HEALTHCARE REALTY TRUST INC
Form 10-Q
May 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2013

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: 001-11852

HEALTHCARE REALTY TRUST INCORPORATED
(Exact name of Registrant as specified in its charter)

Maryland	62 – 1507028
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

(Do not check if a smaller reporting company)

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

As of April 26, 2013, 90,402,345 shares of the Registrant's Common Stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Healthcare Realty Trust Incorporated
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	(Unaudited) March 31, 2013	December 31, 2012
ASSETS		
Real estate properties:		
Land	$164,649	$ 161,875
Buildings, improvements and lease intangibles	2,613,069	2,625,538
Personal property	19,208	19,100
Land held for development	17,054	25,171
	2,813,980	2,831,684
Less accumulated depreciation	(597,434)	(586,725)
Total real estate properties, net	2,216,546	2,244,959
Cash and cash equivalents	94,171	6,776
Mortgage notes receivable	190,134	162,191
Assets held for sale and discontinued operations, net	22,297	3,337
Other assets, net	132,102	122,709
Total assets	$2,655,250	$ 2,539,972
LIABILITIES AND EQUITY		
Liabilities:		
Notes and bonds payable	$1,415,119	$ 1,293,044
Accounts payable and accrued liabilities	45,534	65,678
Liabilities of discontinued operations	86	131
Other liabilities	57,895	60,175
Total liabilities	1,518,634	1,419,028
Commitments and contingencies		
Equity:		
Preferred stock, $.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 150,000 shares authorized; 89,217 and 87,514 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	892	875
Additional paid-in capital	2,142,346	2,100,297
Accumulated other comprehensive loss	(2,092)	(2,092)
Cumulative net income attributable to common stockholders	800,417	801,416
Cumulative dividends	(1,806,298)	(1,779,552)
Total stockholders' equity	1,135,265	1,120,944
Noncontrolling interests	1,351	—
Total equity	1,136,616	1,120,944
Total liabilities and equity	$2,655,250	$ 2,539,972

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2013 and 2012
(Amounts in thousands, except per share data)
(Unaudited)

	2013	2012
REVENUES		
Rental income	$78,191	$72,099
Mortgage interest	2,937	2,292
Other operating	1,456	1,774
	82,584	76,165
EXPENSES		
Property operating	29,826	28,285
General and administrative	6,541	5,261
Depreciation	21,852	20,479
Amortization	2,689	2,522
Bad debt, net of recoveries	(12)	(41)
	60,896	56,506
OTHER INCOME (EXPENSE)		
Interest expense	(19,795)	(18,379)
Interest and other income, net	232	216
	(19,563)	(18,163)
INCOME FROM CONTINUING OPERATIONS	2,125	1,496
DISCONTINUED OPERATIONS		
Income from discontinued operations	487	2,380
Impairments	(3,630)	(4,170)
Gain on sales of real estate properties	—	3,428
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(3,143)	1,638
NET INCOME (LOSS)	(1,018)	3,134
Less: Net loss attributable to noncontrolling interests	19	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(999)	$3,134
BASIC EARNINGS (LOSS) PER COMMON SHARE:		
Income from continuing operations	$0.02	$0.02
Discontinued operations	(0.03)	0.02
Net income (loss) attributable to common stockholders	$(0.01)	$0.04
DILUTED EARNINGS (LOSS) PER COMMON SHARE:		
Income from continuing operations	$0.02	$0.02
Discontinued operations	(0.03)	0.02
Net income (loss) attributable to common stockholders	$(0.01)	$0.04
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC	86,894	76,427
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—DILUTED	88,382	77,641
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	$0.30	$0.30

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	2013	2012
COMPREHENSIVE INCOME (LOSS)	$(1,018)	$3,134
Less: Comprehensive loss attributable to noncontrolling interests	19	—
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(999)	$3,134

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	2013	2012
OPERATING ACTIVITIES		
Net income (loss)	$(1,018)	$3,134
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	25,868	24,732
Stock-based compensation	1,848	932
Straight-line rent receivable	(1,680)	(1,900)
Straight-line rent liability	102	90
Gain on sales of real estate properties	—	(3,428)
Impairments	3,630	4,170
Provision for bad debt, net of recoveries	(12)	(42)
Changes in operating assets and liabilities:		
Other assets	(1,736)	1,290
Accounts payable and accrued liabilities	(21,485)	(20,628)
Other liabilities	(2,384)	2,587
Net cash provided by operating activities	3,133	10,937
INVESTING ACTIVITIES		
Acquisition of real estate	(16,967)	(22,503)
Development of real estate	—	(4,400)
Tenant improvements and capital additions	(8,001)	(17,559)
Funding of mortgages	(24,304)	(12,642)
Proceeds from sales of real estate	1,112	6,624
Proceeds from mortgage repayment by previously consolidated VIE	—	35,057
Proceeds from mortgages and notes receivable repayments	39	4,725
Net cash used in investing activities	(48,121)	(10,698)
FINANCING ACTIVITIES		
Net borrowings (repayments) on unsecured credit facility	(110,000)	26,000
Borrowings on notes and bonds payable	247,948	—
Repayments on notes and bonds payable	(16,110)	(1,213)
Dividends paid	(26,746)	(23,387)
Net proceeds from issuance of common stock	40,424	281
Common stock redemptions	(156)	(45)
Capital contributions received from noncontrolling interest holders	1,373	—
Distributions to noncontrolling interest holders	(29)	—
Debt issuance and assumption costs	(4,321)	(3)
Net cash provided by financing activities	132,383	1,633
Increase in cash and cash equivalents	87,395	1,872
Cash and cash equivalents, beginning of period	6,776	4,738
Cash and cash equivalents, end of period	$94,171	$6,610

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	2013	2012
Supplemental Cash Flow Information:		
Interest paid	$26,271	$26,389
Capitalized interest	$107	$1,835
Company-financed real estate property sales	$3,666	$7,450
Invoices accrued for construction, tenant improvement and other capitalized costs	$5,049	$7,129
Construction liabilities transferred upon deconsolidation of VIE	$—	$3,450

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated

Notes to Condensed Consolidated Financial Statements
March 31, 2013
(Unaudited)

Note 1. Summary of Significant Accounting Policies
Business Overview
Healthcare Realty Trust Incorporated (the "Company") is a real estate investment trust ("REIT") that integrates owning, managing, financing and developing income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately $3.0 billion in 205 real estate properties and mortgages as of March 31, 2013. The Company's 200 owned real estate properties are located in 28 states and total approximately 13.5 million square feet. The Company provided property management services to approximately 10.1 million square feet nationwide.

Principles of Consolidation
The Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, joint ventures, partnerships, and other affiliates, as well as certain variable interest entities ("VIEs") in prior periods where the Company controlled the operating activities of the VIE. The Company reports noncontrolling interests in less-than-wholly-owned consolidated subsidiaries of the parent as a component of total equity on the Condensed Consolidated Balance Sheets to distinguish between the interests of the parent company and the interests of the noncontrolling interest holders.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Management believes, however, that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. All material intercompany transactions and balances have been eliminated in consolidation.

This interim financial information should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2013 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends, risks, and uncertainties.

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

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

New Pronouncements

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other

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disclosures that provide additional detail. This guidance was effective on a prospective basis for the annual and interim reporting periods for the Company beginning January 1, 2013. The Company's adoption of this standard did not have a significant impact on its Condensed Consolidated Financial Statements. The Company's accumulated other comprehensive loss is comprised of one item pertaining to the Company's defined benefit pension plan. Reclassification of the amortization of this item occurs on an annual basis in the fourth quarter of each fiscal year.

Note 2. Acquisitions, Dispositions and Mortgage Fundings
Real Estate Acquisition
In January 2013, the Company purchased a 52,225 square foot medical office building in Tennessee for a purchase price and cash consideration of $16.2 million. The Company recorded approximately $0.5 million of market rate lease intangibles upon acquisition. The property is 100% leased to four tenants and is adjacent to a 39,345 square foot medical office building the Company purchased in October 2012.

Subsequent Acquisition
In April 2013, the Company purchased a 42,627 square foot inpatient rehabilitation facility in Texas for a purchase price and cash consideration of $16.3 million. The property is 100% leased to one tenant.

Asset Disposition
In March 2013, the Company disposed of 15.1 acres of land in Texas in which the Company had an aggregate net investment of approximately $8.1 million. The sales price was approximately $5.0 million, which included $1.1 million in net cash proceeds, the origination of a $3.7 million Company-financed mortgage note receivable and closing costs of $0.2 million. The Company-financed mortgage note receivable bears interest of 5.0% in the first year and 6.0% in the second year and matures in March 2015. The Company recognized a $3.3 million impairment on the disposal based on the contractual sales price, a level 1 input. The land parcel was not previously classified as held for sale.

Potential Dispositions
The Company received notice in January 2013 that a tenant is exercising purchase options on two inpatient rehabilitation facilities, one in Florida and one in Alabama, upon the expiration of the current leases in July 2013. The aggregate purchase price will be $29.4 million. The Company's aggregate net investment in the two facilities was approximately $18.6 million, and base rent was approximately $1.0 million per quarter as of March 31, 2013. These properties are included in assets held for sale as of March 31, 2013.

In April 2013, the same inpatient rehabilitation facility operator provided notice of exercise of purchase options for two facilities located in Pennsylvania upon the expiration of the current leases on September 30, 2013. The purchase prices will be the greater of fair market value or $17.6 million for each facility. The Company's aggregate net investment in the two facilities was approximately $25.1 million, and base rent was approximately $1.3 million per quarter as of March 31, 2013. Subsequent to providing notice of its exercise of the purchase options, the operator contacted the Company to continue long-term lease renewal discussions for these two properties which discussions are on-going as of the date of this report. These properties were not included in assets held for sale as of March 31, 2013.

Mortgage Note Fundings
In the first quarter of 2013, the Company funded $24.3 million on two outstanding construction mortgage notes. The total amount outstanding on the two build-to-suit facilities in Oklahoma and Missouri that are fully leased to Mercy Health is approximately $142.7 million at March 31, 2013. The Company anticipates funding the majority of the remaining $59.9 million during the second and third quarters of 2013.

Noncontrolling Interest

In January 2013, the Company received a $1.4 million capital contribution from a 40% noncontrolling interest holder in a partnership that owns a medical office building and parking garage in Texas included as a property in stabilization. The partnership owner (HRP MAC III, LLC), in which the Company holds a 60% majority controlling interest, is the borrower under a permanent loan from the Company of approximately $10.3 million. These buildings were constructed by the Company and were previously subject to a construction mortgage note totaling $13.7 million. The Company's equity in and loan to the partnership are eliminated in consolidation.

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Notes to Condensed Consolidated Financial Statements - Continued

Discontinued Operations and Assets Held for Sale

At March 31, 2013 and December 31, 2012, the Company had four and one properties, respectively, classified as held for sale. The Company recorded a $0.3 million impairment charge on a building currently classified as held for sale based on the execution of a sales agreement, a level 2 input.

(Dollars in thousands)	March 31, 2013	December 31, 2012
Balance Sheet data:		
Land	$4,310	$ 3,835
Buildings, improvements and lease intangibles	35,342	5,566
Personal property	215	212
	39,867	9,613
Accumulated depreciation	(17,805)	(6,303)
Assets held for sale, net	22,062	3,310
Other assets, net (including receivables)	235	27
Assets of discontinued operations, net	235	27
Assets held for sale and discontinued operations, net	$22,297	$ 3,337
Accounts payable and accrued liabilities	$71	$ 99
Other liabilities	15	32
Liabilities of discontinued operations	$86	$ 131

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Statements of Operations data:		
Revenues		
Rental income	$851	$4,292
Other operating	—	5
	851	4,297
Expenses		
Property operating	316	1,104
General and administrative	—	5
Depreciation	48	909
Amortization	—	15
Bad debt, net of recoveries	—	(1)
	364	2,032
Other Income (Expense)		
Interest and other income, net	—	115
	—	115
Discontinued Operations		
Income from discontinued operations	487	2,380
Impairments	(3,630)	(4,170)
Gain on sales of real estate properties	—	3,428
Income (Loss) from Discontinued Operations	$(3,143)	$1,638

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Notes to Condensed Consolidated Financial Statements - Continued

Note 3. Notes and Bonds Payable

On February 15, 2013, the Company entered into an amendment that extended the original maturity date of the unsecured credit facility ("Unsecured Credit Facility") from October 14, 2015 to April 14, 2017. The amendment also provides the Company with two six-month extension options that could extend the maturity date to April 14, 2018. Each option is subject to an extension fee of 0.075% of the aggregate commitments. Amounts outstanding under the Unsecured Credit Facility bear interest at LIBOR plus an applicable margin rate. The margin rate, which depends on the Company's credit ratings, ranges from 0.95% to 1.75% (currently at 1.4%). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments ranging from 0.15% to 0.35% (currently at 0.30%). In connection with the amendment, the Company paid up-front fees to the lenders of approximately $2.7 million, included in Other assets, which will be amortized over the term of the facility. The Company wrote-off certain unamortized deferred financing costs of the original facility of approximately $0.3 million upon execution of the amendment. As of March 31, 2013, the Company had no borrowings outstanding under the Unsecured Credit Facility and had a remaining borrowing capacity of approximately $700.0 million.

In February 2013, the Company repaid in full a mortgage note payable in the amount of $14.9 million bearing interest at a rate of 6.55% per year.

On March 26, 2013, the Company issued $250.0 million of unsecured senior notes due 2023 (the "Senior Notes due 2023") that bear interest at 3.75%, payable semi-annually in arrears on April 15 and October 15, commencing October 15, 2013, and mature on April 15, 2023, unless redeemed earlier by the Company. The Senior Notes due 2023 were issued at a discount of approximately $2.1 million, which yielded a 3.85% interest rate per annum upon issuance. The Company incurred $2.1 million in debt issuance costs that are included in Other assets which will be amortized to maturity. The Senior Notes due 2023 have various financial covenant provisions that are required to be met on a quarterly and annual basis. The Company is in compliance with the covenant provisions at March 31, 2013.

On April 18, 2013, the Company redeemed its unsecured senior notes due 2014 at a redemption price equal to an aggregate of $277.3 million, consisting of outstanding principal of $264.7 million, accrued interest as of the redemption date of $0.7 million, and a "make-whole" amount of approximately $11.9 million for the early extinguishment of debt. The unaccreted discount on these notes of $0.2 million and deferred financing costs of $0.2 million were written off upon redemption. In the second quarter of 2013, the Company will recognize a loss on early extinguishment of debt of approximately $12.3 million related to this redemption.

Note 4. Commitments and Contingencies

Legal Proceedings

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

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Notes to Condensed Consolidated Financial Statements - Continued

Note 5. Stockholders' Equity

The following table provides a reconciliation of total stockholders' equity for the three months ended March 31, 2013:

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Cumulative Net Income Attributable to Common Stockholders	Cumulative Dividends	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2012	$ 875	$ 2,100,297	$ (2,092)	$ 801,416	$ (1,779,552)	$ 1,120,944	$ —	$ 1,120,944
Issuance of common stock	16	40,358	—	—	—	40,374	—	40,374
Common stock redemptions	—	(156)	—	—	—	(156)	—	(156)
Stock-based compensation	1	1,847	—	—	—	1,848	—	1,848
Total comprehensive loss	—	—	—	(999)	—	(999)	(19)	(1,018)
Dividends to common stockholders ($0.30 per share)	—	—	—	—	(26,746)	(26,746)	—	(26,746)
Distributions to non-controlling interests	—	—	—	—	—	—	(3)	(3)
Proceeds from non-controlling interests	—	—	—	—	—	—	1,373	1,373
Balance at March 31, 2013	$ 892	$ 2,142,346	$ (2,092)	$ 800,417	$ (1,806,298)	$ 1,135,265	$ 1,351	$ 1,136,616

Common Stock

The following table provides a reconciliation of the beginning and ending common stock outstanding for the three months ended March 31, 2013 and the year ended December 31, 2012:

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
Balance, beginning of period	87,514,336	77,843,883
Issuance of common stock	1,642,318	9,275,895
Restricted stock-based awards, net of forfeitures	60,726	394,558
Balance, end of period	89,217,380	87,514,336

At-The-Market Equity Offering Program

In January 2013, the Company sold 1,599,271 shares of common stock under its at-the-market equity offering program for approximately $39.7 million in net proceeds. On February 17, 2013, the Company terminated the existing sales agreements under this program. On March 29, 2013, the Company entered into new sales agreements with four investment banks to sell up to 9,000,000 shares of its common stock through this program. In April 2013, the

Company sold 1,423,931 shares of common stock, generating $40.7 million in net proceeds, with 7,576,069 authorized shares remaining available to be sold under these agreements.

Common Stock Dividends

During the first three months of 2013, the Company declared and paid common stock dividends totaling $0.30 per share.

On April 30, 2013, the Company declared a quarterly common stock dividend in the amount of $0.30 per share payable on May 31, 2013 to stockholders of record on May 16, 2013.

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Earnings (Loss) Per Common Share

The following table sets forth the computation of basic and diluted earnings (loss) per common share for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2013	2012
Weighted average Common Shares outstanding		
Weighted average Common Shares outstanding	88,717,028	77,945,505
Nonvested shares	(1,822,692)	(1,518,796)
Weighted average Common Shares outstanding—Basic	86,894,336	76,426,709
Weighted average Common Shares—Basic	86,894,336	