HEALTHCARE REALTY TRUST INC
Form 10-K
February 16, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period to
Commission File Number: 001-11852

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

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

3310 West End Avenue
Suite 700
Nashville, Tennessee 37203
(Address of principal executive offices)
(615) 269-8175
(Registrant's telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the shares of common stock (based upon the closing price of these shares on the New York Stock Exchange, Inc. on June 30, 2015) of the Registrant held by non-affiliates on June 30, 2015 was approximately $2,285,115,596.

As of January 29, 2016, there were 102,209,816 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 10, 2016 are incorporated by reference into Part III of this Report.

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HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-K
December 31, 2015

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PART I

Item 1. Business
Overview
Healthcare Realty Trust Incorporated ("Healthcare Realty" or the "Company") is a self-managed and self-administered real estate investment trust ("REIT") that owns, acquires, manages, finances and develops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company was incorporated in Maryland in 1992 and listed on the New York Stock Exchange in 1993.
The Company operates so as to qualify as a REIT for federal income tax purposes. As a REIT, the Company is not subject to corporate federal income tax with respect to taxable income distributed to its stockholders. See "Risk Factors" in Item 1A for a discussion of risks associated with qualifying as a REIT.
Real Estate Properties
The Company had investments of approximately $3.4 billion in 198 real estate properties, construction in progress, land held for development and corporate property at December 31, 2015. The Company provided property management services for 139 healthcare-related properties nationwide, totaling approximately 9.8 million square feet as of December 31, 2015. The Company's real estate property investments by geographic area are detailed in Note 2 to the Consolidated Financial Statements.

(Dollars and square feet in thousands)	Number of Investments	Gross Investment Amount	%		Square Feet Footage	%	
Owned properties:							
Multi-tenant leases							
Medical office/outpatient	162	$2,619,284	77.4	%	11,708	82.1	%
Other	2	50,452	1.5	%	279	2.0	%
	164	2,669,736	78.9	%	11,987	84.1	%
Single-tenant net leases							
Medical office/outpatient	14	243,898	7.2	%	1,045	7.3	%
Inpatient	13	400,540	11.9	%	1,013	7.1	%
Other	7	24,768	0.7	%	226	1.5	%
	34	669,206	19.8	%	2,284	15.9	%
Construction in progress (1)	—	19,024	0.6	%	—	—	
Land held for development	—	17,452	0.5	%	—	—	
Corporate property	—	5,490	0.2	%	—	—	
	—	41,966	1.3	%	—	—	
Total real estate investments	198	$3,380,908	100.0	%	14,271	100.0	%

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(1) Construction in progress includes $5.8 million of land.

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The following table details occupancy of the Company's owned properties by facility type as of December 31, 2015 and 2014:

	Investment as of Dec. 31, 2015 (1) (in thousands)	Square Feet (1) (in thousands)	Percentage of Square Feet (1)	Occupancy as of December 31, (1) 2015	2014
Medical office/outpatient	$ 2,863,182	12,753	89.4 %	86.7 %	85.2 %
Inpatient	400,540	1,013	7.1 %	100.0 %	100.0 %
Other	75,220	505	3.5 %	85.9 %	85.8 %
Total	$ 3,338,942	14,271	100.0 %	87.6 %	86.4 %

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(1) The investment, square feet and percentage of square feet columns include all owned real estate properties excluding land held for development, construction in progress, and corporate property. The occupancy columns represent the percentage of total rentable square feet leased (including month-to-month and holdover leases), excluding properties classified as held for sale (one property as of December 31, 2015 and two properties as of December 31, 2014). Properties under property operating or single-tenant net lease agreements are included at 100% occupancy. Upon expiration of these agreements, occupancy reflects underlying tenant leases in the building.

Revenue Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2015, the Company had one tenant that accounted for 10% or more of the Company's consolidated revenues, including revenues from discontinued operations and that was Baylor Scott & White Health at 10%. The Company had approximately 160 leases with this tenant and its affiliated entities in 22 buildings throughout north and central Texas, including buildings at eight different hospital campuses.

Expiring Leases

As of December 31, 2015, the weighted average remaining years to maturity pursuant to the Company's single-tenant net leases and multi-tenant occupancy leases were approximately 4.6 years, with expirations through 2033. The table below details the Company's lease maturities as of December 31, 2015, excluding one property classified as held for sale.

Expiration Year	Annualized Minimum Rents (1) (in thousands)	Number of Leases: Multi-Tenant Properties	Number of Leases: Single-Tenant Net Lease Properties	Average Percentage of Revenues	Total Square Feet
2016 (2)	$50,859	549	2	16.4 %	1,903,292
2017	42,566	340	5	13.7 %	1,805,939
2018	35,329	314	—	11.4 %	1,502,927
2019	41,929	281	9	13.5 %	1,666,759
2020	29,098	204	1	9.4 %	1,174,299
2021	14,478	86	2	4.7 %	624,113
2022	18,700	87	2	6.0 %	745,726
2023	18,995	92	1	6.1 %	778,319
2024	11,046	53	1	3.6 %	447,693
2025	9,261	37	2	3.0 %	462,929
Thereafter	38,252	13	9	12.2 %	1,082,284

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(1) Represents the annualized minimum rents on leases in-place as of December 31, 2015, excluding the impact of potential lease renewals, future increases in rent, property lease guaranty revenue under property operating agreements and straight-line rent that may be recognized relating to the leases.

(2) Includes 102 leases that expired prior to December 31, 2015 and are currently on month-to-month terms.

See "Trends and Matters Impacting Operating Results" in Item 7 for additional information regarding the Company's leases and leasing efforts.

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Liquidity

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

Business Strategy

The Company owns and operates healthcare properties that facilitate the delivery of care in primarily outpatient settings. The Company seeks to generate stable, growing income and lower the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of large, acute care hospitals associated with leading health systems. The Company seeks to reduce financial and operational risk by owning properties in diverse geographic locations with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer and diagnostic centers. To execute its strategy, the Company integrates owning, managing, financing and developing such properties and provides a broad spectrum of real estate services including leasing, property management, acquisition and development.

2015 Acquisitions and Dispositions

The Company acquired eight medical office buildings and two parcels of land during 2015 for a total purchase price of $190.1 million, including cash consideration of $156.4 million and the assumption of mortgage notes payable of $28.4 million (excluding $0.4 million fair value adjustment premiums recorded upon acquisition). The weighted average capitalization rate for the eight medical office buildings was 6.0%.

The Company disposed of nine properties during 2015 for a total sales price of $158.0 million, including cash consideration of $153.1 million and $4.9 million of closing costs and adjustments. The weighted average capitalization rate for these properties was 5.3%.

See the Company's discussion regarding the 2015 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Competition

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

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

Government Regulation

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

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change. Government healthcare spending has increased over time; however, changes from year to year in reimbursement methodology, rates and other regulatory requirements have resulted in a challenging operating environment for healthcare providers. Aggregate spending on government reimbursement programs for healthcare services is expected to continue to rise significantly over the next 20 years with population growth and the anticipated expansion of public insurance programs for the uninsured and senior

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populations. However, the profitability of providing care to the rising number of Medicare and Medicaid patients may decline, which could adversely affect tenants' ability to make lease payments to the Company.

The Health Reform Law was intended to provide for comprehensive reform of the United States' healthcare system and extend health insurance benefits to the uninsured population, with the potential to alleviate high uncompensated care expense to healthcare providers. However, the law also increases regulatory scrutiny of providers by federal and state administrative authorities, lowers annual increases in Medicare payment rates and gradually implements broad cost-saving measures and shared risk-and-reward payment models, driven by value and savings, rather than payment for volume of services. This may slow the growth of healthcare spending, while also requiring providers to expand access and quality of care, presenting the industry and its individual participants with uncertainty and greater financial risk.

The Health Reform Law continues to be the subject of legal and legislative challenges. The implementation or repeal of the Health Reform Law, in whole or in part, could affect the economic performance of some or all of the Company's tenants and borrowers. The Company cannot predict the degree to which any changes may affect indirectly the economic performance of the Company, positively or negatively.

The Bipartisan Budget Act of 2015, Section 603, lowered Medicare rates effective January 1, 2017, for services provided in off-campus, provider-based outpatient departments, to the same level of rates for physician-office settings, for those facilities not grandfathered-in under the current Medicare rates as of the law’s date of enactment, November 2, 2015. This legislation reflects the movement by the Center for Medicare and Medicaid Services toward reimbursement “site-neutrality,” or equalizing Medicare rates across different facility-type settings. While these changes are expected to lower overall Medicare spending, Healthcare Realty’s medical office buildings that are located on hospital campuses could become more valuable as hospital tenants will keep their higher Medicare rates for on-campus outpatient services. However, the Company cannot predict the amount of benefit from these measures or if other federal budget negotiations will ultimately require cuts to reimbursement rates for services provided in other facility-type settings. The Company cannot predict the degree to which these changes, or changes to the federal healthcare programs in general, may affect the economic performance of some or all of the Company's tenants, positively or negatively.

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

Legislative Developments

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

- the Health Reform Law and proposed amendments and repeal measures and related actions at the federal and state level;
- quality control, cost containment, and payment system reforms for Medicaid, Medicare and other public funding, such as expansion of pay-for-performance criteria and value-based purchasing programs, bundled provider payments, accountable care organizations, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- implementation of health insurance exchanges and regulations governing their operation, whether run by the state or by the federal government, whereby individuals and small businesses purchase health insurance, including government-funded plans, many assisted by federal subsidies that are under ongoing legal challenges;
- equalization of Medicare payment rates across different facility-type settings; the Bipartisan Budget Act of 2015, Section 603, lowered Medicare payment rates, effective January 1, 2017, for services provided in off-campus, provider-based outpatient departments to the same level of rates for physician-office settings for those facilities not grandfathered-in under the current Medicare rates as of the law’s date of enactment, November 2, 2015;
- the continued adoption by providers of federal standards for the meaningful-use of electronic health records, and the transition to ICD-10 coding;
- anti-trust scrutiny of recently-announced mergers of large health insurance companies; and

- tax law changes affecting non-profit providers.

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

Environmental Matters

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

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

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

Insurance

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

Employees

At December 31, 2015, the Company employed 236 people. The employees are not members of any labor union, and the Company considers its relations with its employees to be excellent.

Available Information

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

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room

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by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company’s reports on its website at www.sec.gov.

Corporate Governance Principles

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

Committee Charters

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

Executive Officers

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

Item 1A. Risk Factors

The following are some of the risks and uncertainties that could negatively affect the Company’s consolidated financial condition, results of operations, business and prospects. These risk factors are grouped into three categories: risks relating to the Company’s business and operations; risks relating to the Company’s capital structure and financings; and risks arising from the Company’s status as a REIT and the regulatory environment in which it operates.

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

Risk relating to our business and operations

The Company's expected results may not be achieved.

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

The Company’s single-tenant net leases may not be extended.

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

The Company’s revenues depend on the ability of its tenants under its leases to generate sufficient income from their operations to make rent, loan and lease guaranty payments to the Company.

The Company’s revenues are subject to the financial strength of its tenants and sponsoring health systems. The Company has no operational control over the business of these tenants and sponsoring health systems who face a wide range of economic, competitive, government reimbursement and regulatory pressures and constraints. Any slowdown in the economy, decline in the availability of financing from the capital markets, and changes in healthcare regulations may adversely affect the businesses of the Company’s tenants to varying degrees. Such conditions may further impact such tenants’ abilities to meet their obligations to the Company and, in certain cases, could lead to restructurings, disruptions, or bankruptcies of such tenants. In turn, these conditions could adversely affect the Company’s revenues and could increase allowances for losses and result in

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impairment charges, which could decrease net income attributable to common stockholders and equity, and reduce cash flows from operations.

The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sales at rates of return equal to the return received on the properties sold.

The Company had approximately $178.2 million, or 5.3% of the Company’s real estate property investments, that were subject to purchase options held by lessees that were exercisable as of December 31, 2015 or could become exercisable in 2016. Other properties have purchase options that will become exercisable in future periods. Properties with options exercisable in 2016 produced aggregate net operating income (operating revenues, such as property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue, less property operating expense) of approximately $17.9 million in 2015. The exercise of these purchase options exposes the Company to reinvestment risk and a reduction in investment return. Certain properties subject to purchase options are producing returns above the rates of return the Company expects to achieve with new investments. If the Company is unable to reinvest the sale proceeds at rates of return equal to the return received on the properties that are sold, it may experience a decline in lease revenues and profitability and a corresponding material adverse effect on the Company’s business and financial condition, the Company’s ability to make distributions to its stockholders, and the market price of its common stock. For more specific information concerning the Company’s purchase options, see “Purchase Options” in the “Trends and Matters Impacting Operating Results” section of this report.

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

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

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

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

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

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

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

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

The Company has, and may have more in the future, exposure to fixed rent escalators, which could lag behind inflation.

The Company receives a significant portion of its revenues by leasing assets in which the rental rate is generally fixed with annual escalations. Eighty percent of leases have increases that are based upon fixed percentages, fifteen percent are based on increases in the Consumer Price Index and five percent have no increase. If the fixed percentage increases begin to lag behind inflation, the Company's growth and profitability would be negatively impacted.

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

Because real estate investments are relatively illiquid, the Company's ability to adjust its portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including debt service (if any), real estate taxes, and operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result in reduced earnings and could have an adverse effect on the Company's financial condition. In addition, the Company may not be able to sell properties targeted for disposition, including properties held for sale, due to adverse market conditions. This may negatively affect, among other things, the Company's ability to sell properties on favorable terms, execute its operating strategy, repay debt, pay dividends or maintain its REIT status.

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

The Company expects development and redevelopment of properties will continue to be a key component of its growth plans. The Company is subject to certain risks associated with the development of properties including the following:

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

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

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

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

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

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

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

The Company's acquisition and development activities may involve entering geographic markets where the Company has not previously had a presence. The construction and/or acquisition of properties in new geographic areas involves risks, including the risk that the property will not perform as anticipated and the risk that any actual costs for site development and improvements identified in the pre-construction or pre-acquisition due diligence process will exceed estimates. There is, and it

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is expected that there will continue to be, significant competition for investment opportunities that meet management's investment criteria, as well as risks associated with obtaining financing for acquisition activities, if necessary.

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

As of December 31, 2015, the Company had 94 properties, representing an aggregate net investment of approximately $1.2 billion, that were held under ground leases. The Company's ground lease agreements with hospitals and health systems typically contain restrictions that limit building occupancy to physicians on the medical staff of an affiliated hospital and prohibit tenants from providing services that compete with the services provided by the affiliated hospital. Ground leases may also contain consent requirements or other restrictions on sale or assignment of the Company's leasehold interest, including rights of first offer and first refusal in favor of the lessor. These ground lease provisions may limit the Company's ability to lease, sell, or obtain mortgage financing secured by such properties which, in turn, could adversely affect the income from operations or the proceeds received from a sale. As a ground lessee, the Company is also exposed to the risk of reversion of the property upon expiration of the ground lease term, or an earlier breach by the Company of the ground lease, which may have a material adverse effect on the Company's business, consolidated financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

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

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

The Company is subject to cyber security risks.

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

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

Risks relating to our capital structure and financings

The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future.

As of December 31, 2015, the Company had approximately $1.4 billion of outstanding indebtedness and the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was 41.8%. Covenants under the unsecured credit facility due 2017 ("Unsecured Credit Facility"), the Term Loan Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto (the "Unsecured Term Loan due 2019") and the indentures governing the Company's senior notes permit the Company to incur substantial, additional debt, and the Company may borrow additional funds, which may include secured borrowings. A high level of indebtedness would require the Company to dedicate a substantial portion of its cash flows from operations to service the debt, thereby reducing the funds available to implement the Company's business strategy and to make distributions to stockholders.

A high level of indebtedness could also:

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

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In addition, from time to time, the Company mortgages properties to secure payment of indebtedness. If the Company is unable to meet its mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of the Company's properties could have a material adverse effect on the Company’s consolidated financial condition and results of operations.

Covenants in the Company’s debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company’s consolidated financial condition and results of operations.

The terms of the Unsecured Credit Facility, the Unsecured Term Loan due 2019, the indentures governing the Company’s outstanding senior notes and other debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. These provisions include, among other things: a limitation on the incurrence of additional indebtedness; limitations on mergers, investments, acquisitions, redemptions of capital stock, transactions with affiliates; and maintenance of specified financial ratios. The Company’s continued ability to incur debt and operate its business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in defaults under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit the Company’s operational flexibility, as well as defaults resulting from a breach of any of these covenants in its debt instruments, could have a material adverse effect on the Company’s consolidated financial condition and results of operations.

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

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

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

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

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

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

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

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

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The Company may enter into swap agreements from time to time that may not effectively reduce its exposure to changes in interest rates.

The Company has entered into swap agreements in the past and may enter into such agreements from time to time to manage some of its exposure to interest rate volatility. These swap agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition, these arrangements may not be effective in reducing the Company's exposure to changes in interest rates. When the Company uses forward-starting interest rate swaps, there is a risk that it will not complete the long-term borrowing against which the swap is intended to hedge. If such events occur, the Company's results of operations may be adversely affected.

Risks relating to government regulations

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

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

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

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- consolidation of large health insurers;
- lower reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- credit downgrades;
- liability insurance expense;
- regulatory and government reimbursement uncertainty resulting from the Health Reform Law;
- congressional efforts to repeal the Health Reform Law in whole or in part;
- health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, lower payments for hospital readmissions, and shared risk-and-reward payment models such as accountable care organizations;
- federal court decisions on several cases challenging the legality of certain aspects of the Health Reform Law;
- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates, while requiring increased patient access to care;

- equalizing Medicare payment rates across different facility-type settings;
- heightened health information technology security standards and the meaningful use of electronic health records by healthcare providers; and
- potential tax law changes affecting non-profit providers.

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

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

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

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

Even if the Company remains qualified for taxation as a REIT, the Company is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed taxable income, and state or local income, franchise, property and transfer taxes. These tax liabilities would reduce the Company's cash flow and could adversely affect the value of the Company's common stock. For more specific information on state income taxes paid, see Note 17 to the Consolidated Financial Statements.

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

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

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

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

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

To qualify as a REIT for federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature of its assets, the amounts it distributes to its stockholders and the ownership of its

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stock. The Company may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source-of-income, or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder the Company’s ability to make certain attractive investments.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In addition to the properties described in Item 1, “Business,” in Note 2 to the Consolidated Financial Statements, and in Schedule III of Item 15 of this Annual Report on Form 10-K, the Company leases office space from an unrelated third party for its headquarters, which are located at 3310 West End Avenue in Nashville, Tennessee. The Company’s corporate office lease currently covers approximately 36,653 square feet of rented space and expires on October 31, 2020. Annual base rent on the corporate office lease increases approximately 3.25% annually. The Company’s base rent for 2015 was approximately $0.9 million.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Shares of the Company’s common stock are traded on the New York Stock Exchange under the symbol “HR.” At December 31, 2015, there were approximately 1,088 stockholders of record. The following table sets forth the high and low sales prices per share of common stock and the dividends declared and paid per share of common stock related to the periods indicated.

	High	Low	Dividends Declared and Paid per Share
2015			
First Quarter	$31.20	$26.03	$0.30
Second Quarter	28.39	23.10	0.30
Third Quarter	25.24	22.01	0.30
Fourth Quarter (Dividend payable on February 29, 2016)	28.51	24.64	0.30
2014			
First Quarter	$24.66	$20.85	$0.30
Second Quarter	26.03	23.88	0.30
Third Quarter	25.96	23.41	0.30
Fourth Quarter	28.00	23.50	0.30

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2015 about the Company’s common stock that may be issued as restricted stock and upon the exercise of options, warrants and rights under all of the Company’s existing compensation plans, including the 2015 Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	340,958	—	3,457,457
Equity compensation plans not approved by security holders	—	—	—
Total	340,958	—	3,457,457

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

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Issuer Purchases of Equity Securities

During the year ended December 31, 2015, the Company withheld shares of Company common stock to satisfy minimum employee tax withholding obligations payable upon the vesting of non-vested shares, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	6,197	$27.32	—	—
February 1 - February 28	1,085	29.65	—	—
March 1 - March 31	—	—	—	—
April 1 - April 30	—	—	—	—
May 1 - May 31	2,837	24.56	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	—	—	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	—	—	—	—
November 1 - November 30	2,995	26.83	—	—
December 1 - December 31	36,111	28.13	—	—
Total	49,225			

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Item 6. Selected Financial Data

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

	Year Ended December 31,				
(Amounts in thousands except per share data)	2015	2014 (1)	2013 (1)	2012 (1)	2011 (1)
Statement of Income Data:					
Total revenues	$388,471	$370,855	$330,949	$297,682	$272,077
Total expenses	283,541	267,100	243,331	224,592	207,303
Other income (expense)	(46,094)	(69,776)	(100,710)	(73,982)	(77,125)
Income (loss) from continuing operations	$58,836	$33,979	$(13,092)	$(892)	$(12,351)
Discontinued operations	10,600	(1,779)	20,075	6,427	12,167
Net income (loss) attributable to common stockholders	$69,436	$31,887	$6,946	$5,465	$(214)
Diluted earnings per common share:					
Income (loss) from continuing operations	$0.59	$0.35	$(0.14)	$(0.01)	$(0.17)
Discontinued operations	0.11	(0.02)	0.22	0.08	0.17
Net income attributable to common stockholders	$0.70	$0.33	$0.08	$0.07	$(0.00)
Weighted average common shares outstanding - Diluted	99,880	96,759	90,941	78,845	72,720
Balance Sheet Data (as of the end of the period):					
Real estate properties, gross	$3,380,908	$3,258,279	$3,067,187	$2,821,323	$2,778,903
Real estate properties, net	$2,618,982	$2,557,608	$2,435,078	$2,240,706	$2,266,777
Mortgage notes receivable	$—	$1,900	$125,547	$162,191	$97,381
Assets held for sale and discontinued operations, net	$724	$9,146	$6,852	$3,337	$28,650
Total assets	$2,816,726	$2,757,510	$2,729,662	$2,539,972	$2,521,022
Notes and bonds payable	$1,431,494	$1,403,692	$1,348,459	$1,293,044	$1,393,537
Total stockholders' equity	$1,242,747	$1,221,054	$1,245,286	$1,120,944	$1,004,806
Other Data:					
Funds from operations - Diluted (2)	$124,571	$146,493	$92,166	$105,955	$85,653
Funds from operations per common share - Diluted (2)	$1.25	$1.51	$1.00	$1.32	$1.16
Cash flows from operations	$160,375	$125,370	$120,797	$116,397	$107,852
Dividends paid	$120,266	$116,371	$111,571	$96,356	$89,270
Dividends declared and paid per common share	$1.20	$1.20	$1.20	$1.20	$1.20

(1) The Company did not have any dispositions that met the criteria for presentation as discontinued operation in 2015. However, the years ended December 31, 2013, 2012, and 2011 were restated to conform to the discontinued operations presentation for 2014. See Note 6 to the Consolidated Financial Statements for more information on the Company's discontinued operations as of December 31, 2015.

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

attributable to common stockholders to FFO. During 2015, the Company began including an add-back for leasing commission amortization in order to provide a better basis for comparing its results of operations with those of others in the industry, consistent with the National Association of Real Estate Investment Trusts definition of FFO. For the year ended December 31, 2014, 2013, 2012, and 2011 funds from operations was previously reported as $143,493, $90,153, $104,665, and $84,682, respectively. For the year ended December 31, 2014, 2013, 2012, and 2011 funds from operations per diluted common share was previously reported as $1.48, $0.98, $1.31, and $1.15, respectively.

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

Disclosure Regarding Forward-Looking Statements

This report and other materials Healthcare Realty has filed or may file with the Securities and Exchange Commission ("SEC"), as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures that are "forward-looking statements."

Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "target," "intend," "plan," "estimate," "continue," "should," "could" and other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties that could significantly affect the Company's current plans and expectations and future financial condition and results.

Such risks and uncertainties as more fully discussed in Item 1A "Risk Factors" of this report and in other reports filed by the Company with the SEC from time to time include, among other things, the following:

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

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- The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company’s debt ratings could have an adverse effect on the Company’s ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity;
- The Company is exposed to increases in interest rates, which could adversely impact its ability to refinance existing debt, sell assets or engage in acquisition and development activity;
- The Company may enter into swap agreements from time to time that may not effectively reduce its exposure to changes in interest rates;
- If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility;
- Adverse trends in the healthcare service industry may negatively affect the Company’s lease revenues and the value of its investments;
- If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock;
- The Company's Articles of Incorporation contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock;
- Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends;
- Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities;
- Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code; and
- New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.

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

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

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

Overview

The Company owns and operates healthcare properties that facilitate the delivery of care in a primarily outpatient setting. To execute its strategy, the Company integrates owning, managing, financing and developing such properties and provides a broad spectrum of real estate services including leasing, property management, acquisition and development. The Company seeks to generate stable, growing income and lower the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of large, acute care hospitals associated with leading health systems. The Company seeks to reduce financial and operational risk by owning properties in diverse geographic locations with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer and diagnostic centers.

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Liquidity and Capital Resources

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

•Leverage ratios and lending covenants;

•Dividend payout percentage; and

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

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

Sources and Uses of Cash

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

The Company expects to continue to meet its liquidity needs, including capital for additional investments, dividend payments and debt service funds through cash on hand, cash flows from operations and the cash flow sources addressed above. The Company also had unencumbered real estate assets with a gross book value of approximately $3.1 billion at December 31, 2015, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

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

Operating Activities

Cash flows provided by operating activities for the three years ended December 31, 2015, 2014 and 2013 were $160.4 million, $125.4 million and $120.8 million, respectively. Several items impact cash flows from operating activities including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipts of tenant rent.

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

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

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Investing Activities

The following table details the Company's cash flows used in investing activities for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(Dollars in thousands)	2015	2014	2013
Acquisitions of real estate	$(154,858)	$(71,899)	$(177,744)
Development of real estate	(17,354)	—	—
Additional long-lived assets	(48,769)	(70,670)	(72,784)
Funding of mortgages and notes receivable	—	(1,244)	(58,731)
Proceeds from acquisition of real estate upon mortgage note receivable default	—	204	—
Proceeds from sales of real estate	153,281	32,398	96,132
Proceeds from sale of cost method investment in real estate	—	—	2,717
Proceeds from mortgages and notes receivable repayments	1,918	5,623	2,464
Net cash used in investing activities	$(65,782)	$(105,588)	$(207,946)

A summary of the significant transactions impacting investing activities for the year ended December 31, 2015 is listed below. In addition, see Notes 4 and 5 to the Consolidated Financial Statements for more detail on these activities.

- The Company acquired eight medical office buildings and two parcels of land during 2015 for a total purchase price of $190.1 million, including cash consideration of $156.4 million and the assumption of mortgage notes payable of $28.4 million.
- The Company funded $26.5 million in 2015 at its development and redevelopment properties.
- Tenant improvement fundings during 2015 at the Company's owned properties totaled $25.2 million, including $11.8 million of first generation tenant improvements.
- Capital addition fundings during 2015 at the Company's owned properties totaled $16.0 million.
- The Company disposed of nine properties in 2015 for a total sales price of $158.0 million, including cash consideration of $153.1 million, and $4.9 million of closing costs and related adjustments.

Development Opportunities

The Company is in the planning stages with several health systems and developers regarding new development opportunities, and management expects one or more developments to begin in 2016. Individual properties developed by the Company typically range in size from 50,000 to 200,000 square feet, depending largely on the demand for hospital-based outpatient services and third-party medical office use. Total costs to develop or redevelop a typical medical office building can vary depending on the scope of the project, market rental terms, parking configuration, building amenities, asset type and geographic location.

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Financing Activities

The following table details the Company's cash flows provided by (used in) financing activities for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(Dollars in thousands)	2015	2014	2013
Net borrowings (repayments) on unsecured credit facility	$121,000	$(153,000)	$128,000
Borrowings on term loan	—	200,000	—
Borrowings on notes and bonds payable	249,793	—	247,948
Repayments on notes and bonds payable	(72,724)	(12,357)	(19,984)
Redemption of notes and bonds payable	(333,222)	—	(371,839)
Dividends paid	(120,266)	(116,371)	(111,571)
Net proceeds from issuance of common stock	66,942	76,856	220,252
Common stock redemptions	(1,367)	(10,074)	(454)
Settlement of Swaps	(1,684)	—	—
Capital contributions received from noncontrolling interests	—	—	1,806
Distributions to noncontrolling interest holders	—	(541)	(32)
Purchase of noncontrolling interests	—	(8,189)	—
Debt issuance and assumption costs	(2,482)	(1,258)	(5,082)
Net cash provided by (used in) financing activities	$(94,010)	$(24,934)	$89,044

Below is a summary of the significant financing activity for the year ended December 31, 2015. See Notes 10 and 11 to the Consolidated Financial Statements for more information on the capital markets and financing activities.

Changes in Debt Structure

- On April 24, 2015, the Company issued $250.0 million of unsecured senior notes due 2025 (the "Senior Notes due 2025") in a registered public offering. The Senior Notes due 2025 bear interest at 3.875%, payable semi-annually on May 1 and November 1, beginning November 1, 2015, and are due on May 1, 2025, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $0.2 million, which yielded a 3.885% interest rate per annum upon issuance. The Company incurred approximately $2.3 million in debt issuance costs that are included in Other assets, which will be amortized to maturity. Concurrently with this transaction, the Company settled four forward starting interest rate swap agreements for $1.7 million. The Senior Notes due 2025 have various financial covenants that are required to be met on a quarterly and annual basis.

- On May 15, 2015, the Company redeemed its unsecured senior notes due 2017 (the "Senior Notes due 2017") at a redemption price equal to an aggregate of $333.2 million, consisting of outstanding principal of $300.0 million, accrued interest of $6.4 million, and a "make-whole" amount of approximately $26.8 million for the early extinguishment of debt. The unaccreted discount and unamortized costs on these notes of $1.2 million was written off upon redemption. The Company recognized a loss on early extinguishment of debt of approximately $28.0 million related to this redemption.

- In September 2015, the Company received a credit rating upgrade. This upgrade, coupled with another upgrade that the Company received earlier in the year, resulted in a decrease in the spread over LIBOR on outstanding borrowings on the unsecured credit facility due 2017 (decreasing from 1.40% to 1.15%) and the Unsecured Term Loan due 2019 (decreasing from 1.45% to 1.20%). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments on the Unsecured Credit Facility that decreased from 0.3% to 0.2%. The rate decreases were effective on September 14, 2015.

- The Company repaid mortgage notes payable totaling $67.5 million bearing a weighted average interest rate of 5.36% during the twelve months ended December 31, 2015. Details of each repayment are as follows:
  - On January 30, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.45% with outstanding principal of $15.0 million and accrued interest as of the redemption date of $0.1 million. The mortgage note encumbered a 73,548 square foot medical office building located in Washington State.
  - On April 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.00% with outstanding principal of $10.2 million. The mortgage note encumbered a 44,169 square foot medical office building located in Washington State.
  - On May 4, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.41% with outstanding principal of $16.3 million and accrued interest as of the redemption date of $0.1 million. The mortgage note encumbered a 142,856 square foot medical office building located in Virginia.
  - On June 1, 2015, the Company repaid in full a mortgage note payable bearing an interest rate of 5.25% with outstanding principal of $4.0 million. The mortgage note encumbered a 29,423 square foot medical office building located in Texas.
  - On October 1, 2015, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.40% with outstanding principal of $10.6 million. The mortgage note encumbered a 88,408 square foot medical office building located in Virginia.
  - On December 31, 2015, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.49% with outstanding principal of $11.4 million. The mortgage note encumbered a 90,607 square foot medical office building and garage located in California. The Company subsequently refinanced the property on January 5, 2016 with a new mortgage note payable of $11.5 million bearing interest at a rate of 3.60%.
- The Company assumed mortgage notes payable totaling $28.4 million bearing a weighted average contractual interest rate of 4.97% during the twelve months ended December 31, 2015. Details of each assumption are as follows:
  - On June 26, 2015, upon acquisition of a 35,558 square foot medical office property in Seattle, Washington, the Company assumed a $9.5 million mortgage note payable (excluding a fair value premium adjustment of $0.2 million). The mortgage note payable has a contractual interest rate of 5.75% (effective rate of 5.07%).
  - On September 1, 2015, upon acquisition of a 52,813 square foot medical office property in Seattle, Washington, the Company assumed a $9.4 million mortgage note payable (excluding a fair value premium adjustment of $0.3 million). The mortgage note payable has a contractual interest rate of 5.00% (effective rate of 4.17%).
  - On December 18, 2015, upon acquisition of a 64,143 square foot medical office property in Minneapolis, Minnesota, the Company assumed a $9.5 million mortgage note payable (excluding a fair value discount adjustment of $0.1 million). The mortgage note payable has a contractual interest rate of 4.15% (effective rate of 4.32%).
- The following mortgage note payable was repaid subsequent to December 31, 2015:
  - On February 11, 2016, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.86% with outstanding principal of $10.2 million. The mortgage note encumbered a 90,633 square foot medical office building located in North Carolina.

As of December 31, 2015, 97.4% of the Company's debt balances were due after 2016. Also, as of December 31, 2015, the Company's stockholders' equity totaled approximately $1.2 billion and its leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 41.8%. The Company's fixed charge ratio, calculated in accordance with Item 503 of Regulation S-K, includes only income from continuing operations which is reduced by depreciation and amortization and the operating results of properties currently classified as held for sale, as well as other income from discontinued operations (see Note 6 to the Consolidated Financial Statements). In accordance with this definition, the Company's earnings from continuing operations as of December 31, 2015 were sufficient to cover its fixed charges with a ratio of 1.87 to 1.00. Calculated in accordance with the fixed charge covenant ratio under its Unsecured Credit Facility, the Company's earnings covered its fixed charges at a ratio of 3.2 to 1.0.

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such debt agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth and impose certain limits on the Company’s ability to incur indebtedness and create

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liens or encumbrances. At December 31, 2015, the Company was in compliance with the financial covenant provisions under all of its various debt instruments.

The Company plans to manage its capital structure to maintain compliance with its debt covenants consistent with its current profile. Downgrades in ratings by the rating agencies could have a material adverse impact on the Company's cost and availability of capital, which could in turn have a material adverse impact on consolidated results of operations, liquidity and/or financial condition.

Common Stock Issuances

The following table summarizes the sales of common stock under the Company's at-the-market equity program:

	Shares Sold	Sales Price Per Share	Net Proceeds (in millions)
2015	2,434,239	$25.00 - $29.15	$65.8
2014	3,009,761	$24.35 - $27.53	$75.7
2013	5,207,871	$24.19 - $30.49	$140.6

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

Dividends Payable

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a REIT. Common stock cash dividends paid during or related to 2015 are shown in the table below:

Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/*Payable
4th Quarter 2014	$0.30	February 3, 2015	February 17, 2015	February 27, 2015
1st Quarter 2015	$0.30	May 5, 2015	May 18, 2015	May 29, 2015
2nd Quarter 2015	$0.30	August 4, 2015	August 17, 2015	August 28, 2015
3rd Quarter 2015	$0.30	November 3, 2015	November 16, 2015	November 30, 2015
4th Quarter 2015	$0.30	February 2, 2016	February 18, 2016	* February 29, 2016

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

Trends and Matters Impacting Operating Results

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

Acquisitions and Dispositions

The Company acquired eight medical office buildings and two parcels of land during 2015 for a total purchase price of $190.1 million, including cash consideration of $156.4 million and the assumption of mortgage notes payable of $28.4 million.

The Company disposed of nine medical office buildings in 2015 for a total sales price of $158.0 million, including cash consideration of $153.1 million, and $4.9 million of closing costs and related adjustments.

See the Company's discussion regarding the 2015 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Development Activity

The Company had two buildings under construction and two buildings in redevelopment at December 31, 2015. The Company’s ability to complete and stabilize these facilities in a given period of time will impact the Company’s results of operations and cash flows. More favorable completion dates, stabilization periods and rental rates will result in improved results of operations and cash flows, while lagging completion dates, stabilization periods and rental rates will result in less favorable results of operations and cash flows. The Company’s disclosures regarding projections or estimates of completion dates and leasing may not reflect actual results. See Note 16 to the Consolidated Financial Statements for more information on the Company’s development activities.

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Security Deposits and Letters of Credit

As of December 31, 2015, the Company held approximately $10.8 million in letters of credit and security deposits for the benefit of the Company in the event the obligated tenant fails to perform under the terms of its respective lease. Generally, the Company may, at its discretion and upon notification to the tenant, draw upon these instruments if there are any defaults under the leases.

Multi-Tenant Leases

The Company expects that approximately 15% to 20% of the leases in its multi-tenant portfolio will expire each year. In-place multi-tenant leases have a weighted average remaining term of 3.8 years. During 2015, 411 leases totaling 1.4 million square feet in the Company's multi-tenant portfolio expired, of which 349 leases totaling 1.3 million square feet were renewed or the tenants continue to occupy the space. Demand for well-located real estate with complementary practice types and services remains consistent, and the Company's 2015 quarterly tenant retention statistics ranged from 79% to 89%. In 2016, 447 leases totaling 1.4 million square feet in the Company's multi-tenant portfolio are scheduled to expire. Of those leases, 90% are in on-campus buildings, which tend to have a high tenant retention rate.

Multi-tenant Rental Rates and Lease Management

The Company continues to emphasize revenue growth for its in-place leases. In 2015, the Company experienced contractual rental rate growth which averaged 3.0% for in-place leases compared to 2.9% in 2014. The Company saw increases in its quarterly weighted average rental rate growth for renewing leases, unadjusted for rent abatements. For the years ended December 31, 2015 and 2014, quarterly weighted average rental rate growth ("cash releasing spread") for renewing leases ranged from 2.3% to 4.3% and 1.1% to 4.4%, respectively.

In a further effort to maximize revenue growth and reduce its exposure to uncontrollable expenses such as taxes and utilities, the Company carefully manages its balance of lease types. Gross leases, wherein the Company has full exposure to all operating expenses, comprise 17% of its lease portfolio. Generally, the Company seeks higher rental increases for gross leases to compensate for its exposure to all operating expenses. Modified gross or base year leases, in which the Company and tenant both pay a share of operating expenses, comprise 32% of the Company's leased portfolio. Net leases, in which tenants pay all allowable operating expenses, total 51% of the leased portfolio.

Capital Additions

As a part of the Company's leasing practice, the Company seeks to earn a return on capital additions when determining asking lease rates for each property by considering the Company's gross investment, inclusive of any actual or expected capital additions. The Company invested $18.0 million, or $1.26 per square foot, in capital additions in 2015 and $15.6 million, or $1.10 per square foot, in capital additions in 2014. These amounts include 2015 and 2014 funding related to the redevelopment of two properties in Tennessee in the amount of $2.0 million and $4.0 million respectively. Capital additions are long-term investments made to maintain and improve the physical and aesthetic attributes of the Company's owned properties. Examples of such improvements include, but are not limited to, material changes to, or the full replacement of, major building systems (exterior facade, building structure, roofs, elevators, mechanical systems, electrical systems, energy management systems, upgrades to existing systems for improved efficiency) and common area improvements (furniture, signage and artwork, bathroom fixtures and finishes, exterior landscaping, parking lots or garages). These additions are capitalized into the gross investment of a property and then depreciated over their estimated useful lives, typically ranging from 7 to 20 years. Capital additions specifically do not include recurring maintenance expenses, whether direct or indirect, related to the upkeep and maintenance of major building systems or common area improvements. Capital additions also do not include improvements related to a specific tenant suite, unless the improvement is part of a major building system or common area improvement.

Tenant Improvements

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

Tenant improvements totaled approximately $25.2 million, or $1.76 per square foot in 2015, of which $11.8 million pertained to first generation space. Tenant improvements in 2014 totaled $40.9 million, or $2.88 per square foot, of which $22.4 million pertained to first generation space. If tenants spend more than the allowance, the Company generally offers the tenant the option to either amortize the overage over the lease term, with interest, or reimburse the overage to the Company in a lump sum. In either case, such overages are amortized by the Company as rental income over the term of the lease. Interest earned on tenant overages is included in other operating income in the Company's Consolidated Statements of Income and totaled

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approximately $0.6 million in 2015, $0.7 million in 2014, and $0.5 million in 2013. The tenant overage amount amortized to rent totaled approximately $4.5 million in 2015, $4.2 million in 2014, and $3.9 million in 2013.

Leasing Commissions

In certain markets, the Company may pay leasing commissions to real estate brokers who represent either the Company's properties or prospective tenants, with commissions generally equating to 4% to 6% of the gross lease value for new leases and 2% to 4% of the gross lease value for renewal leases. In 2015, the Company paid leasing commissions of approximately $7.5 million, or $0.53 per square foot, of which $0.6 million pertained to the leases for first generation space. In 2014, the Company paid leasing commissions of approximately $7.0 million, or $0.49 per square foot, of which $2.5 million pertained to the leases for first generation space. The amount of leasing commissions amortized over the term of the applicable leases and included in property operating expense in the Company's Consolidated Statements of Income totaled $3.4 million, $3.0 million and $2.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Rent Abatements

Rent abatements, which generally take the form of deferred rent, are sometimes used to help induce a potential tenant to lease space in the Company's properties. Such abatements, when made, are amortized by the Company on a straight-line basis against rental income over the lease term. Rent abatements for 2015 totaled approximately $2.8 million, or $0.20 per square foot, of which $1.1 million pertained to leases for first generation space. Rent abatements for 2014 totaled approximately $3.8 million, or $0.27 per square foot, of which $2.4 million pertained to leases for first generation space. Rent abatements for 2013 totaled approximately $4.1 million, or $0.29 per square foot, of which $1.7 million pertained to leases for first generation space.

Single-Tenant Net Leases

No single-tenant net leases expired in 2015. Two single-tenant net leases will expire in April 2016, and the Company expects that one of these leases will renew and the tenant for the other lease will vacate, with a new tenant expected to occupy the building upon lease expiration. The Company expects this activity to result in a decrease in rental income of approximately $0.7 million in 2016. As of December 31, 2015, the Company has a total of 34 single-tenant net leases with a weighted average remaining lease term of 7.8 years.

Property Operating Agreement Expirations

Five of the Company’s 198 owned real estate properties as of December 31, 2015 were covered under property operating agreements between the Company and a sponsoring health system. These agreements contractually obligate the sponsoring health system to provide to the Company a minimum return on the Company’s investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement. Three of these agreements will expire in 2016. One agreement will expire in April 2016 resulting in an expected decrease of $0.1 million per quarter in property lease guaranty revenue. Two agreements will expire in September 2016 resulting in an expected decrease of $0.4 million per quarter in property lease guaranty revenue.

Operating Leases

As of December 31, 2015, the Company was obligated under operating lease agreements consisting primarily of the Company’s corporate office lease and ground leases related to 45 real estate investments, excluding those ground leases the Company has prepaid. Rental expense relating to the operating leases for the years ended December 31, 2015, 2014 and 2013 was $5.1 million, $4.9 million and $4.4 million, respectively. At December 31, 2015, the Company had 94 properties totaling 7.6 million square feet that were held under ground leases with a remaining weighted average term of 69.9 years, including renewal options, at December 31, 2015. These ground leases typically have initial terms of 50 to 75 years with one to two renewal options extending the terms to 75 to 100 years. These ground leases have initial term expiration dates through 2105.

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Purchase Options

The Company had approximately $178.2 million in real estate properties as of December 31, 2015 that were subject to exercisable purchase options or purchase options that become exercisable during 2016. The Company has approximately $448.0 million in real estate properties that are subject to purchase options that will become exercisable after 2016. Additional information about the amount and basis for determination of the purchase price is detailed in the table below (dollars in thousands):

	Gross Real Estate Investment as of December 31, 2015		
Year Exercisable	Fair Market Value Method (1)	Non Fair Market Value Method (2)	Total
Current (3)	$131,114	$47,050	$178,164
2016	—	—	—
2017	—	48,773	48,773
2018	—	—	—
2019	41,521	—	41,521
2020	—	—	—
2021	16,578	14,984	31,562
2022	19,356	—	19,356
2023	—	—	—
2024	16,012	—	16,012
2025	20,454	221,929	242,383
2026 and thereafter	48,462	—	48,462
Total	$293,497	$332,736	$626,233

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(1) The purchase option price includes a fair market value component that is determined by an appraisal process.

(2) Includes properties with stated purchase prices or prices based on fixed capitalization rates. These properties have purchase prices that are on average 14% greater than the Company's current gross investment.

(3) Includes $16.9 million related to six leases as of December 31, 2015. In February 2016, the leases were amended and the purchase options were removed from the leases.

Discontinued Operations

As discussed in more detail in Note 1 to the Consolidated Financial Statements, in prior years, the Company was required to report the results of operations of real estate assets disposed of or held for sale as discontinued operations. Therefore, the results of operations from assets that were held for sale at December 31, 2014 and sold in 2015 are classified as discontinued operations for the current period. All prior periods were previously restated to conform to the 2014 presentation. As of January 1, 2015, the Company has adopted ASU 2014-08, which is discussed in more detail in Note 1 to the Consolidated Financial Statements. The Company does not expect future disposals of individual properties or classifications of individual properties as held for sale to meet the updated definition of a discontinued operation and, therefore, the financial position and results of operations will not be reclassified.

Equity Issuances

The Company maintains an at-the-market equity offering program to sell shares of the Company's common stock from time to time in at-the-market sales transactions. The primary use of the proceeds from these equity issuances is the acquisition and development of healthcare properties, the repayment of debt (primarily mortgage notes payable assumed through acquisitions), and other general corporate purposes. On March 29, 2013, the Company entered into sales agreements with each of Cantor Fitzgerald & Co. and three other sales agents to sell up to an aggregate of 9,000,000 shares of the Company's common stock from time to time through the sales agents. On December 23, 2015, there were no remaining shares, and the agreement with Cantor Fitzgerald & Co. was amended to allow for the offer and sale of up to 2,500,000 additional shares of the Company's common stock. The Company sold 2,434,239 shares under these programs in 2015, generating net proceeds of $65.8 million.

As of December 31, 2015, there were 2,447,400 authorized shares remaining available to be sold under the sales agreement. In January 2016, the Company sold 664,298 shares of common stock, generating $18.7 million in net proceeds.

Debt Management

The Company maintains a conservative and flexible capital structure that allows it to fund new investments and operate its existing portfolio. In addition to its unsecured senior notes, Unsecured Credit Facility, and Unsecured Term Loan due 2019, the Company has approximately $128.2 million of mortgage notes payable, most of which were assumed when the Company acquired properties. In 2016, approximately $33.7 million of these mortgage notes payable will mature. The Company intends to repay the mortgage notes upon maturity.

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Impact of Inflation

The Company is subject to the risk of inflation as most of its revenues are derived from long-term leases. Most of the Company's leases provide for fixed increases in base rents or increases based on the Consumer Price Index, and require the tenant to pay all or some portion of increases in operating expenses. The Company believes that these provisions mitigate the impact of inflation. However, there can be no assurance that the Company's ability to increase rents or recover operating expenses will always keep pace with inflation.

Defined Benefit Pension Plan

During 2015, the Company terminated its pension plan under which three of the Company's founding officers were eligible to receive retirement benefits upon retirement (the "Executive Retirement Plan"). The Company recognized a total benefit obligation of $19.6 million in connection with the termination and recorded a charge of approximately $5.3 million, inclusive of the acceleration of $2.5 million recorded in accumulated other comprehensive loss on the Company's Consolidated Balance Sheets that was being amortized. The one-time lump sum payment will be paid, in either cash or stock, in May 2016. See Note 13 to the Consolidated Financial Statements for additional information.

Casualty Loss

The Company owns a medical office building in Oklahoma that sustained damage from a tornado on May 6, 2015. As of December 31, 2015 the Company estimated its expenditures related to returning the property to its previous operating condition to be approximately $2.6 million. The Company estimates recoveries for restoration costs of approximately $2.5 million. In addition, as of December 31, 2015, the Company received insurance proceeds replacing lost rental revenue, recorded in rental income, of approximately $0.4 million for the period of May 6, 2015 to September 16, 2015 at which time all tenants were back in occupancy and paying rent.

New Accounting Pronouncements

See Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report for information on new accounting standards not yet adopted. The Company is still evaluating the impact of these new standards.

Other Items Impacting Operations

General and administrative expenses will fluctuate quarter-to-quarter and the Company typically has higher general and administrative costs in the first quarter of every year as a result of employee benefit plan expenses, the expenses related to the grant of employee stock purchase plan options and contributions to healthcare savings accounts. These items will likely increase general and administrative expenses by approximately $0.4 million in the first quarter of 2016. General and administrative expense is expected to be greater in 2016 compared to 2015 due in part to an expected increase of approximately $2.4 million related to the amortization of performance-based, non-vested stock awards granted in December 2015 and February 2016.

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Results of Operations

Twelve Months Ended December 31, 2015 Compared to Twelve Months Ended December 31, 2014

The Company's consolidated results of operations for 2015 compared to 2014 were significantly impacted by acquisitions, dispositions, extinguishments of debt, gains on sale and impairment charges recorded on real estate properties.

Revenues

Rental income increased $21.8 million, or 6.0%, to approximately $383.3 million compared to $361.5 million in the prior year period and is comprised of the following:

			Change	
(Dollars in thousands)	2015	2014	$	%
Property operating	$306,550	$285,304	$21,246	7.4%
Single-tenant net lease	67,238	65,252	1,986	3.0%
Straight-line rent	9,545	10,969	(1,424)	(13.0)%
Total Rental income	$383,333	$361,525	$21,808	6.0%

Property operating income increased $21.2 million, or 7.4%, from the prior year primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 contributed $13.6 million.
- Net leasing activity including contractual rent increases and renewals contributed $9.4 million.
- Conversion from single-tenant net lease caused an increase of $0.9 million.
- Conversion to single-tenant net lease caused a decrease of $1.3 million.
- Dispositions in 2015 accounted for a decrease of $1.4 million.

Single-tenant net lease income increased $2.0 million, or 3.0%, from the prior year primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 contributed $2.8 million.
- New leasing activity including contractual rent increases contributed $1.8 million.
- Conversion from property operating income caused an increase of $1.8 million.
- Conversion to property operating income caused a decrease of $1.3 million.
- Dispositions in 2015 accounted for a decrease of $3.1 million.

Straight-line rent income decreased $1.4 million, or 13.0%, from the prior year primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 contributed $0.7 million.
- New leasing activity including contractual rent increases and the effects of current year rent abatements contributed $0.3 million.
- The effects of prior year rent abatements that expired caused a decrease of $2.4 million.

Mortgage interest income decreased approximately $3.6 million, or 97.5%, from the prior year primarily as a result of the following activity:

- Acquisition in 2014 of a property in Oklahoma affiliated with Mercy Health previously funded under a construction mortgage note receivable resulted in a decrease of $2.4 million.
- The Company's 2014 receipt of a deed in lieu of foreclosure related to a mortgage note receivable on a property in Iowa resulted in a decrease of $1.0 million.

Expenses

Property operating expenses increased $6.1 million, or 4.6%, for the twelve months ended December 31, 2015 compared to the prior year primarily as a result of the following activity:

- Acquisitions in 2014 and 2015 accounted for an increase of $4.9 million.

- Dispositions in 2015 accounted for a decrease of $0.7 million.

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- The Company experienced an overall increase in portfolio property taxes of $2.5 million, leasing commission and legal fee expense of $0.7 million and janitorial expense of $0.2 million.
- The Company experienced an overall decrease in maintenance and repair of approximately $0.7 million and utility expense of $0.8 million.

General and administrative expenses increased approximately $4.1 million, or 18.1%, for the twelve months ended December 31, 2015 compared to the prior year primarily as a result of the following activity:

- Increase in performance-based compensation expense totaling $3.4 million, including $1.7 million of non-cash stock-based award amortization.
- Increase in pension expense of $0.4 million.
- Increase in expenses related to potential acquisitions and developments of $0.5 million.
- Decrease in expenses related to state income taxes of $0.2 million.

Depreciation expense increased $7.1 million, or 7.2%, for the twelve months ended December 31, 2015 compared to the prior year. Properties acquired in 2014 and 2015 and developments completed and commencing operations contributed a combined increase of $5.1 million. The remaining $2.0 million increase is related to various building and tenant improvement expenditures.

Other Income (Expense)

Other income (expense), a net expense, increased $23.7 million, or 33.9%, for the twelve months ended December 31, 2015 compared to the prior year mainly due to the following activity:

Gain on sales of real estate properties

Gain on sales of real estate properties excluding those classified within discontinued operations, totaling approximately $56.6 million is associated with the sale of seven real estate properties during 2015.

Interest Expense

Interest expense decreased $6.9 million for the twelve months ended December 31, 2015 compared to the prior year. The components of interest expense are as follows:

(Dollars in thousands)	2015	2014	Change	Percentage Change
Contractual interest	$62,215	$68,327	$(6,112)	(8.9)%
Net discount/premium accretion	376	954	(578)	(60.6%)
Deferred financing costs amortization	3,067	3,132	(65)	(2.1%)
Amortization of interest rate swap settlement	115	—	115	—%
Interest cost capitalization	(239)	—	(239)	—%
Total interest expense	$65,534	$72,413	$(6,879)	(9.5)%

Contractual interest decreased $6.1 million, or 8.9%, primarily as a result of the following activity:

- The Unsecured Credit Facility and Unsecured Term Loan due 2019 accounted for a net increase of $0.9 million.
- Senior Notes due 2025 were issued in the second quarter of 2015 and accounted for an increase of $6.6 million.
- Senior Notes due 2017 were repaid in the second quarter of 2015 and accounted for a decrease of $12.2 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of $1.2 million, and mortgage notes repayments accounted for a decrease of $2.4 million.
- Scheduled monthly interest payments related to the Company's mortgage notes payable decreased $0.2 million.

Loss on Extinguishments of Debt

Loss on extinguishment of debt of approximately $28.0 million is associated with the redemption of the Senior Notes due 2017. See Note 10 to the Consolidated Financial Statements for more information.

Pension Termination

Pension termination expense of approximately $5.3 million represents the effect of the Company's termination of the Executive Retirement Plan in 2015. See Note 13 to the Consolidated Financial Statements for more information.

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Impairment of real estate assets

Impairment of real estate assets excluding those classified within discontinued operations, totaling approximately $3.6 million is associated with the sale of two real estate properties during 2015.

Impairment of internally-developed software

The Company recognized an impairment of internally-developed software of approximately $0.7 million in 2015, which was abandoned for a third party program that was previously unavailable.

Interest and other income, net

Interest and other income decreased primarily due to a refund received in 2014 of the overpayment of prior year expenses of approximately $1.9 million.

Discontinued Operations

Income from discontinued operations totaled $10.6 million and loss from discontinued operations totaled $1.8 million, respectively, for the years ended December 31, 2015 and 2014, which includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2014. None of the Company's 2015 dispositions initiated in 2015 met the definition of a discontinued operation as amended in Accounting Standards Update No. 2014-08, which the Company adopted in 2015. The Company disposed of one real estate property in 2015 that was classified as held for sale at December 31, 2014 and nine real estate properties in 2014 that were included in discontinued operations. One property remains classified as held for sale as of December 31, 2015.

Twelve Months Ended December 31, 2014 Compared to Twelve Months Ended December 31, 2013

The Company's consolidated results of operations for 2014 compared to 2013 were significantly impacted by acquisitions, dispositions, development conversion properties, gains on sale and impairment charges recorded on real estate properties.

Revenues

Rental income increased $49.2 million, or 15.8%, to approximately $361.5 million compared to $312.3 million in the prior year and is comprised of the following:

			Change		
(Dollars in thousands)	2014	2013	$	%	
Property operating	$285,304	$251,403	$33,901	13.5	%
Single-tenant net lease	65,252	51,467	13,785	26.8	%
Straight-line rent	10,969	9,452	1,517	16.0	%
Total Rental income	$361,525	$312,322	$49,203	15.8	%

Property operating income increased $33.9 million, or 13.5%, from the prior year as a result of the following activity:

- Acquisitions in 2013 and 2014 contributed $20.6 million.
- Additional leasing activity at development conversion properties contributed $9.5 million.
- Net leasing activity including contractual rent increases and renewals contributed $3.8 million.

Single-tenant net lease income increased $13.8 million, or 26.8%, from the prior year as a result of the following activity:

- Acquisitions in 2013 and 2014 contributed $12.1 million.
- New leasing activity including contractual rent increases contributed $1.7 million.

Straight-line rent income increased $1.5 million, or 16.0%, from the prior year as a result of the following activity:

- Acquisitions in 2013 and 2014 contributed $2.7 million.
- New leasing activity including contractual rent increases and the effects of current year rent abatements contributed $1.0 million.
- The effects of prior year rent abatements that expired caused a decrease of $2.2 million.

Mortgage interest income decreased $9.0 million, or 71.1%, from the prior year as a result of the following activity:

- Acquisition in 2013 of a property in Missouri affiliated with Mercy Health previously funded under a construction mortgage note receivable resulted in a decrease of $4.2 million.

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- Acquisition in 2014 of a property in Oklahoma affiliated with Mercy Health previously funded under a construction mortgage note receivable resulted in a decrease of $2.6 million.
- The Company's receipt of a deed in lieu of foreclosure related to a mortgage note receivable on a property in Iowa resulted in a decrease of $2.1 million.

Expenses

Property operating expenses increased $11.5 million, or 9.4%, for the twelve months ended December 31, 2014 compared to the prior year as a result of the following activity:

- Acquisitions in 2013 and 2014 accounted for an increase of $8.5 million.
- The Company experienced an overall increase in maintenance and repair of approximately $1.7 million, professional fees of approximately $0.6 million and utilities of approximately $0.6 million.

General and administrative expenses decreased approximately $0.9 million, or 3.8%, for the twelve months ended December 31, 2014 compared to the prior year primarily as a result of the following activity:

- Decrease in compensation-related expenses totaling $0.7 million.
- Decrease in expenses related to potential acquisitions and developments of $0.6 million.
- Increase in expenses related to state income taxes of $0.1 million and corporate office rent expense of $0.1 million.

Depreciation expense increased $13.1 million, or 15.2%, for the twelve months ended December 31, 2014 compared to the prior year. Properties acquired in 2013 and 2014 and developments completed and commencing operations contributed a combined increase of $7.0 million. The remaining $6.1 million increase is related to various building and tenant improvement expenditures.

Other Income (Expense)

Other income (expense), a net expense, increased $30.9 million, or 30.7%, for the twelve months ended December 31, 2014 compared to the prior year period mainly due to the following activity:

Interest Expense

Interest expense decreased $1.1 million for the twelve months ended December 31, 2014 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	2014	2013	Change	Percentage Change
Contractual interest	$68,327	$69,334	$(1,007)	(1.5)%
Net discount accretion	954	1,132	(178)	(15.7)%
Deferred financing costs amortization	3,132	3,228	(96)	(3.0)%
Interest cost capitalization	—	(183)	183	(100.0)%
Total interest expense	$72,413	$73,511	$(1,098)	(1.5)%

Contractual interest decreased $1.0 million, or 1.5%, primarily as a result of the following activity:

- The Unsecured Credit Facility and Unsecured Term Loan due 2019 accounted for a net increase of $1.8 million.
- $250.0 million of unsecured senior notes due 2023 (the "Senior Notes due 2023") were issued in the first quarter of 2013 and accounted for an increase of $2.2 million.
- The Company's outstanding unsecured senior notes due 2014 were redeemed in the second quarter of 2013 and accounted for a decrease of $4.0 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of $2.2 million, and mortgage notes repayments accounted for a decrease of $2.9 million.
- Scheduled monthly interest payments related to the Company's mortgage notes payable decreased $0.3 million.

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Loss on Extinguishments of Debt

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

Gain on Sale of Cost Method Investment in Real Estate

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

Interest and other income, net

In June 2014, the Company received a reimbursement of certain operating expenses paid for the years 2006 through 2013 of approximately $1.9 million.

Discontinued Operations

Loss from discontinued operations totaled $1.8 million and income from discontinued operations totaled $20.1 million, respectively, for the year ended December 31, 2014 and 2013, which includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2014 or disposed of during 2014. The Company disposed of nine real estate properties in 2014 and disposed of 12 properties and one land parcel in 2013 with two properties classified as held for sale as of December 31, 2014.

Non-GAAP Measures

Management considers certain non-GAAP financial measures to be useful supplemental measures of the Company's operating performance. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable measure determined in accordance with generally accepted accounting principles ("GAAP"). Set forth below are descriptions of the non-GAAP financial measures management considers relevant to the Company's business and useful to investors, as well as reconciliations of these measures to the most directly comparable GAAP financial measures.

The non-GAAP financial measures presented herein are not necessarily identical to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. These measures should not be considered as alternatives to net income [determined in accordance with GAAP], as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of the Company's liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of the Company's needs. Management believes that in order to facilitate a clear understanding of the Company's historical consolidated operating results, these measures should be examined in conjunction with net income and cash flows from operations as presented in the Consolidated Financial Statements and other financial data included elsewhere in this Annual Report on Form 10-K.

Funds from Operations

Funds from operations (“FFO”) and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT’s operating performance equal to “net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.”

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

The comparability of FFO for the year ended December 31, 2015 compared to 2014 was most significantly affected by the various property acquisitions during 2015 and 2014 and the results of operations of the portfolio from period to period. FFO for

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the year ended 2015 was negatively affected by a $28.0 million loss incurred on the early repayment of debt and a $5.3 million loss due to the termination of the Company's defined benefit pension plan. FFO for the year ended December 31, 2013 was negatively affected by the $29.9 million in losses incurred on the early repayment of debt. Also during 2013, the Company sold its interest in a cost method investment in an unconsolidated limited liability company and recognized a $1.5 million gain on the disposition. This gain is included in FFO for the year ended December 31, 2013. Other items that impacted the comparability of FFO are discussed in the "Results of Operations" section.

The table below reconciles net income attributable to common stockholders to FFO for the years ended December 31, 2015, 2014, and 2013.

	Year Ended December 31,		
(Amounts in thousands, except per share data)	2015	2014	2013
Net income attributable to common stockholders	$69,436	$31,887	$6,946
Gain on sales of real estate properties	(67,172)	(9,283)	(24,718)
Impairments	4,325	12,029	9,889
Real estate depreciation and amortization	114,533	108,860	98,036
Leasing commission amortization [(1)]	3,449	3,000	2,013
Total adjustments	55,135	114,606	85,220
Funds from operations attributable to common stockholders	$124,571	$146,493	$92,166
Funds from operations per Common Share - Diluted	$1.25	$1.51	$1.00
Weighted average common shares outstanding - Diluted	99,880	96,759	92,387

(1) During 2015, the Company began including an add-back for leasing commission amortization in order to provide a better basis for comparing its results of operations with those of others in the industry, consistent with the NAREIT definition of FFO. For the twelve months ended December 31, 2014 and 2013, FFO per diluted common share was previously reported as $1.48 and $0.98, respectively.

Same Store NOI

Net operating income ("NOI") and same store NOI are non-GAAP historical financial measures of performance. Management considers same store NOI a supplemental measure because it allows investors, analysts and Company management to measure unlevered property-level operating results. The Company defines NOI as operating revenues (property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue) less property operating expenses related specifically to the property portfolio. NOI excludes straight-line rent, general and administrative expenses, interest expense, depreciation and amortization, gains and losses from property sales, property management fees and other revenues and expenses not specifically related to the property portfolio. Same store NOI is historical and not necessarily indicative of future results.

The following table reflects the Company's same store NOI for the twelve months ended December 31, 2015 and 2014.

			Same Store NOI for the Twelve Months Ended December 31,	
(Dollars in thousands)	Number of Properties [(1)]	Gross Investment at December 31, 2015	2015	2014
Multi-tenant Properties	133	$2,212,984	$154,130	$146,269
Single-tenant Net Lease Properties	33	578,030	56,866	54,236
Total	166	$2,791,014	$210,996	$200,505

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

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

- Properties having less than 60% occupancy;
- Properties that experience a loss of occupancy over 30% in a single quarter;

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- Anticipated significant or material changes to a particular property or its market environment; or
- Properties with negative net operating income.

Any recently acquired property will be included in the same store pool once the Company has owned the property for eight full quarters. Development properties will be included in the same store pool eight full quarters after substantial completion. Properties included in the reposition property group will be included in the same store analysis once occupancy has increased to 60% or greater and has remained at that level for eight full quarters.

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

	Twelve Months Ended December 31,			
(Dollars in thousands)	2015		2014	
Rental income	$383,333		$361,525	
Property lease guaranty revenue (a)	3,890		4,430	
Property operating expense	(140,195	)	(134,057	)
Exclude Straight-line rent revenue	(9,545	)	(10,969	)
NOI	237,483		220,929	
NOI not included in same store	(26,487	)	&#1	