occurrence of the Closing.

“ Objection Notice ” shall have the meaning ascribed to such term in Section 4.2 below.

“ OrthoIndy ” shall mean Orthopaedics-Indianapolis P.C.

“ Permits ” shall mean all permits, licenses, approvals, entitlements and other governmental, quasi-governmental and non-governmental authorizations including, without limitation, certificates of occupancy, required in connection with the ownership, planning, development, construction, use, operation or maintenance of the Land or the Improvements. As



used herein, “quasi-governmental” shall include the providers of all utility services to the Land or the Improvements.

“Permitted Exceptions” shall have the meaning ascribed to such term in Section 4.3.

“Personal Property” shall mean, collectively, the Intangible Property, Warranties, Engineering Documents, and Tangible Personal Property.

“Phase I” shall mean the Phase I Environmental Site Assessment performed by Sagamore Environmental Services, Inc. dated May 27, 2003, pertaining to the MOB.

“Property” shall mean, collectively, (a) the Land and the Improvements, together with all appurtenant interests, and (b) the Personal Property. As used in the foregoing, “appurtenant interests” shall mean those interests that permissibly pass by operation of law with the conveyance by Seller of the Land and Improvements.

“Property Documents” shall mean (i) 2005 year-to-date budget Property level financial statement detail, (ii) 2003 — 2005 year-to-date OrthoIndy financial statement detail, (iii) 2005 year-to-date financial statement detail and five (5) year proforma for IOH LLC, and (iv) the real estate tax bills for the Land and Improvements for 2005.

“Purchase Price” shall mean \$65,000,000.00, inclusive of the Earnest Money, and which shall be adjusted at Closing pursuant Article VIII of this Agreement.

“Service Contracts” shall mean all service contracts or other agreement or instrument affecting all or a portion of the Property, a complete list of which is attached hereto as **Exhibit F**.

“Subleases” shall mean all subleases and other occupancy arrangements affecting the Property or any portion thereof.

“Survey” shall mean an ALTA/ASCM Land Survey (a) prepared by Civil Design, LLP and updated not earlier than twenty (20) days prior to the Effective Date, (b) certified to Purchaser and its designee, (c) keyed to the Title Commitment, and (d) meeting the “Minimum Standard Detail Requirements for ALTA/ASCM Land Title Surveys” as adopted by the American Land Title Association and American Congress on Surveying and Mapping in 1992 and which shall include Items 1, 2, 3, 4, 6, 7(a) and (b), 8, 9, 10, 11, and 13 of Table A thereof.

“Tangible Personal Property” shall mean all furnishings, equipment, tools, machinery, fixtures, appliances and all other tangible personal property owned by Seller and located on or about the Land or Improvements or used in connection with the operation thereof, a description of which shall be attached as Exhibit B to the Bill of Sale. Tangible Personal Property shall not include any personal property or trade fixtures owned by or leased from any third parties by

OrthoIndy or IOH LLC.

“ Termination Notice ” shall have the meaning ascribed to such term in Section 4.2 below.

“ Termination of Existing IOH LLC Lease ” shall mean the Termination of Lease Agreement between Seller, as landlord, and IOH LLC, as tenant, of the Existing IOH LLC Lease, which shall be effective upon the Closing of the Transaction and shall provide that IOH LLC shall have no further duties, obligations, or liabilities under the Existing IOH LLC Lease from and after the termination of the same.

“ Termination of Existing OrthoIndy Lease ” shall mean the Termination of Lease Agreement between Seller, as landlord, and OrthoIndy, as tenant, of the Existing OrthoIndy Lease, which shall be effective upon the Closing of the Transaction and shall provide that OrthoIndy shall have no further duties, obligations, or liabilities under the Existing OrthoIndy Lease from and after the termination of the same.

“ Title Commitment ” shall mean a current commitment for title insurance (a) issued by the Title Company, (b) in the amount of the Purchase Price, (c) showing Purchaser or its designee as the proposed insured, and (d) dated not earlier than five (5) days prior to the Effective Date and down-dated within five (5) days prior to the end of the Due Diligence Period, pursuant to the terms of which the Title Company shall commit to issue the Title Policy to Purchaser in accordance with the provisions of this Agreement, and reflecting all matters which would be listed as exceptions to coverage on the Title Policy.

“ Title Company ” shall mean Chicago Title Insurance Corporation (Attn: Michael J. Sibbing).

“ Title Policy ” shall mean a title policy issued by the Title Company in accordance with the Title Commitment, subject only to the Permitted Exceptions, insuring Purchaser’s fee ownership interest in the Land and Improvements, with liability in the amount of the Purchase Price, dated as of the Closing Date.

“ Transaction ” shall mean the purchase and sale transaction contemplated by this Agreement.

“ Warranties ” shall mean all warranties, representations and similar agreements pertaining to the Property.

**ARTICLE II.**  
**Agreement to Sell and Purchase**

2.1 **Agreement to Sell and Purchase**. On the Closing Date, Seller shall, in consideration for the Purchase Price and in accordance with the terms of this Agreement, sell and deliver to Purchaser all of Seller's rights, title and interest in and to the Property, and Purchaser shall purchase the same.

**ARTICLE III.**  
**Purchase Price and Earnest Money**

3.1 **Payment of Purchase Price**. The Purchase Price shall be paid by Purchaser at the Closing via wire transfer in United States currency to the Title Company to be held in escrow for the benefit of Seller, subject to any adjustments and pro-rations as described in Article VIII below.

3.2 **Earnest Money**. Within three (3) Business Days following the Effective Date, Purchaser shall deliver the Earnest Money to the Title Company. The disposition of the Earnest Money shall be governed by the terms of this Agreement.

## ARTICLE IV.

### Items to be Furnished to Purchaser by Seller

4.1 **Due Diligence Materials**. Seller has, prior to the Effective Date, provided the Property Documents, the Service Contracts, and the Phase I to Purchaser. Within five (5) Business Days after the Effective Date, Seller shall deliver (or cause IOH LLC and/or OrthoIndy to deliver, as the case may be) to Purchaser for its review the following:

- (a) True, correct, complete and legible copies of all Warranties, Permits, and Engineering Documents;
- (b) True, correct, complete and legible copies of tax statements or assessments for all personal property taxes assessed against the Personal Property for the current and the two (2) prior calendar years;
- (c) A complete, itemized and detailed inventory of the Tangible Personal Property;
- (d) True, correct, complete and legible copies of any and all litigation files with respect to any pending litigation and claim files for any claims made or threatened, the outcome of which might have an adverse effect on the Property or the use and operation of the Property;
- (e) True, correct, and complete and legible copies of the Subleases and any and all agreements or written understandings with respect to the Property or any portion thereof not already provided;
- (f) The Title Commitment, together with the Exception Documents; and
- (g) The Survey.

The foregoing, together with the Property Documents and the Phase I, are collectively referred to in this Agreement as the “Due Diligence Materials”.

In the event Seller fails to deliver the Due Diligence Materials or any portion thereof to Purchaser within the five (5) Business Day time period set forth above, the Due Diligence Period shall automatically be extended on a day-for-day basis by the number of days which elapse between the expiration of the five (5) Business Day time period and the date upon which Purchaser receives the last of the Due Diligence Materials.

4.2 **Due Diligence Review**. During the Due Diligence Period, Purchaser shall be entitled to review the Due Diligence Materials, and to examine, inspect and investigate the

Property to determine whether it is acceptable to Purchaser. Seller shall grant Purchaser and those acting by, through, or under Purchaser full and complete access to the books and records of Seller with respect to the Property, and, provided the Closing occurs, permit Purchaser to retain copies of such books records. Purchaser and those acting by, through, and under Purchaser, shall be entitled to make all inspections or investigations desired by Purchaser with respect to the Property and shall have complete physical access thereto, provided (1) Purchaser and those acting by, through, and under Purchaser shall schedule any visits to, and inspections of, the Property at least one day in advance with Seller, and (2) such access shall not unreasonably interfere with IOH LLC's or OrthoIndy's operations at the Property. If Purchaser shall, for any reason in Purchaser's sole discretion, disapprove or be dissatisfied with any aspect of such information, or the Property, then Purchaser shall be entitled to terminate this Agreement by delivering a Termination Notice (herein so called) to Seller at or before 5:00 p.m. CST on the last day of the Due Diligence Period. If Purchaser's written termination is timely made, then the Earnest Money shall be immediately returned to Purchaser and thereafter neither Party shall have any further obligations or liabilities to the other hereunder. If Purchaser fails to timely deliver the Termination Notice, then, except as otherwise provided herein, the Earnest Money shall thereafter be non-refundable, but shall be credited to the Purchase Price at Closing, and Purchaser's right to terminate this Agreement pursuant to this Section 4.2 shall be of no further force or effect.

**4.3 Permitted Exceptions.** The term "Permitted Exceptions" shall mean: (A) the matters shown as exceptions in the Title Commitment as of the expiration of the Due Diligence Period and not objected to by Purchaser as described above, or that Purchaser has otherwise agreed to accept; (B) those items shown on the Survey as of the expiration of the Due Diligence Period and not objected to by Purchaser as described above, or that Purchaser has otherwise agreed to accept; (C) Laws existing with respect to the Property; (E) real estate taxes and assessments for the current and future years, which are not yet due and payable with respect to the Property or any portion thereof, and (F) the New IOH LLC Master Lease and the New OrthoIndy Master Lease. The term "Permitted Exceptions" shall expressly not include any of the so-called "standard exceptions" or "pre-printed" exceptions which are subject to deletion by the Title Company upon receipt of a standard owner's affidavit, which Seller shall provide at Closing (the "Affidavit"). Without limiting the foregoing, the Affidavit shall be in such a form so as to, among other things, cause the Title Company to omit from the Title Policy all exceptions for unfilled mechanic's, materialmen's or similar liens and to provide "gap" coverage insuring the period from the effective date of the Title Commitment through the date and time of recording of the Deed.

**4.4 Service Contracts.** At or prior to the Closing, Seller shall cause each of the Service Contracts to either be terminated or assigned to IOH LLC or OrthoIndy, as appropriate. Seller shall be responsible for any termination fee or other costs associated with such termination or assignment. Seller shall indemnify, protect, defend and hold Purchaser harmless from and

against all claims, damages, losses, suits, proceedings, costs and expenses (including, but not limited to, reasonable attorneys' fees) arising or accruing under the Service Contracts (or any of them), whether prior to or after the Closing Date.

4.5 **Additional Exceptions.** In the event that at any time the Title Commitment, Exception Documents, or Survey are modified prior to Closing (other than the deletion or elimination of any item requested by Purchaser), Purchaser shall have the right to review and approve or disapprove any such modification and the Due Diligence Period as to such modification shall be for a period of five (5) Business Days following the date of Purchaser's receipt of such modification, and the date of Closing, and all other time periods referred to this Agreement shall be extended accordingly.

## **ARTICLE V.**

### **Representations, Warranties, Covenants and Agreements**

5.1 **Representations and Warranties of Seller.** Seller represents and warrants to Purchaser as follows:

- (a) Seller has good, marketable, and insurable fee simple title to the Land and Improvements, and no third party holds any right of first offer, right of first refusal or other restrictions on Seller's rights of transfer, nor does there exist any other form of transfer restriction with respect to the Property.
- (b) No party has been granted any license, lease or other right relating to the use or possession of the Property, except for IOH LLC and OrthoIndy pursuant to the Existing Leases and those parties claiming under them pursuant to the Subleases.
- (c) As of the Closing, no brokerage or leasing commissions or other compensation will be due or payable to any person, firm, corporation or other entity with respect to, or on account of, the Existing Leases.
- (d) No pending condemnation, eminent domain, assessment or similar proceeding or charge affecting the Property or any portion thereof exists. Seller has not heretofore received any notice, and has no knowledge, that any such proceeding or charge is contemplated. Seller has not received any notice of a proposed increase in the assessed valuation of the Property.
- (e) Seller has the authority to execute and enter into this Agreement, and shall have, as of Closing, full right, power and authority to consummate the Transaction. The execution by Seller of this Agreement and the consummation by Seller of the Transaction does not, and at the Closing will not, result in any breach of any of the terms or provisions of or constitute a default or a condition which upon the giving of notice or

passage of time or both would ripen into a default under any indenture, agreement, instrument or obligation to which Seller is a party.

(f) No work has been performed or is in progress at the Property, and no materials will have been delivered to the Property that might provide the basis for a mechanic's, materialmen's or other lien against the Property or any portion thereof, or amounts due for such work and material shall have been paid or discharged to Purchaser's satisfaction as of Closing.

(g) There are no actions, suits or proceedings pending or threatened against or affecting the Property or any portion thereof, either of the Existing Leases or relating to or arising out of the ownership or operation of the Property, or by any federal, state, county or municipal department, commission, board, bureau or agency or other governmental instrumentality, other than those disclosed to Purchaser pursuant to Section 4.1. All judicial proceedings concerning the Property will be finally dismissed and terminated prior to the Closing.

(h) (1) No Hazardous Materials have been installed, used, generated, manufactured, treated, handled, refined, produced, processed, stored or disposed of, or otherwise present in, on or under the Property, except such material used in the operation of the Property and medical businesses of OrthoIndy and IOH LLC, all in accordance with applicable law and which have been disclosed to Purchaser, (2) no activity has been undertaken on the Property which would cause (i) the Property to become a hazardous waste treatment, storage or disposal facility within the meaning of, or otherwise bring the Property within the ambit of any Hazardous Material Law, (ii) a release or threatened release of Hazardous Material from the Property within the meaning of, or otherwise bring the Property within the ambit of any Hazardous Material Law or (iii) the discharge of Hazardous Material into any watercourse, body of surface or subsurface water or wetland, or the discharge into the atmosphere of any Hazardous Material which would require a permit under any Hazardous Material Law, (3) no activity has been undertaken with respect to the Property which would cause a violation or support a claim under any Hazardous Material Law, (4) no investigation, administrative order, litigation or settlement with respect to any Hazardous Material is threatened or in existence with respect to the Property, (5) no notice has been served on Seller, IOH LLC or OrthoIndy from any entity, governmental body or individual claiming any violation of any Hazardous Material Law, or requiring compliance with any Hazardous Material Law, or demanding payment or contribution for environmental damage or injury to natural resources, and (6) Seller has not obtained and is not required to obtain, and Seller has no knowledge of any reason Purchaser will be required to obtain, any permits, licenses, or similar authorizations to occupy, operate or use the Improvements or any part of the Property by reason of any Hazardous Material Law.

(i) The sale of the Property as contemplated by this Agreement will not cause a change in any licensing or similar requirements affecting the use or operations of the Property, violate any Laws with respect to the use or operations at the Property, or necessitate the filing with any governmental or quasi-governmental authority of any notice regarding a change in ownership of the Property.

(j) There are no other agreements or understandings (whether oral or written) with respect to the Property or any portion thereof, other than those delivered (or to be delivered) pursuant to Section 4.1 above and the Existing Leases.

(k) The Property is free of violations of Laws; and the Improvements and their use comply with all Laws, except that certain structural issues exist that are disclosed in the Building Condition Report prepared by Breland Group, LLC and issued to Purchaser, and which issues are being resolved.

(l) The Property Documents are true, complete and accurate in all material respects.

To the extent circumstances first arise after the Effective Date but before Closing which would render one or more of the above representations and warranties no longer materially true and correct, Seller shall promptly (but no later than at Closing) deliver written notice to Purchaser of such changed circumstances. In such event, Purchaser may elect to (i) accept the Property regardless of such change, and consummate the purchase and sale of the Property, or (ii) terminate this Agreement by giving Seller written notice thereof within ten (10) Business Days after Purchaser's receipt of Seller's notice of any such change. The Closing Date shall be postponed, if necessary, to afford Purchaser the benefit of the full ten (10) Business Day period. If Seller has not received any such notice of termination from Purchaser within the ten (10) Business Day period, Purchaser shall be deemed to have elected option (i). If this Agreement is terminated in accordance with this Section, the Earnest Money shall be refunded to Purchaser, this Agreement shall terminate, and neither Party shall have any further duty or obligation hereunder. If Purchaser elects option (i), then such representations and warranties shall be deemed to have been amended or modified as set forth in Seller's notice.

**5.2 Covenants and Agreements of Seller.** Seller covenants and agrees with Purchaser, from the Effective Date until the Closing or earlier termination of this Agreement:

(a) Seller shall: (i) operate the Property in the ordinary course of business consistent with past practices; (ii) enter into no new agreements or understanding (whether oral or written) with respect to the Property except as shall be approved in writing by Purchaser; and (iii) fully maintain (or cause IOH LLC and/or OrthoIndy, as



the case may be, to fully maintain) the Property in at least as good condition and repair as existed on the Effective Date.

(b) Seller shall cause to be maintained in full force property insurance upon the Improvements and Tangible Personal Property and general liability insurance with respect to damage or injury to persons or property occurring on or relating to operation of the Property in at least such amounts as are maintained by Seller on the Effective Date.

(c) Seller shall pay (or cause IOH LLC and/or OrthoIndy, as the case may be, to pay) when due all bills and expenses of the Property.

(d) Seller shall not, without the prior written consent of Purchaser, create or voluntarily permit to be created any liens, easements or other conditions affecting any portion of the Property or the uses thereof.

**5.3 Representations and Warranties of Purchaser**. Purchaser represents and warrants to Seller that:

(a) Purchaser has duly and validly authorized and executed this Agreement, and has full right, power and authority to enter into this Agreement and to consummate the Transaction, and the joinder of no person or entity will be necessary to purchase the Property at Closing;

(b) The execution by Purchaser of this Agreement and the consummation by Purchaser or its assigns of the Transaction do not, and at the Closing will not, result in any breach of any of the terms or provisions of or constitute a default or a condition which upon the giving of notice or passage of time or both would ripen into a default under any indenture, agreement, instrument or obligation to which Purchaser is a party.

## **ARTICLE VI.**

### **Conditions to the Seller's and Purchaser's Obligations**

**6.1 Conditions to the Purchaser's Obligations**. The obligation of Purchaser to purchase the Property from Seller is subject to the satisfaction of each of the following conditions within the time periods set forth in each condition, or, if no such time period is set forth, at the Closing:

(a) The representations and warranties of Seller set forth in this Agreement shall be true, complete and correct, or shall be deemed modified as provided in Section 5.1 above.

(b) Purchaser shall have received the New IOH LLC Master Lease executed by IOH LLC, and IOH LLC shall remain irrevocably committed to perform its obligations under the New IOH LLC Master Lease (contingent only upon the Closing of the Transaction) and shall not have repudiated the same.

(c) Purchaser shall have received the New OrthoIndy Master Lease executed by OrthoIndy and OrthoIndy shall remain irrevocably committed to perform its obligations under the New OrthoIndy Master Lease (contingent only upon the Closing of the Transaction) and shall not have repudiated the same.

(d) Purchaser shall have received an Assignment of Rents and Leases executed by IOH LLC in the form called for in the New IOH LLC Master Lease, and IOH LLC shall remain irrevocably committed to perform its obligations under such Assignment of Rents and Leases (contingent only upon the Closing of the Transaction) and shall not have repudiated the same.

(e) Purchaser shall have received an Assignment of Rents and Leases executed by OrthoIndy in the form called for in the New OrthoIndy Master Lease, and OrthoIndy shall remain irrevocably committed to perform its obligations under such Assignment of Rents and Leases (contingent only upon the Closing of the Transaction) and shall not have repudiated the same.

(f) Seller shall have timely delivered, performed, observed and complied with, all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement to be delivered, performed, observed and complied with by it.

(g) The Title Company shall remain committed to issue the Title Policy in the form of the Title Commitment as it existed as of the expiration of the Due Diligence Period.

(h) Purchaser shall have received an updated Phase I (and, if necessary in the opinion of Purchaser, a Phase II Environmental Report) covering the Land and Improvements, which shall be addressed to Purchaser and its designee, and which must be in a form and content acceptable to Purchaser.

(i) No part of the Property shall have been damaged or destroyed.

(j) No part of the Property shall have been condemned or be under threat of condemnation.

**6.2 Failure of Conditions to Purchaser's Obligations**. In the event any one or more of the conditions to Purchaser's obligations are not satisfied in whole or in part prior to the

Closing, and provided such event is not waived by Purchaser as contemplated by this Agreement, Purchaser, at Purchaser's option, shall be entitled to: (a) terminate this Agreement by giving immediate written notice thereto to Seller on or prior to the Closing Date, upon which Purchaser shall receive a prompt refund of the Earnest Money, and the Parties shall have no further obligations or liabilities hereunder, or (b) proceed to Closing with rights of specific performance.

6.3 **Condition to the Seller's Obligations**. The obligations of Seller to sell the Property is subject to the satisfaction, at all times prior to and as of the Closing, of each of the following:

- (a) All of the representations and warranties of Purchaser set forth in this Agreement shall be true, complete and accurate.
- (b) Purchaser shall have timely delivered, performed, observed and complied with, all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement to be delivered, performed, observed, and complied with by it.
- (c) Purchaser and OrthoIndy have executed the New OrthoIndy Master Lease.
- (d) Purchaser and IOH LLC have executed the New IOH LLC Master Lease.

**ARTICLE VII.**  
**Provisions with Respect to the Closing**

7.1 **Seller's Closing Obligations** . At the Closing, Seller shall execute, acknowledge (where applicable) and deliver to the Title Company for recording and/or delivery to Purchaser, the following:

- (a) The Deed;
- (b) The fully executed Termination of Existing IOH LLC Lease;
- (c) The fully executed Termination of Existing OrthoIndy Lease;
- (d) The Certificate of Non-Foreign Status;
- (e) The Closing Certificate;
- (f) The Bill of Sale;
- (g) The Affidavit;
- (h) A closing statement itemizing the Purchase Price and all adjustments thereto as provided herein (the “ Closing Statement ”);
- (i) Duplicates of keys, combinations, codes and security information to all locks on the Property in the possession of Seller;
- (j) Evidence of the existence, organization and authority of Seller and of the authority of the persons executing documents on behalf of Seller reasonable satisfactory to Purchaser and the Title Company;
- (k) Evidence reasonably satisfactory to Purchaser that each of the Service Contracts has either been terminated or assigned to either IOH LLC or OrthoIndy, as appropriate;
- (l) The Title Policy, or, in the alternative, a fully “marked up” Title Commitment signed by an authorized officer of the Title Company, showing Purchaser as the owner of the Land and Improvements, subject only to the Permitted Exceptions and irrevocably obligating the Title Company to issue the Title Policy in the form of such fully “marked up” Title Commitment; and
- (m) Such other instruments or documents as are necessary or reasonably required by Purchaser or the Title Company to consummate the transaction contemplated

hereby, provided, however that no such additional instrument or document may expand any obligation, covenant, representation or warranty of Seller or result in any new or additional obligation, covenant, representation or warranty of Seller under this Agreement beyond those expressly set forth in this Agreement.

**7.2 Purchaser's Closing Obligations.** At the Closing, Purchaser shall execute, acknowledge (where applicable) and deliver to the Title Company for delivery to Seller:

- (a) The Closing Statement;
- (b) Wired funds for the benefit of Seller representing the cash portion of Purchase Price due in accordance with Section 3.1 and other applicable provisions herein;
- (c) A Secretary's Certificate evidencing the authority of the persons executing documents on behalf of Purchaser, which shall be in a form reasonable satisfactory to Seller and the Title Company; and
- (d) Such other instruments or documents as are necessary or reasonably required by Seller or the Title Company to consummate the transaction contemplated hereby, provided, however that no such additional instrument or document may expand any obligation, covenant, representation or warranty of Purchaser or result in any new or additional obligation, covenant, representation or warranty of Purchaser under this Agreement beyond those expressly set forth in this Agreement.

## **ARTICLE VIII. Expenses of Closing**

**8.1 Adjustments.** Taxes, assessments, water/sewer charges, gas, electric, telephone or other utilities, and other operating expenses, if any, with respect to the Property and other customary proratable items shall NOT be prorated at the Closing (and the Purchase Price shall not be adjusted therefor), as all such items are the responsibility of IOH LLC and/or OrthoIndy pursuant to the Existing Leases, and shall continue to be the responsibility of IOH LLC and OrthoIndy pursuant to the New IOH LLC Master Lease and the New OrthoIndy Master Lease, respectively.

### **8.2 Closing Costs.**

- (a) Seller shall pay:
  - (i) all title examination fees, the costs of the Title Commitment and premiums for the Title Policy;

(ii) the costs of the Survey and any updates thereto;

(iii) the costs of the Phase I and the updates thereto;

(iv) Seller's legal, accounting and other professional fees and expenses, and the cost of all certificates, instruments, documents and papers required to be delivered, or to cause to be delivered, by Seller hereunder;

(v) the charges for or in connection with the recording and/or filing of any instrument or document provided herein or contemplated by this Agreement or any agreement or document described or referred to herein; and

(vi) any and all state, municipal, local or other documentary, transfer taxes, surtaxes or similar taxes payable in connection with the delivery or recording of any title transfer instrument or document by Seller provided in or contemplated by this Agreement.

(vii) all costs, expenses, and fees, if any, associated with the payoff of any existing loans affecting the Property or any part thereof.

(b) Purchaser shall pay any costs incurred with respect to its inspection of the Property, any costs related to any additional endorsements to the Title Policy requested by Purchaser, and its legal, accounting and other professional fees and expenses.

Seller and Purchaser shall evenly split any and all charges by the Title Company for escrow services for the Earnest Money and disbursements at Closing. All other costs and expenses shall be paid by the party for whose benefit such costs or expenses are incurred.

**8.3 Commissions/Broker's Fees.** Seller covenants and represents that it has not dealt with any real estate or other broker, finder, agent or other person with respect to the Transaction, who may be entitled to any commission or fee related to same, other than Bremner Healthcare and Cain Brothers RE LLC; and agrees to indemnify, defend and hold Purchaser harmless from any costs and expenses (including, without any limitation, reasonable attorneys' fees), if any, which Purchaser may incur as a result of (a) Seller's breach of the foregoing representation and warranty, or (b) any claim by any real estate or other broker, finder, agent or other person claiming by, through, or under Seller. Seller shall pay Bremner Healthcare and Cain Brothers RE LLC all compensation to which it may be entitled in connection with the Transaction pursuant to a separate agreement. Purchaser covenants and represents that it has not dealt with any real estate or other broker, finder, agent or other person with respect to the Transaction, who may be entitled to any commission or fee related to same; and agrees to indemnify, defend and hold Seller harmless from any costs and expenses (including, without any limitation, reasonable attorneys' fees), if any, which Seller may incur as a result of (a) Purchaser's breach of the

foregoing representation and warranty, or (b) any claim by any real estate or other broker, finder, agent or other person claiming by, through, or under Purchaser.

**ARTICLE IX.**  
**Default and Remedies**

**9.1 Seller's Default; Purchaser's Remedies.**

(a) Seller's Default. Seller shall be in default hereunder if it shall fail to meet, comply with, or perform any material covenant, agreement or obligation on its part required within the time limits and in the manner required in this Agreement and shall fail to cure same within ten (10) Business Days after receipt of written notice from Purchaser.

(b) Purchaser's Remedies. In the event Seller shall be in default hereunder after the expiration of the applicable cure period, then Purchaser may, at Purchaser's sole option, either:

(i) terminate this Agreement by written notice delivered to Seller, in which case the Earnest Money shall be returned to Purchaser by the Title Company, and this Agreement shall be of no further force or effect, except for the provisions which by their terms survive the termination of this Agreement; or

(ii) enforce specific performance of this Agreement against Seller, in which case it shall be entitled to recovery from Seller its reasonable costs of and attorney's fees in connection therewith.

In the event Purchaser terminates this Agreement as provided in Section 9.1(b)(i) above, it shall be entitled to receive from Seller an amount equal to all costs and expenses incurred by it with respect to the due diligence performed by it in connection with the Transaction, as well as all its legal, accounting and other professional fees and expenses incurred in furtherance of the Transaction; provided, however, Seller's total liability for such costs shall not exceed the sum of Thirty-Five Thousand Dollars (\$35,000).

**9.2 Purchaser's Default; Seller's Remedies.**

(a) Purchaser's Default. Purchaser shall be in default hereunder if it shall fail to meet, comply with, or perform any material covenant, agreement or obligation on its part required within the time limits and in the manner required in this Agreement and shall fail to cure same within ten (10) Business Days after written notice from Seller.

(b) Seller's Remedy. In the event Purchaser shall be in default hereunder after the expiration of the applicable cure period as provided in this Agreement, Seller shall be entitled, as its sole and exclusive remedy, to terminate this Agreement and receive payment of the Earnest Money from the Title Company as full liquidated damages, and



thereafter Purchaser shall have no further obligations or liability hereunder. The parties hereto hereby acknowledge that it is impossible to more precisely estimate the specific damage to be suffered by Seller, and the parties hereto expressly acknowledge and intend that this provision shall be a provision for the retention of Earnest Money and not as a penalty. Seller expressly waives (i) any right to specific performance of this Agreement, and (ii) the defense of lack of mutuality of remedies.

**ARTICLE X.  
Miscellaneous**

10.1 **Survival**. All of the representations, warranties, covenants, agreements and indemnities of Seller and Purchaser contained in this Agreement shall be deemed independent of one another and shall survive the Closing for a period of one (1) year and shall not be deemed to merge upon the acceptance of the Deed by Purchaser during that time period.

10.2 **Right of Assignment**. Without the prior consent of Seller, Purchaser may assign all of its rights and obligations under this Agreement to an entity affiliated with Purchaser, provided that the original Purchaser shall continue to remain liable in such case for the obligations of the "Purchaser" hereunder.

10.3 **Notices**. All notices, requests and other communications under this Agreement shall be in writing and shall be either (a) delivered in person, (b) sent by certified mail, return receipt requested, (c) delivered by a nationally recognized overnight delivery service or (d) sent by facsimile transmission and addressed as follows:

If intended for Purchaser:      Healthcare Realty Trust Incorporated  
3310 West End Avenue, Suite 700  
Nashville, Tennessee 37203  
Attn: Stephen E. Cox, Jr.  
Phone: (615) 269-8118

With a copy to:                      Fax: (615) 463-7739  
Baker, Donelson, Bearman, Caldwell & Berkowitz  
211 Commerce Street, Suite 1000  
Nashville, TN 37201  
Attn: Kenneth P. Ezell, Jr.  
Phone: (615) 726-5721  
Fax: (615) 744-5721

If intended for Seller:              Orthopaedics Indianapolis Surgical Associates, LLC  
8450 Northwest Blvd.  
Indianapolis, IN 46278  
Attn: George G. Kellum  
Phone: (317) 802-2064  
Fax: (317) 802-2170

With a copy to:                      Cain Brothers RE LLC  
c/o J. Michael Davis  
One North Franklin, Suite 300  
Chicago, Illinois 60606  
Phone: (312) 604-0577  
Fax: (312) 456-9327

With a copy to:                      Joseph W. Eke  
9100 Keystone Crossing, Suite 400  
Indianapolis, IN 46240  
Phone: (317) 844-7400  
Fax: (317) 574-9426

or at such other address or facsimile number, and to the attention of such other person, as the parties shall give notice as herein provided. A notice, request and other communication shall be

deemed to be duly received (1) if delivered in person or by a nationally recognized overnight delivery service, when left at the address of the recipient, and (2) if sent by facsimile, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number; provided that if a notice, request or other communication is received on a day which is not a Business Day, or after 5:00 P.M. on any Business Day at the addressee'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.

**10.4 Entire Agreement; Modifications .** This Agreement embodies and constitutes the entire understanding between the parties with respect to the Transaction, and all prior or contemporaneous agreements, understandings, representations and statements (oral or written) are of no force or effect. Neither this Agreement nor any provision hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the Party against whom the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument. This Agreement, although initially drawn by one of the Parties hereto, shall not be construed for or against either party as a result thereof in any dispute pertaining to this Agreement or the Transaction, but this Agreement shall be interpreted in accordance with language hereof in an effort to reach the result intended thereby.

**10.5 Applicable Law; Venue .** THIS AGREEMENT AND THE TRANSACTION SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF INDIANA; AND THE VENUE FOR ANY ACTION BROUGHT UNDER THIS AGREEMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL LIE EXCLUSIVELY IN THE FEDERAL COURTS IN MARION COUNTY, INDIANA.

**10.6 Captions .** The captions in this Agreement are inserted for convenience of reference only and in no way define, describe, or limit the scope or intent of this Agreement or any of the provisions hereof.

**10.7 Binding Effect .** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, and assigns; provided, however the delivery of the Agreement by one party shall not be binding upon either until both parties have fully executed same. This Agreement, however, 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.

**10.8 Time is of the Essence .** With respect to all provisions of this Agreement, time is of the essence. However, if the first or last date of any period which is set out in any provision

of this Agreement falls on a day which is not a Business Day, then, in such event, the time of such period shall start or end, as the case may be, on the next day which is a Business Day.

10.9 **Waiver of Conditions** . Any Party may at any time or times, at its election, waive any of the conditions to its obligations hereunder, but any such waiver shall be effective only if contained in a writing signed by such Party. No waiver by a Party of any breach of this Agreement or of any warranty or representation hereunder by the other Party shall be deemed to be a waiver of any other breach or warranty or representation by such other Party (whether preceding or succeeding and whether or not of the same or similar nature), and no acceptance of payment or performance by a Party after any breach by the other Party shall be deemed to be a waiver of any breach of this Agreement or of any representation or warranty hereunder by such other Party, whether or not the first Party knows of such breach at the time it accepts such payment or performance. No failure or delay by a Party to exercise any right it may have by reason of the default of the other Party shall operate as a waiver of default or modification of this Agreement or shall prevent the exercise of any right by the first Party while the other Party continues to be so in default.

10.10 **Severability** . In the event any term or provision of this Agreement be determined by appropriate judicial authority to be illegal or otherwise invalid, such provision shall be given its nearest legal meaning or be construed as deleted as such authority determines, and the remainder of this Agreement shall be construed to be in full force and effect.

10.11 **No Recording** . Neither party shall record this Agreement or any short form, memorandum or notice thereof in any public or governmental office.

10.12 **Attorneys' Fees** . In the event of any litigation between the Parties under this Agreement, 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.

10.13 **Independent Consideration** . Seller hereby acknowledges the receipt of the Independent Consideration, which amount the Parties bargained for and agreed to as consideration for Purchaser's exclusive right to inspect and purchase the Property and for Seller's execution, delivery and performance of this Agreement. The Independent Consideration is in addition to and independent of any other consideration or payment provided for in this Agreement, is nonrefundable, and it is fully earned and shall be retained by Seller notwithstanding any other provisions of this Agreement.

10.14 **Escrow Agent** . The Title Company shall promptly deposit the Earnest Money and hold the same and disburse the same in accordance with this Agreement. The Earnest Money shall be applied against the Purchase Price at Closing, or refunded to Purchaser or paid to

Seller if this transaction is not closed, as the case may be, all in accordance with the terms of this Agreement. In performing any of its duties hereunder, the Title Company shall not be liable to a party or to any third person for any erroneous delivery to Purchaser or Seller of monies subject to the escrow, nor shall the Title Company incur any liability to anyone for any damages, losses or expenses, except for the Title Company's own willful default, gross neglect or breach of trust. In the event Title Company has doubts as to its duties or liabilities under this Agreement, the Title Company may, in its discretion, continue to hold monies in escrow until the Parties mutually agree on disbursement thereof, or until a court of competent jurisdiction shall determine the rights of the Parties thereto. Alternatively, the Title Company may elect to deposit the funds held with a court having jurisdiction of the dispute, and upon notifying the Parties of such disposition, all liability of the Title Company under this Agreement shall terminate. In the event of any action between Purchaser and Seller in which the Title Company is made a party by virtue of serving as the escrow agent under this Agreement, or in the event of any suit in which the Title Company interpleads the monies in escrow, the Title Company shall be entitled to recover all costs including a reasonable attorney's fee through all trials, appeals and other proceedings from the losing party.

10.15 **Third-Party Beneficiaries**. This Agreement is not intended to and shall not inure to the benefit of any third-party.

*(Signatures on the following pages)*

[Signature page — Agreement of Sale and Purchase — Purchaser]

EXECUTED on the date set forth below to be effective as of the Effective Date.

**PURCHASER:**

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

By: /s/ B. Douglas Whitman II

Printed: B. Douglas Whitman II

Its: Senior Vice President

Date: June 9, 2006

Purchaser's Tax Identification Number: 62-1507028

EXECUTED on the date set forth below to be effective as of the Effective Date.

**SELLER :**

**ORTHOPAEDICS  
INDIANAPOLIS  
SURGICAL ASSOCIATES, LLC ,**  
an Indiana limited liability company

By: /s/ George G. Kellum III

Printed: George G. Kellum III

Its: Secretary

Date: June 9, 2006

Seller's Tax Identification Number: 35-1988341

## **LIST OF EXHIBITS**

<b><u>Exhibit A</u></b>	Legal Description of the Land
<b><u>Exhibit B</u></b>	Form of Bill of Sale and Assignment
<b><u>Exhibit C</u></b>	Form of Certificate of Non-Foreign Status
<b><u>Exhibit D</u></b>	Form of Closing Certificate
<b><u>Exhibit E</u></b>	Form of Deed
<b><u>Exhibit F</u></b>	List of Service Contracts





**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.

/s/ DAVID R. EMERY

David R. Emery

Chairman of the Board

and Chief Executive Officer

Date: August 8, 2006



**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
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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.

/s/ SCOTT W. HOLMES

Scott W. Holmes

Senior Vice President

and Chief Financial Officer

Date: August 8, 2006



**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 June 30, 2006, 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.

/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

Date: August 8, 2006