HEALTHCARE REALTY TRUST INC
Form 10-Q
May 05, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 001-11852

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

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

3310 West End Avenue
Suite 700
Nashville, Tennessee 37203
(Address of principal executive offices)
(615) 269-8175
(Registrant s telephone number, including area code)

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

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 30, 2008, 50,735,697 shares of the Registrant s Common Stock were outstanding.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
Real estate properties:		
Land	$ 102,173	$ 102,321
Buildings, improvements and lease intangibles	1,507,678	1,483,547
Personal property	16,425	16,305
Construction in progress	86,711	94,457
	1,712,987	1,696,630
Less accumulated depreciation	(357,779)	(345,457)
Total real estate properties, net	1,355,208	1,351,173
Cash and cash equivalents	11,068	8,519
Mortgage notes receivable	31,376	30,117
Assets held for sale and discontinued operations, net	13,413	15,639
Other assets, net	82,296	90,044
Total assets	$ 1,493,361	$ 1,495,492
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Notes and bonds payable	$ 792,361	$ 785,289
Accounts payable and accrued liabilities	39,320	37,376
Liabilities of discontinued operations	119	34
Other liabilities	41,101	40,798
Total liabilities	872,901	863,497
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $.01 par value; 50,000,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 150,000,000 shares authorized; 50,735,092 and 50,691,331 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	507	507
Additional paid-in capital	1,287,270	1,286,071
Accumulated other comprehensive loss	(4,346)	(4,346)
Cumulative net income	701,981	695,182
Cumulative dividends	(1,364,952)	(1,345,419)
Total stockholders equity	620,460	631,995
Total liabilities and stockholders equity	$ 1,493,361	$ 1,495,492

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Income
For The Three Months Ended March 31, 2008 and 2007
(Dollars in thousands, except per share data)
(Unaudited)

	2008	2007
REVENUES		
Master lease rent	$ 16,268	$ 15,691
Property operating	34,039	31,540
Straight-line rent	(64)	61
Mortgage interest	525	352
Other operating	4,237	4,997
	55,005	52,641
EXPENSES		
General and administrative	6,045	6,175
Property operating	19,028	17,985
Bad debts, net of recoveries	218	5
Interest	11,286	13,514
Depreciation	12,181	10,813
Amortization	594	1,415
	49,352	49,907
INCOME FROM CONTINUING OPERATIONS	5,653	2,734
DISCONTINUED OPERATIONS		
Income from discontinued operations	538	6,013
Impairments	(29)	(2,792)
Gain on sales of real estate properties	637	30,389
INCOME FROM DISCONTINUED OPERATIONS	1,146	33,610
NET INCOME	$ 6,799	$ 36,344
Basic Earnings Per Common Share		
Income from continuing operations per common share	$ 0.11	$ 0.06
Discontinued operations per common share	0.03	0.72
Net income per common share	$ 0.14	$ 0.78
Diluted Earnings Per Common Share		
Income from continuing operations per common share	$ 0.11	$ 0.06

Discontinued operations per common share		0.02		0.70
Net income per common share	$	0.13	$	0.76
Weighted Average Common Shares Outstanding Basic		49,413,058		46,547,152
Weighted Average Common Shares Outstanding Diluted		50,407,119		47,598,736
Dividends Declared, per Common Share, During the Period	$	0.385	$	5.410

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Condensed Consolidated Statements of Cash Flows
For The Three Months Ended March 31, 2008 and 2007
(Dollars in thousands)
(Unaudited)

	2008	2007
Operating Activities		
Net income	$ 6,799	$ 36,344
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	13,119	14,574
Stock-based compensation	1,296	1,712
Straight-line rent receivable	64	(61)
Straight-line rent liability	43	810
Gain on sales of real estate properties	(637)	(30,389)
Impairments	29	2,792
Equity in losses from unconsolidated LLCs	264	97
Provision for bad debts, net of recoveries	217	5
Changes in operating assets and liabilities:		
Other assets	6,374	45
Accounts payable and accrued liabilities	3,779	1,725
Other liabilities	408	825
Net cash provided by operating activities	31,755	28,479
Investing Activities		
Acquisition and development of real estate properties	(19,560)	(17,806)
Funding of mortgages and notes receivable	(1,265)	(3,926)
Distributions received from unconsolidated LLCs	423	262
Proceeds from sales of real estate	3,415	110,205
Proceeds from mortgages and notes receivable repayments	36	13,007
Net cash provided by (used in) investing activities	(16,951)	101,742
Financing Activities		
Borrowings on notes and bonds payable	26,000	72,839
Repayments on notes and bonds payable	(18,907)	(169,873)
Dividends paid	(19,533)	(31,563)
Proceeds from issuance of common stock	185	273
Common stock redemption		(14)
Net cash used in financing activities	(12,255)	(128,338)
Increase in cash and cash equivalents	2,549	1,883
Cash and cash equivalents, beginning of period	8,519	1,950
Cash and cash equivalents, end of period	$ 11,068	$ 3,833

Supplemental Cash Flow Information:		
Interest paid	$ 2,775	$ 4,341
Capitalized interest	1,658	722
Capital expenditures accrued	4,842	5,120
Mortgage note payable assumed		1,840

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, are an integral part of these financial statements.

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Healthcare Realty Trust Incorporated
Notes to Condensed Consolidated Financial Statements
March 31, 2008
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the Company) is a real estate investment trust (REIT) that integrates owning, developing, financing and managing income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company had investments of approximately $1.8 billion in 186 real estate properties and mortgages as of March 31, 2008, excluding assets classified as held for sale and including investments in three unconsolidated joint venture limited liability companies (LLCs). The Company s 179 owned real estate properties, excluding assets classified as held for sale, are comprised of six facility types, located in 24 states, totaling approximately 11.0 million square feet. In addition, the Company provided property management services to approximately 7.3 million square feet nationwide.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, consolidated variable interest entities (VIEs) and certain other affiliated entities with respect to which the Company controlled or controls the operating activities and receives substantially all of the economic benefits. The Company did not consolidate any variable interest entities in the first quarter of 2008 as the real estate properties relating to its variable interest entities were sold during 2007 with the sale of the senior living assets.

The Company accounts for its joint venture investments in accordance with the American Institute of Certified Public Accountants Statement of Position 78-9, Accounting for Investments in Real Estate Ventures, which provides guidance on whether an entity should consolidate an investment or account for it under the equity or cost methods.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements that are included in the Company s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2007. Management believes, however, that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. All significant inter-company accounts and transactions have been eliminated in the Condensed Consolidated Financial Statements.

This interim financial information should be read in conjunction with the financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) included in the Company s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2007. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2008 due to many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of trends.

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Variable Interest Entities

In accordance with FASB Financial Interpretation No. 46R, Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51 (FIN No. 46R), a company must evaluate whether certain relationships it has with other entities constitute a variable interest in a variable interest entity (VIE). Prior to the sale of the Company s senior living assets in 2007, the Company had concluded it had a variable interest in 21 VIEs and had also concluded that it was the primary beneficiary in six of the 21 VIEs. Therefore, in accordance with FIN No. 46R, the Company had consolidated the six entities into its Consolidated Financial Statements. As such, the Company s Condensed Consolidated Income Statement for the three months ended March 31, 2007 includes, as part of discontinued operations, the operations of the six VIEs through their respective disposition dates. As of March 31, 2008, the Company concluded that it does not have any relationships with other entities constituting a variable interest in any VIEs.

Use of Estimates in the Condensed Consolidated Financial Statements

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

Segment Reporting

The Company is in the business of owning, developing, managing, and financing healthcare-related properties. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision-making. Therefore, in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company discloses its operating results in a single segment.

Reclassifications

Certain reclassifications have been made in the Condensed Consolidated Financial Statements for the three months ended March 31, 2007 to conform to the March 31, 2008 presentation.

Revenue Recognition

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition (SAB No. 104). SAB No. 104 includes four criteria that must be met before revenue is realized or realizable and earned. The Company begins recognizing revenue when all four criteria have been met, such as collectibility is reasonably assured and the tenant has taken possession of or controls the physical use of the leased asset.

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

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Rental Income

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

Interest Income

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

Property operating income

As of March 31, 2008, the Company had property operating agreements, between the Company and a sponsoring health system, relating to 14 of the Company s 170 owned real estate properties. The property operating agreements obligate the sponsoring health system to provide to the Company, for a short term, a minimum return on the Company s investment in the property in return 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 sponsor is responsible to pay to the Company the shortfall under the terms of these agreements. The Company recognizes the shortfall income in other operating income on the Company s Condensed Consolidated Statements of Income.

Accumulated Other Comprehensive Loss

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

Total comprehensive income for the three months ended March 31, 2008 and 2007 is detailed in the following table.

	Three Months Ended March 31,	
(Dollars in thousands)	2008	2007
Net income	$6,799	$36,344
Other comprehensive income		120
Total comprehensive income	$6,799	$36,464

Income Taxes

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

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The Company must pay certain state income taxes which are included in general and administrative expense on the Company s Condensed Consolidated Statements of Income.

The Company classifies interest and penalties related to uncertain tax positions, if any, in the consolidated financial statements as a component of general and administrative expense.

Incentive Plans

The Company follows the provisions of SFAS No. 123(R), Share-Based Payment, for accounting for its stock-based awards. As of March 31, 2008, the Company had issued and outstanding various employee and non-employee stock-based awards. These awards included restricted stock issued to employees pursuant to the Company s employee stock incentive plans, restricted stock issued to its Board of Directors under its non-employee director incentive plan, and options issued to employees pursuant to its employee stock purchase plan.

Accounting for Defined Benefit Pension Plans

The Company accounts for its pension plans in accordance with SFAS No. 158. The Company has pension plans under which the Company s Board of Directors and certain designated employees may receive retirement benefits upon retirement and the completion of five years of service with the Company. The plans are unfunded and benefits will be paid from earnings of the Company.

Operating Leases

As described in more detail in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, the Company is obligated under operating lease agreements consisting primarily of the corporate office lease and various ground leases related to the Company s real estate investments where the Company is the lessee.

Discontinued Operations and Assets Held for Sale

The Company periodically sells properties based on market conditions and the exercise of purchase options by tenants. The operating results of properties that have been sold or are held for sale are reported as discontinued operations in the Company s Condensed Consolidated Statements of Income in accordance with the criteria established in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). Pursuant to SFAS No. 144, a company must report discontinued operations when a component of an entity has either been disposed of or is deemed to be held for sale if (i) both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Long-lived assets classified as held for sale on the Company s Condensed Consolidated Balance Sheet are reported at the lower of their carrying amount or their fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Losses resulting from the sale of such properties are characterized as impairment losses relating to discontinued operations in the Condensed Consolidated Statements of Income. As of March 31, 2008, the Company had classified four real estate properties as held for sale.

Land Held for Development

Land held for development, which is included in construction in progress on the Company s Condensed Consolidated Balance Sheet, includes parcels of land owned by the Company, upon which the Company intends to develop and own medical office and outpatient healthcare properties. See Note 5 for a detail of the Company s land held for development.

New Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS No. 157), which is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement applies to other current pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 on January 1, 2008 for all financial assets and liabilities which are not recognized or disclosed on a recurring basis. However, the Company does not anticipate that the full adoption of SFAS No. 157 will have a significant impact on the Company s financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (SFAS No. 159). SFAS No. 159, which became effective for the Company on January 1, 2008, provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different fair value measurement attributes for similar types of assets and liabilities. The Company has elected not to report any of its financial assets or liabilities at fair value. As such, SFAS No. 159 has not had a material impact on the Company s Condensed Consolidated Financial Statements.

Business Combinations and Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS No. 141(R)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, (SFAS No. 160). These standards were designed to improve, simplify and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. SFAS No. 141(R) requires an acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. SFAS No. 160 also eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS No. 141(R) and SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008. The Company has not yet concluded the impact these new standards will have, if any, on its Consolidated Financial Statements.

Note 2. Real Estate and Mortgage Notes Receivable Investments

The Company had investments of approximately $1.8 billion in 186 real estate properties and mortgage notes receivable as of March 31, 2008, excluding assets classified as held for sale and including investments in three unconsolidated limited liability companies. The Company s 179 owned real estate properties, excluding assets classified as held for sale, are located in 24 states with approximately 11.0 million total square feet. The table below details the Company s investments.

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(Dollars and Square Feet in thousands)	Number of Investments	Investment Amount	%	Square Feet
Owned properties				
Master leases				
Medical office	14	$ 91,673	5.2%	716
Physician clinics	20	137,589	7.8%	803
Ambulatory care/surgery	7	39,962	2.3%	160
Specialty outpatient	6	27,700	1.6%	118
Specialty inpatient	13	232,470	13.2%	977
Other	10	43,741	2.5%	498
	70	573,135	32.5%	3,272
Financial support agreements				
Medical office	14	149,243	8.5%	1,048
	14	149,243	8.5%	1,048
Multi-tenanted with occupancy leases				
Medical office	79	852,652	48.4%	6,177
Physician clinics	12	38,556	2.2%	244
Ambulatory care/surgery	4	58,835	3.3%	268
Other		10,047	0.6%	
	95	960,090	54.5%	6,689
Land held for development		16,376	0.9%	
Corporate property		14,143	0.8%	
		30,519	1.7%	
Total owned properties	179	1,712,987	97.2%	11,009
Mortgage notes receivable				
Medical office	2	14,508	0.8%	
Physician clinics	2	16,868	1.0%	
	4	31,376	1.8%	
Unconsolidated LLC investments, net				
Medical office	2	11,042	0.6%	
Other	1	6,627	0.4%	
	3	17,669	1.0%	
Total real estate investments	186	$1,762,032	100.0%	11,009

Asset Acquisitions

The Company did not complete any acquisitions during the first quarter of 2008 but continued construction on its properties under development.

Asset Dispositions

During the first quarter of 2008, the Company disposed of a 36,951 square foot building in Mississippi in which it had a total gross investment of approximately $2.9 million ($1.6 million, net). The purchase price was $2.0 million and the Company recognized a $0.3 million net gain from the sale, net of closing costs of $0.1 million. Also, the Company sold a 7,500 square foot physician clinic in Texas in which it had a total gross investment of approximately $0.5 million ($0.4 million, net). The purchase price was $0.5 million and the Company recognized a $0.1 million net gain from the sale. Finally, the Company disposed of a parcel of land in Pennsylvania for a purchase price of approximately $0.8 million, which approximated the Company s net book value, and the Company recognized a $29,000 impairment charge upon sale. During the first quarter of 2008, the Company also recorded a $0.2 million gain due to the collection of certain receivables by the Company relating to senior living properties sold during 2007.

Purchase Options Exercised

In April 2008, the Company received notice from a tenant of its intent to purchase four properties from the Company pursuant to purchase options contained in its leases with the Company. The Company s aggregate investment in the buildings was approximately $23.0 million ($15.9 million, net) at March 31, 2008. The Company expects to sell these properties to the tenant in the first quarter of 2009 for approximately $21.7 million in net proceeds, including $0.8 million in lease termination fees, which will result in a gain on sale. In accordance with SFAS No. 144, the four properties remained in continuing operations as of and for the three months ended March 31, 2008, but will be reclassified to discontinued operations beginning with the second quarter of 2008 since the notices were not received by the Company until the second quarter of 2008.

During 2007, the Company received notice from a tenant of its intent to purchase two buildings from the Company pursuant to purchase options contained in each of the building leases. The Company s aggregate investment in one of the buildings was approximately $18.5 million ($10.4 million, net) at March 31, 2008. The Company expects to sell this property to the tenant in the second quarter of 2008 for approximately $18.5 million in net proceeds, resulting in a gain on sale. As such, the assets and liabilities of the real estate property are included in assets held for sale and discontinued operations, and its results of operations are included in discontinued operations on the Company s Consolidated Financial Statements as of March 31, 2008. The Company is in a dispute with the tenant concerning the price and enforceability of the option on the second property. The Company s gross investment in the second building was approximately $46.8 million ($33.2 million, net) and the Company carried a mortgage note payable on the building with a principal balance of $19.9 million at March 31, 2008. The disputed range of purchase price is higher than the Company s carrying amount of the building. The Company is uncertain as to when the second transaction might close, if at all. As a result, the second property has not been reclassified to assets held for sale and discontinued operations and its results of operations have not been reclassified to discontinued operations on the Company s Consolidated Financial Statements as of and for the three months ended March 31, 2008.

Purchase Options Exercisable

Certain of the Company s leases include purchase option provisions. The provisions vary from lease to lease but generally allow the lessee to purchase the property covered by the lease at the greater of fair market value or an amount equal to the Company s gross investment. Other than the properties discussed in the preceding paragraph, as of March 31, 2008, the Company had a gross investment of approximately $174.8 million in real estate properties that were subject to outstanding, exercisable contractual options to purchase, with various conditions and terms, by the respective operators and lessees that had not been exercised.

Note 3. Notes and Bonds Payable

The table below details the Company s notes and bonds payable.

(In thousands)	Mar. 31, 2008	Dec. 31, 2007	Maturity Dates	Contractual Interest Rates	Principal Payments	Interest Payments
Unsecured Credit Facility due 2009	$144,000	$136,000	1/09			