

HEALTHCARE REALTY TRUST INC

Form DEF 14A

March 24, 2004

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**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

HEALTHCARE REALTY TRUST INCORPORATED

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**3310 WEST END AVENUE  
SUITE 700  
NASHVILLE, TENNESSEE 37203**

March 31, 2004

TO OUR SHAREHOLDERS:

You are cordially invited to attend the 2004 annual meeting of shareholders of Healthcare Realty Trust Incorporated, to be held on Tuesday, May 11, 2004, at 10:00 a.m. (local time) at the Company's executive offices at 3310 West End Avenue, Suite 700, Nashville, Tennessee.

Please read the enclosed 2003 Annual Report to Shareholders and Proxy Statement for the 2004 annual meeting. Whether or not you plan to attend the meeting, please sign, date and return the enclosed proxy, which is being solicited by the Board of Directors, as soon as possible so that your vote will be recorded. If you attend the meeting, you may withdraw your proxy and vote your shares personally.

Sincerely,

David R. Emery  
Chairman and Chief Executive Officer

**IMPORTANT**

**COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY**

**AND RETURN IT PROMPTLY.**

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3310 WEST END AVENUE  
SUITE 700  
NASHVILLE, TENNESSEE 37203

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 11, 2004**

TO OUR SHAREHOLDERS:

The annual meeting of shareholders of Healthcare Realty Trust Incorporated (the Company) will be held on Tuesday, May 11, 2004, at 10:00 a.m. (local time) at 3310 West End Avenue, Suite 700, Nashville, Tennessee, for the following purposes:

(1) To elect three nominees as Class 2 directors; and

(2) To transact any other business that properly comes before the meeting or any adjournment thereof.

Holders of the Company's Common Stock of record at the close of business on March 11, 2004 are entitled to vote at the meeting or at any adjournment of the meeting.

Dated: March 31, 2004

By order of the Board of Directors

David R. Emery  
Chairman and Chief Executive Officer

**IMPORTANT**

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, TO ASSURE THE PRESENCE OF A QUORUM, PLEASE COMPLETE, DATE, SIGN AND MAIL THE ENCLOSED PROXY AS SOON AS POSSIBLE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.**

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**3310 WEST END AVENUE**  
**SUITE 700**  
**NASHVILLE, TENNESSEE 37203**

**PROXY STATEMENT**

This Proxy Statement contains information related to the annual meeting of shareholders to be held at 3310 West End Avenue, Suite 700, Nashville, Tennessee, on Tuesday, May 11, 2004, at 10:00 a.m. (local time) for the purposes set forth in the accompanying notice, and at any adjournment thereof. This Proxy Statement and the accompanying proxy are first being mailed or given to shareholders on or about March 31, 2004.

If the enclosed proxy is properly executed, returned and not revoked, it will be voted in accordance with the instructions, if any, given by the shareholder, and if no instructions are given, it will be voted (a) **FOR** the election as directors of the nominees described in this Proxy Statement and (b) **FOR** the recommendation of the Board of Directors on any other proposal that may properly come before the meeting. The persons named as proxies in the enclosed proxy were selected by the Company's Board of Directors.

Shareholders who sign proxies have the right to revoke them at any time before they are voted by written request to the Company, and the giving of the proxy will not affect the right of a shareholder to attend the meeting and vote in person.

The close of business on March 11, 2004 has been fixed as the record date for the determination of shareholders entitled to vote at the meeting. As of the close of business on such date, the Company had 150,000,000 authorized shares of common stock, \$.01 par value (the Common Stock), of which 43,019,755 shares were outstanding and entitled to vote and 50,000,000 authorized shares of preferred stock, of which no shares are outstanding. The Common Stock is the Company's only outstanding class of voting stock.

Each share of Common Stock will have one vote on each matter to be voted upon at the meeting.

**ELECTION OF DIRECTORS**

The Board of Directors is divided into three classes having three-year terms that expire in successive years. The current three-year term of the Class 2 directors expires at the 2004 annual meeting. The Board of Directors proposes that the nominees described below, all of whom are currently serving as Class 2 directors, be re-elected to Class 2 to serve until the annual meeting of shareholders in 2007 or until their successors have been elected. Each nominee has consented to be a candidate and to serve, if elected.

According to Maryland law, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. The Company's Articles of Incorporation do not provide for cumulative voting and, accordingly, each shareholder may cast one vote per share of Common Stock for each nominee.

Unless a proxy shall specify otherwise, the persons named in the proxy will vote the shares covered thereby for the nominees designated by the Board of Directors listed below. Should any nominee become unavailable for election, shares covered by a proxy will be voted for a substitute nominee selected by the current Board of Directors.

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**Table of Contents****Class 2 Nominees**

The nominees for election as Class 2 directors are:

| <b>Name</b>         | <b>Age</b> | <b>Principal Occupation</b>  | <b>Director Since</b> |
|---------------------|------------|--|-----------------------|
| <b>Class 2 2007</b> |            |  |                       |
| Marliese E. Mooney  | 74         | Independent healthcare consultant, Fort Myers, Florida   | 1993                  |
| Edwin B. Morris III | 64         | Managing Director, Morris & Morse Company, Inc. (real estate financial consulting firm), Boston, Massachusetts   | 1993                  |
| John Knox Singleton | 55         | President and Chief Executive Officer, Inova Health Systems, Falls Church, Virginia; also a director of Washington Mutual Investors Fund (mutual fund), Washington, D.C. | 1993                  |

**Continuing Directors**

The persons named below will continue to serve as directors until the annual meeting of shareholders in the year indicated and until their successors are elected and take office. Shareholders are not voting on the election of the Class 1 and Class 3 directors.

| <b>Name</b>                     | <b>Age</b> | <b>Principal Occupation</b>   | <b>Director Since</b> |
|---------------------------------|------------|---|-----------------------|
| <b>Class 1 2006</b>             |            |   |                       |
| Charles Raymond Fernandez, M.D. | 60         | Chief Executive Officer and Chief Medical Officer, Piedmont Clinic, Atlanta, Georgia since November, 1999; previously Medical Director, Nalle Clinic, Charlotte, North Carolina               | 1993                  |
| Errol L. Biggs, Ph.D.           | 63         | Director, Center for Health Administration and Director, Programs in Health Administration, University of Colorado; President, Biggs & Associates (consulting company), Castle Rock, Colorado | 1993                  |

| <b>Name</b>           | <b>Age</b> | <b>Principal Occupation</b>  | <b>Director Since</b> |
|-----------------------|------------|--|-----------------------|
| <b>Class 3 2005</b>   |            |  |                       |
| David R. Emery        | 59         | Chairman of the Board of Directors and Chief Executive Officer of Healthcare Realty Trust Incorporated   | 1993                  |
| Batey M. Gresham, Jr. | 69         | Founder/Principal, Gresham, Smith & Partners (architects), Nashville, Tennessee  | 1993                  |
| Dan S. Wilford        | 63         | Retired since November 1, 2002; previously President and Chief Executive Officer, Memorial Hermann Healthcare System (hospital system), Houston, Texas; also a director of Sanders Morris Harris Group (investment firm), Houston, Texas and Southern National Bank of Texas, Houston, Texas | 2002                  |

Except as indicated, each of the nominees and continuing directors has had the principal occupation indicated for more than five years.





**Table of Contents****CORPORATE GOVERNANCE****Committee Membership**

The Board of Directors has an Executive Committee, a Corporate Governance Committee, an Audit Committee and a Compensation Committee. All committee members are non-employee, independent directors, except David R. Emery, the Chairman of the Board and Chief Executive Officer of the Company. The following table sets forth the current members of the committees:

| Name                            | Executive | Corporate<br>Governance | Audit | Compensation |
|---------------------------------|-----------|-------------------------|-------|--------------|
| Errol L. Biggs, Ph.D.           |           | X                       | X     |              |
| David R. Emery                  | (X)       |                         |       |              |
| Charles Raymond Fernandez, M.D. |           |                         | X     |              |
| Batey M. Gresham, Jr.           |           | X                       |       | X            |
| Marliese E. Mooney              |           |                         | (X)   |              |
| Edwin B. Morris III             |           |                         |       | (X)          |
| John Knox Singleton             | X         |                         |       | X            |
| Dan S. Wilford                  | X         | (X)                     |       |              |

( ) Chairman

**Executive Committee****No meetings in 2003**

Acts on behalf of the Board of Directors on all matters concerning the management and conduct of the business and affairs of the Company, except those matters that cannot by law be delegated by the Board.

**Corporate Governance Committee****2 meetings in 2003**

Reviews and implements the Corporate Governance Committee charter and reports to the Board.

Develops and implements policies and practices relating to corporate governance.

Monitors implementation of the Company's Corporate Governance Principles.

Develops criteria for selection of members of the Board.

Seeks individuals qualified to become Board members for recommendation to the Board.

Evaluates the performance of individual directors.

**Audit Committee****5 meetings in 2003**

Reviews and implements the Audit Committee charter and reports to the Board.

Selects the Company's independent audit firm (whose duty it is to audit the books and accounts of the Company and its subsidiaries for the fiscal year in which it is appointed) and has the sole authority and responsibility to approve all audit and audit-related fees and terms, as well as all significant permitted non-audit services by the Company's independent auditors.

Meets with the auditors and management of the Company to review and discuss the scope of the audit and all significant matters related to the audit.

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Reviews the adequacy and effectiveness of the Company's internal controls regarding accounting and financial matters.

Reviews the financial statements and discusses them with management and the independent auditors.

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Reviews and discusses policies with respect to risk assessment and risk management and the steps management has taken to monitor and control the Company's major financial risk exposure.

Reviews and discusses with management the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

**Compensation Committee**

**3 meetings in 2003**

Reviews and implements the Compensation Committee charter and reports to the Board.

Establishes a general compensation policy for the Company and approves increases in directors' fees and salaries paid to officers and senior employees earning an annual base salary in excess of \$200,000.

Administers all of the Company's employee benefit plans, including any stock option and restricted stock plans, bonus plans, retirement plans, stock purchase plans and medical, dental and insurance plans.

Determines, subject to the provisions of the Company's plans, the directors, officers and employees of the Company eligible to participate in any of the plans, the extent of such participation and the terms and conditions under which benefits may be vested, received or exercised.

Annually reviews and approves corporate goals and objectives relevant to the compensation of the Company's executive officers and key employees.

Plans for the development and succession of senior executive officers.

**Meeting Attendance**

The Board of Directors held a total of five meetings in 2003. Each director attended at least 75% of the meetings of the Board and committees of the Board on which such director served. The Company has not adopted a formal policy regarding director attendance at annual meetings of shareholders, but encourages each member of the Board of Directors to attend. Two members of the Board attended the 2003 annual meeting of shareholders.

**Non-Management Executive Sessions**

Periodically, and no less frequently than semi-annually, the Board of Directors meets in executive sessions in which management directors and other members of management do not participate. The non-management directors of the Company have appointed Edwin B. Morris III to preside over the non-management executive sessions. Shareholders and other parties interested in communicating with the non-management directors as a group may do so by contacting Mr. Morris in writing c/o Healthcare Realty Trust Incorporated, 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203.

**Security Holder Communication with the Board of Directors**

Shareholders and other parties interested in communicating directly with the Board of Directors or an individual director may do so by writing to Healthcare Realty Trust Incorporated, 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203, Attention: Secretary. The Secretary of the Company will review all such correspondence and will regularly forward to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Secretary, deals with the functions of the Board or committees thereof or that she otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence.

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### **Compensation of Directors**

Directors who are employees of the Company receive no additional compensation for their services as directors. Each non-employee director receives:

An annual retainer of \$24,000;

A meeting fee of \$1,000 for each Board or committee meeting attended (but only one fee in the event that more than one such meeting is held in connection with a single Board session);

An annual grant of 150 restricted shares of Company Common Stock; and

Reimbursement for necessary travel expenses incurred in attending such meetings.

The Company's retirement plan for non-employee directors provides that when an eligible director reaches age 65 and has completed five years of service with the Company, such director shall receive an annual amount equal to the director's compensation for the plan year immediately preceding retirement from the Board of Directors for a period of not more than 15 years. A director who dies will receive benefits as if the director retired from the Board of Directors on the day before his or her death. If a retired director dies before the end of his or her payment period, his or her beneficiary will receive the remaining benefits for the balance of the payment period.

Each non-employee director receives an automatic grant, at the conclusion of each annual meeting, of 150 restricted shares of the Company's Common Stock. Such shares are restricted for three years from the date of grant and are granted as of the Annual Meeting date. Such shares are subject to forfeiture upon the occurrence of certain events. Shares subject to the risk of forfeiture may not be sold, assigned, pledged or otherwise transferred. Subject to the risk of forfeiture and transfer restrictions, directors shall have all rights as shareholders with respect to restricted shares, including the right to vote and receive dividends or other distributions on such shares. As of January 31, 2004, non-employee directors had received an aggregate of 18,123 restricted shares.

### **Independence of Directors**

In January, 2003, the Board of Directors adopted a set of Corporate Governance Principles, addressing, among other things, standards for evaluating the independence of the Company's directors. The full text of the Principles can be found in the Corporate Governance section of the Company's web site ([www.healthcarerealty.com](http://www.healthcarerealty.com)). A copy may also be obtained upon request from the Company's Secretary.

Pursuant to the Principles, the Board undertook its annual review of director independence in January, 2004. During this review, the Board considered transactions and relationships during the prior year between each director or any member of his or her immediate family and the Company and its subsidiaries, affiliates and equity investors, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationships between directors or their affiliates and members of the senior management or their affiliates. As provided in the Principles, the purpose of this review was to determine whether any such relationship or transaction was inconsistent with a determination that a director is independent.

To aid in making its annual review of director independence, the Board has adopted categorical standards for determining independence. A director is independent unless he or she possesses any of the following attributes:

A director who has been or whose immediate family member has been an employee of the Company within the past three years;

A director who, or whose immediate family member, has received more than \$100,000 per year within any of the past three years in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

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A director who, or whose immediate family member, has been affiliated with, or employed in a professional capacity by, a present or former internal or external auditor of the Company within the past three years;

A director who, or whose immediate family member, has been employed as an executive officer of another company where any of the Company's present executives have served on that company's compensation committee within the past three years;

A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year within the past three years, exceeded the greater of \$1 million, or 2% of such company's consolidated gross revenues; or

A director who has any other material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company.

As a result of this review, the Board affirmatively determined that all of the directors are independent of the Company and its management under the standards adopted pursuant to the Principles with the exception of David R. Emery, who is employed by the Company as its Chief Executive Officer and is therefore not independent.

**Director Nominee Evaluation Process**

The Corporate Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance. As part of its duties, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. A copy of the Corporate Governance Committee's charter can be found in the Corporate Governance section of the Company's web site ([www.healthcarerealty.com](http://www.healthcarerealty.com)).

Once the Corporate Governance Committee has identified a prospective nominee, the Committee reviews the information provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. The Committee then evaluates the prospective nominee against the following standards and qualifications:

The ability of the prospective nominee to represent the interests of the shareholders of the Company;

The prospective nominee's standards of integrity, commitment and independence of thought and judgment;

Whether the prospective nominee would meet the Company's criteria for independence as required by the New York Stock Exchange;

The prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards, as specifically set out in the Company's Corporate Governance Principles; and

The extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the

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Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines after considering the recommendation and report of the Committee.

**Shareholder Recommendation or Nomination of Director Candidates**

The Company has not received any shareholder recommendations of director candidates with regard to the election of directors covered by this Proxy Statement or otherwise. The Corporate Governance Committee has not specifically adopted a policy regarding the consideration of shareholder nominees for directors, but its general policy is to welcome and consider any recommendations for future nominees. The Corporate Governance Committee will consider for nomination as director of the Company any director candidate recommended or nominated by shareholders in accordance with the process outlined below.

Shareholders wishing to recommend candidates for consideration by the Corporate Governance Committee may do so by providing the candidate's name, qualifications and other pertinent information in writing to the Corporate Governance Committee, c/o Secretary, Healthcare Realty Trust Incorporated, 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203.

Such information should include:

The name and address of the shareholder who intends to make the nomination(s) and of the person or persons to be nominated;

A representation that the shareholder is a holder of record or a beneficial holder of stock of the Company entitled to vote at the meeting (including the number of shares the shareholder owns and the length of time the shares have been held) and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

A description of all relationships, arrangements, and understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder;

Such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not such rules are applicable) had each nominee been nominated, or intended to be nominated, by the Board of Directors, including the candidate's name, biographical information, and qualifications; and

The written consent of each nominee to serve as a director of the Company if so elected, with such written consent attached thereto.

The Bylaws of the Company provide that any shareholder who is entitled to vote for the election of directors at a meeting called for such purpose may nominate persons for election to the Board of Directors subject to the following notice requirements. This is the procedure to be followed for direct nominations, as opposed to recommendation of nominees for consideration by the Corporate Governance Committee.

To be timely for the 2005 annual meeting, such notice must be received by the Company at its executive offices not earlier than November 1, 2004 nor later than December 1, 2004.

**The Board of Directors recommends that the shareholders vote FOR the election  
of all of the proposed nominees to the Board of Directors.**

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL****OWNERS AND MANAGEMENT**

The following table sets forth as of January 31, 2004 the beneficial ownership of the Company's equity securities in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. This means that all Company securities over which the directors, nominees and executive officers directly or indirectly have or share voting or investment power are listed as beneficially owned.

| Name<br>of Beneficial Owner                                  | Common<br>Shares<br>Beneficially<br>Owned(1) | Percent of<br>Common Shares<br>Beneficially<br>Owned |
|--|--|--|
| David R. Emery   | 845,980(2)(3)                                | 1.96%  |
| Roger O. West(14)  | 371,567(4)                                   | *  |
| J. D. Carter Steele  | 8,237(5)                                     | *  |
| Scott W. Holmes  | 5,816(6)                                     | *  |
| John M. Bryant, Jr.  | 1,798(7)                                     | *  |
| Charles Raymond Fernandez, M.D.                              | 6,736(8)                                     | *  |
| Errol L. Biggs, Ph.D.  | 2,721(9)                                     | *  |
| Marliese E. Mooney   | 3,339(10)                                    | *  |
| Edwin B. Morris III  | 2,998(11)                                    | *  |
| John Knox Singleton  | 29,704(11)(12)                               | *  |
| Batey M. Gresham, Jr.  | 5,609(11)                                    | *  |
| Dan S. Wilford   | 3,860(13)                                    | *  |
| All executive officers and directors as a group (12 persons) | 1,288,365                                    | 2.99%  |
| Lord, Abnett & Co.   | 3,968,424(15)                                | 9.22%  |

\* Less than 1%

- (1) Pursuant to the rules of the Securities and Exchange Commission, restricted shares of Common Stock that the recipient does not have the ability to vote or to receive dividends on are not included.
- (2) Includes 143,352 shares owned by the Emery Family Limited Partnership and 1,448 shares owned by the Emery Family 1993 Irrevocable Trust. Mr. Emery is a limited partner of the partnership and a beneficiary of the trust, but has no voting or investment power with respect to the shares owned by such partnership or trust.
- (3) Includes 701,180 shares of restricted stock granted pursuant to the Company's 1993 Employees Stock Incentive Plan.
- (4) Includes 365,735 shares of restricted stock granted pursuant to the Company's 1993 Employees Stock Incentive Plan.
- (5) Includes 1,000 shares owned by Mr. Steele's wife and 4,614 shares of restricted stock granted pursuant to the Company's 1993 Employees Stock Incentive Plan and its 2003 Employees Restricted Stock Incentive Plan.
- (6) Includes 4,398 shares of restricted stock granted pursuant to the Company's 1993 Employees Stock Incentive Plan and its 2003 Employees Restricted Stock Incentive Plan.
- (7) Includes 1,401 shares of restricted stock granted pursuant the Company's 2003 Employees Restricted Stock Incentive Plan.
- (8) Includes 2,466 shares of stock granted pursuant to the Company's 1995 Restricted Stock Plan for Non-Employee Directors of which 450 are shares of restricted stock.
- (9) Includes 2,456 shares of stock granted pursuant to the Company's 1995 Restricted Stock Plan for Non-Employee Directors of which 450 are shares of restricted stock.
- (10) Includes 2,339 shares of stock granted pursuant to the Company's 1995 Restricted Stock Plan for Non-Employee Directors of which 450 are shares of restricted stock.
- (11) Includes 2,498 shares of stock granted pursuant to the Company's 1995 Restricted Stock Plan for Non-Employee Directors of which 450 are shares of restricted stock.



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- (12) Of these shares, 2,267 are held in trust by Mr. Singleton for the benefit of his minor children, 534 are held jointly with Peggy T. Singleton, Mr. Singleton's wife, 7,599 shares are owned by Mr. Singleton's wife, 14,960 are held by Mr. Singleton in a living trust, and 1,846 are owned in an IRA.
- (13) Includes 300 shares of stock granted under the Company's 1995 Restricted Stock Plan for Non-Employee Directors, all of which are restricted.
- (14) Mr. West voluntarily reduced his role with Company effective November 1, 2003 and ceased to be an executive officer on that date.
- (15) Lord, Abnett & Co., an investment firm, located at 90 Hudson Street, Jersey City, New Jersey 07302, has reported to the Company that it possesses the sole power to vote and/or dispose of 3,968,424 shares of the Company's Common Stock.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the Common Stock. These officers, directors and greater than 10% shareholders of the Company are required by SEC rules to furnish the Company with copies of all Section 16(a) reports they file. There are specific due dates for these reports and the Company is required to report in this Proxy Statement any failure to file reports as required during 2003.

Based upon a review of these filings and written representations from the Company's directors and executive officers, the Company believes that all reports required to be filed with the SEC by Section 16(a) during the most recent fiscal year or prior fiscal years have been filed, and no other reports were required.

**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table reflects the compensation of the Named Executive Officers:

| Name and Principal Position      | Annual Compensation(1) |           |         | Long-Term Compensation     |                                    |
|----------------------------------|------------------------|-----------|---------|----------------------------|------------------------------------|
|                                  | Year                   | Salary    | Bonus   | Restricted Stock Awards(3) | Securities Underlying Options/SARs |
|                                  |                        |           |         |                            |                                    |
| David R. Emery                   | 2003                   | \$461,331 | 0       | \$3,016,125                | 0                                  |
| <i>Chairman of the Board and</i> | 2002                   | \$450,079 | 0       | \$4,800,938                | 0                                  |
| <i>Chief Executive Officer</i>   | 2001                   | \$446,950 | 0       | \$2,006,200                | 0                                  |
| Scott W. Holmes                  | 2003                   | \$161,017 | 0       | \$44,570                   | 0                                  |
| <i>Senior Vice President and</i> | 2002                   | \$154,365 | 0       | \$4,385                    | 0                                  |
| <i>Chief Financial Officer</i>   | 2001                   | \$137,200 | \$6,800 | \$17,612                   | 0                                  |
| Roger O. West (2)                | 2003                   | \$288,346 | 0       | \$1,474,550                | 0                                  |
| <i>Vice President</i>            | 2002                   | \$291,234 | 0       | \$2,347,125                | 0                                  |
|                                  | 2001                   | \$289,210 | 0       | \$1,101,927                | 0                                  |
| J. D. Carter Steele              | 2003                   | \$192,688 | 0       | \$53,318                   | 0                                  |
| <i>Senior Vice President and</i> | 2002                   | \$166,203 | 0       | \$5,248                    | 0                                  |
| <i>Chief Operating Officer</i>   | 2001                   | \$127,800 | \$8,100 | \$23,716                   | 0                                  |

- (1) The Company also provides compensation to executive officers in the form of the cost of life and supplemental disability insurance premiums and certain financial and tax planning services paid on behalf of Mr. Emery and Mr. West. In each case these amounts are less than \$50,000 and 10% of the officer's compensation.
- (2) Mr. West was an executive officer until November 1, 2003 when he voluntarily reduced his role with the Company.
- (3) Each of the Named Executive Officers received restricted shares of Common Stock (a) in lieu of an annual cash compensation, and/or (b) pursuant to long-term incentive awards. The shares were issued

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based upon attainment of specified target objectives, and the shares will fully vest without restriction if the executives remain employees of the Company for the specified periods. During the restricted period, holders may vote the shares and receive all dividends thereon. The following table sets forth certain information concerning such restricted stock issuances. The stock values indicated in the table do not reflect any diminution of value attributable to the restrictions on such shares.

| Executive           | Year | Shares  | Stock                               | Stock                                  | Years<br>to<br>Vest | Shares   | Weighted                                      | Stock       | Stock | Number<br>of all<br>Restricted<br>Shares<br>Held at<br>Year<br>End | Value of                  |
|---------------------|------|---|-------------------------------------|--|---------------------|--|---|-------------|-------|--|---------------------------|
|                     |      | Issued in<br>Lieu of<br>Annual<br>Cash<br>Comp. | Price at<br>End of<br>Grant<br>Year | Value at<br>End of<br>Grant<br>Year(1) |                     | Pursuant<br>to<br>Long-Term<br>Incentive<br>Awards | Average<br>Stock<br>Price at<br>Grant<br>Date |             |       |  | Value at<br>Grant<br>Date |
| David R. Emery      | 2003 | 0   |                                     | \$ 0                                   |                     | 112,500  | \$ 26.810                                     | \$3,016,125 | 12    | 701,180  | \$25,067,185              |
|                     | 2002 | 0   |                                     | \$ 0                                   |                     | 168,750  | \$ 28.450                                     | \$4,800,938 | 12    | 588,680  |                           |
|                     | 2001 | 27,328  | \$28.00                             | \$765,184                              | 8                   | 56,250   | \$22.0625                                     | \$1,241,016 | 12    | 392,602  |                           |
| Scott W. Holmes     | 2003 | 918   | \$35.75                             | \$ 32,819                              | 3-8                 | 580  | \$ 30.550                                     | \$ 17,719   | 10    | 4,398  | \$ 157,229                |
|                     | 2002 | 140   | \$29.25                             | \$ 4,095                               | 3                   | 0  |   |             | 0     | 2,900  |                           |
|                     | 2001 | 629   | \$28.00                             | \$ 17,612                              | 3-8                 | 0  |   |             | 0     | 2,131  |                           |
| Roger O. West       | 2003 | 0   |                                     | \$ 0                                   |                     | 55,000   | \$ 26.810                                     | \$1,474,550 | 12    | 365,735  | \$13,075,026              |
|                     | 2002 | 0   |                                     | \$ 0                                   |                     | 82,500   | \$ 28.450                                     | \$2,347,125 | 12    | 310,735  |                           |
|                     | 2001 | 17,686  | \$28.00                             | \$495,208                              | 8                   | 27,500   | \$22.0625                                     | \$ 606,719  | 12    | 210,549  |                           |
| J. D. Carter Steele | 2003 | 1,098   | \$35.75                             | \$ 39,254                              | 3-8                 | 694  | \$ 30.550                                     | \$ 21,202   | 10    | 4,614  | \$ 164,951                |
|                     | 2002 | 168   | \$29.25                             | \$ 4,914                               | 3                   | 0  |   |             |       | 2,822  |                           |
|                     | 2001 | 847   | \$28.00                             | \$ 23,716                              | 3-8                 | 0  |   |             |       | 1,807  |                           |

(1) Based upon the closing price of a share of Common Stock on the New York Stock Exchange, Inc. on December 31 of the grant year.

(2) Based upon the closing price of a share of Common Stock on the New York Stock Exchange, Inc. on December 31, 2003 of \$35.75.

**Stock Option Grants**

The Company did not have any stock options or stock appreciation rights outstanding, granted or exercised during 2003.

**Pension or Retirement Plans**

The Company's Executive Retirement Plan for its senior executives is a defined benefit plan. The amount of a retiree's pension is calculated using pay and years of service as an employee, rather than by the market value of the plan's assets as in defined contribution plans.

Upon retirement, a participant receives an annual pension from the plan equal to 60% of the participant's Final Average Annual Compensation, as defined below, plus 6% for each year of (but not more than five years) service after age 60 (90% for retirement at age 65 with at least five years of service). Plan benefits are reduced by the participant's primary Social Security benefits and Company contributions to the participant's 401(k) plan. The annual pension benefit is payable to the participant's spouse upon the participant's death.

The retirement benefit is adjusted annually to reflect changes in the CPI index. In addition, a participant may elect to take the retirement benefit in a lump-sum payment equal to the present value of the cash payments that would otherwise be paid to the participant. Such present value shall be determined as of the date of delivery of the notice of election and shall be based on a discount rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication).

Final Average Annual Compensation, which is calculated as the average of the three highest, not necessarily consecutive, years' earnings, is based upon a participant's annual cash compensation (but not including cash bonuses for employees whose annual salary exceeds \$200,000). The value of any restricted stock awards will not be included as Final Average Annual Compensation in determining the annual pension.

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The Compensation Committee selects eligible participants in the plan. As of March 15, 2004, the Compensation Committee has selected the following persons as the participants for this plan:

| Name                 | Years of Service<br>As of December 31, 2003 |
|----------------------|---|
| David R. Emery       | 11  |
| Roger O. West        | 9   |
| Fredrick M. Langreck | 11  |
| Rita Hicks Todd      | 11  |

The following table illustrates the annual pension benefits upon the normal retirement age of 65 calculated before any offset of the employee's primary Social Security benefits or Company contributions to the participant's 401(k) plan:

**PENSION PLAN TABLE**

| Final<br>Average<br>Annual<br>Compensation | Years of Service |         |         |         |
|--|------------------|---------|---------|---------|
|  | 5                | 10      | 15      | 20      |
| 50,000                                     | 45,000           | 45,000  | 45,000  | 45,000  |
| 100,000                                    | 90,000           | 90,000  | 90,000  | 90,000  |
| 150,000                                    | 135,000          | 135,000 | 135,000 | 135,000 |
| 200,000                                    | 180,000          | 180,000 | 180,000 | 180,000 |
| 250,000                                    | 225,000          | 225,000 | 225,000 | 225,000 |
| 300,000                                    | 270,000          | 270,000 | 270,000 | 270,000 |
| 350,000                                    | 315,000          | 315,000 | 315,000 | 315,000 |
| 400,000                                    | 360,000          | 360,000 | 360,000 | 360,000 |
| 450,000                                    | 405,000          | 405,000 | 405,000 | 405,000 |
| 500,000                                    | 450,000          | 450,000 | 450,000 | 450,000 |
| 600,000                                    | 540,000          | 540,000 | 540,000 | 540,000 |
| 700,000                                    | 630,000          | 630,000 | 630,000 | 630,000 |
| 800,000                                    | 720,000          | 720,000 | 720,000 | 720,000 |
| 900,000                                    | 810,000          | 810,000 | 810,000 | 810,000 |
| 1,000,000                                  | 900,000          | 900,000 | 900,000 | 900,000 |

**Deferred Compensation Plan**

The Company has also adopted a Non-Qualified Deferred Compensation Plan, which allows eligible participants to defer and invest a portion of their compensation. The deferrals are credited to a participant's investment account and are invested in various securities designated by the Company and selected by the participants. These investment options may be amended from time to time by the Company. Participants are 100% vested in their accounts. No matching funds are provided. As a result, the Company incurs no costs associated with the plan other than routine administrative expenses. Participants may elect benefit payments to commence either in the year 2010 or upon retirement. The participant can specify that his or her benefits be paid as a single lump sum or in annual installments over a period of between five and ten years. In the event of an employee's termination, benefits are paid in a lump sum within 90 days following termination. The plan allows disabled employees to receive hardship withdrawals. The plan is administered by a committee consisting of three or more officers selected by the Compensation Committee. The plan committee has broad powers to interpret and administer the plan, including designating participants and investment options. The benefits under the plan are funded in a rabbi trust for the benefit of the participants.

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### **Employee Stock Purchase Plan**

The Company's 2000 Employee Stock Purchase Plan (the "Purchase Plan") allows eligible employees of the Company and its subsidiaries to purchase shares of the Company's Common Stock through regular payroll deductions and voluntary contributions at a price equal to the lesser of (i) 85% of the market price of the Company's Common Stock on the first day of the grant year or (ii) 85% of the market price of the Company's Common Stock on the purchase date. The Company has reserved 1,000,000 shares of Common Stock for issuance pursuant to the Purchase Plan, subject to adjustment resulting from (i) a stock dividend, split or combination, (ii) recapitalization or reclassification, (iii) a reorganization, merger or consolidation in which the Company is the surviving corporation or (iv) another similar change affecting the Company's Common Stock. As of March 11, 2004, 212,980 shares had been issued to employees under the Purchase Plan and its predecessor plan.

### **Employment Contracts And Change-In-Control Arrangements**

*David R. Emery*

Mr. Emery's employment agreement, pursuant to which he serves as Chairman, President and Chief Executive Officer of the Company, has a five-year term that is automatically extended on January 1 of each year for an additional year. Under this agreement, Mr. Emery receives a 2004 base salary of \$468,250 (which includes a cost of living adjustment) and annual increases at the discretion of the Compensation Committee of the Board of Directors, and is entitled to participate in the Company's restricted stock plan and all other benefit programs generally available to executive officers of the Company. Mr. Emery is also entitled to receive an annual bonus at the discretion of the Compensation Committee.

If Mr. Emery's employment agreement is terminated for any reason other than for cause or upon Mr. Emery's voluntary termination, he is entitled to receive his unpaid salary, earned bonus, vested, released, granted, or reserved stock awards, vested deferred compensation (other than plan benefits which will be paid in accordance with the applicable plan), and other benefits accrued through the date of termination. In addition, Mr. Emery will receive as severance compensation his base salary for a period of three years following the date of termination and an amount equal to twice his average annual bonus during the two years immediately preceding his termination. Mr. Emery may elect to receive a lump sum severance amount equal to the present value of such severance payments (using a discount rate equal to the 90-day treasury bill interest rate in effect on the date of delivery of such election notice).

If a change-in-control (as defined in the employment agreement) occurs, Mr. Emery may terminate his agreement and receive his accrued base salary and other benefits described above through the remaining term of the agreement and an amount equal to three times his average annual bonus during the two years immediately preceding the termination. Mr. Emery may elect to receive from the Company the present value of such payments as a lump sum severance payment (calculated as provided above), which may not be less than three times his base salary. In such event, Mr. Emery is entitled to receive a tax gross-up payment as compensation for any excise tax imposed by Section 280(g) of the Internal Revenue Code which would be required to be paid.

The Company may terminate Mr. Emery's agreement for cause, which is defined to include material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, the Company or Mr. Emery's material, substantial and willful breach of the employment agreement which has resulted in material injury to the Company. In the event of Mr. Emery's termination for cause, he shall receive all accrued salary, earned bonus compensation, vested deferred compensation (other than plan benefits which will be payable in accordance with the applicable plan), and other benefits through the date of termination, but shall receive no other severance benefits.

Mr. Emery's agreement may also be terminated if Mr. Emery dies or becomes disabled and his disability continues for a period of 12 consecutive months. In the event of termination of the employment agreement because of Mr. Emery's death or disability, Mr. Emery (or his estate) shall receive his unpaid salary, earned bonus, vested, released, granted or reserved stock awards, vested deferred compensation (other than plan benefits which will be paid in accordance with the applicable plan) and other benefits through the date of termination, but no additional severance except that, if Mr. Emery becomes disabled, the Company will maintain his insurance benefits for the remaining term of his employment agreement.

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The Company has agreed to indemnify Mr. Emery for certain liabilities arising from actions taken within the scope of his employment. Mr. Emery's employment agreement contains restrictive covenants pursuant to which Mr. Emery has agreed not to compete with the Company during the period of Mr. Emery's employment and any period following termination of his employment during which he is receiving severance payments except in the event of a change-in-control of the Company.

### **Other Executive Officers**

The Company's other executive officers—Scott W. Holmes, Senior Vice President and Chief Financial Officer; J.D. Carter Steele, Senior Vice President and Chief Operating Officer; and John M. Bryant, Jr., Senior Vice President and General Counsel—have employment agreements with the Company. Each of the three employment agreements is similar in scope except for a 2004 base cash salary—\$204,680 for Mr. Holmes; \$241,747 for Mr. Steele; and \$192,000 for Mr. Bryant. Each agreement has a one-year term that is automatically extended on January 1 of each year for an additional year. Under each agreement, the employee receives a base salary (which includes a cost of living adjustment) and annual increases at the discretion of the Compensation Committee of the Board of Directors, and is entitled to participate in the Company's restricted stock plan and all other benefit programs generally available to executive officers of the Company.

If an employment agreement is terminated for any reason other than for cause or upon the employee's voluntary termination, he is entitled to receive his unpaid salary, earned bonus, vested, released, granted, or reserved stock awards, vested deferred compensation (other than plan benefits which will be paid in accordance with the applicable plan), and other benefits through the date of termination. In addition, the employee will receive as severance compensation his base salary for a period of 18 months following the date of termination and an amount equal to twice his average annual bonus during the two years immediately preceding his termination.

If a change-in-control (as defined in the employment agreement) occurs, the employee may terminate his agreement and receive his accrued base salary and other benefits described above through the termination date, an amount equal to 1.5 times his base salary through the remaining term of the agreement, and an amount equal to two times his average annual bonus during the two years immediately preceding the termination. Each employee may elect to receive from the Company the present value of such payment (calculated in the same manner as for Mr. Emery) as a lump sum severance payment, which may not be less than 1.5 times the base salary. In such event, the employee is entitled to receive a tax gross-up payment as compensation for any excise tax imposed by Section 280(g) of the Internal Revenue Code which would be required to be paid.

The Company may terminate the employee's agreement for cause, which is defined to include material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, the Company or the employee's material, substantial and willful breach of the employment agreement which has resulted in material injury to the Company. In the event of the employee's termination for cause, he shall receive all accrued salary, earned bonus compensation, vested deferred compensation (other than plan benefits which will be payable in accordance with the applicable plan), and other benefits through the date of termination, but shall receive no other severance benefits.

Each agreement may also be terminated if the employee dies or becomes disabled and his disability continues for a period of 12 consecutive months. In the event of termination of the employment agreement because of the employee's death or disability, the employee (or his estate) shall receive his unpaid salary, earned bonus, vested, released, granted or reserved stock awards, vested deferred compensation (other than plan benefits which will be paid in accordance with the applicable plan) and other benefits through the date of termination, but no additional severance except that, if the employee becomes disabled, the Company will maintain his insurance benefits for the remaining term of his employment agreement.

The Company has agreed to indemnify each of the employees for certain liabilities arising from actions taken within the scope of his employment. Each employment agreement contains restrictive covenants pursuant to which such employee has agreed not to compete with the Company during the period of

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employment and any period following termination of his employment during which he is receiving severance payments except in the event of a change-in-control of the Company.

### **Compensation Committee Interlocks And Insider Participation**

During 2003, the members of the Compensation Committee of the Board of Directors were Edwin B. Morris III (Chairman), Batey M. Gresham, Jr. and John Knox Singleton. There are no interlocks among the members of the Compensation Committee.

## **COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION**

*The following Report of the Compensation Committee and the performance graph included elsewhere in this Proxy Statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report or the performance graph by reference therein.*

The Compensation Committee establishes a general compensation policy for the Company and is responsible for approving increases in compensation paid to the executive officers of the Company within the framework of the policy. The Compensation Committee administers the Company's employee benefit plans, including restricted stock plans. The Compensation Committee reviews its decisions with the full Board of Directors.

### **Comprehensive Executive Compensation Policy**

The Company's compensation program for executives consists of two key elements:

Cash compensation competitive with that paid to the executive officers of comparable real estate companies; and

The opportunity to increase one's share ownership in the Company reflecting executive contribution to the achievement of the Company's long-term goals.

The following is a summary of the compensation policy of the Company established by the Compensation Committee:

*Cash Compensation.* The Compensation Committee regularly reviews the executive compensation policies and practices of selected comparable real estate companies.

The fixed base salary has traditionally been at or below the median salary of comparable real estate companies. In January 1999, after reviewing salary ranges and supporting data for comparable publicly traded real estate companies, the Compensation Committee increased base salaries to a level generally at the median of the comparable company range. Since 2000, in light of the increase in base salary in 1999 and of other components of compensation described herein, the Compensation Committee has only increased the base salary of the executive officers by the increase in the cost of living.

In October 2003, the policy for cash compensation for officers, including executive officers, was further revised. Under the revised methodology, the Company determines cash compensation equal to 50% of the cash compensation of comparable positions at such other companies, and assumes that cash compensation increases in equal increments over 20 years to reach 75% of the cash compensation of comparable positions.

The salary of each officer, including executive officers, is equal to the 50% comparable plus the tenure-adjusted amount. Each year, the salary is increased by the annual tenure adjustment increment, plus a cost-of-living adjustment. Every three years, the base of comparable companies is re-evaluated, the 50% and 75% comparables are re-determined, and each officer's salary is adjusted based on the new base using the same methodology.

*Stock Ownership.* The Compensation Committee periodically reviews the Company's stock purchase plans and retains the authority to make adjustments based on changed circumstances. Since 1999, the Compensation Committee felt that it would be in the Company's best interest to encourage key management employees to increase their equity position in the Company to promote share ownership and further align



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executive and shareholder interests. The Company presented these employees, including its vice presidents and regional managers, with the opportunity to elect to receive all or a portion of their annual cash bonuses in restricted stock of the Company. Restricted stock awards were valued based upon the length of the restriction period elected by the employee. Commencing in 2002, the Company ceased granting cash bonuses and has since awarded bonuses in the form of restricted stock based on achievement of specified goals.

Prior to 2003, implementations of the Company's restricted stock plans appropriately recognized and awarded the executive officers based on the entrepreneurial risk attendant to the Company as a new REIT. The awards made available under those implementations were fully awarded as of February 2004. Over time, the Company has matured into an operating entity, with greater emphasis on managing and replacing a maturing portfolio. Therefore, the Compensation Committee believes that future implementations of the restricted stock plans, should reflect the Company's evolving status by providing incentives to the broader class of its officers who will direct their individual and collective efforts toward insuring the continued successful delivery of dividends to shareholders. The Compensation Committee also believes that by increasing their ownership stake in the Company, future implementations of its restricted stock plans should be an effective tool in retaining this broader group of officers.

In October 2003, the Compensation Committee modified its existing program to allow all officers to defer up to 30% of their total cash salary in the form of shares of restricted stock. The officer must elect his or her participation level by the end of a year for the coming year. All shares issued are based on the closing price of the Company's common stock on the last day of the prior year. The number of shares can be increased by a multiple of the deferred amount depending on the length of the vesting period selected by the officer.

In October, 2003, the Company initiated a new program pursuant to which all officers, including executive officers, can receive restricted stock up to 25% of such officer's cash compensation. Beginning with the first quarter of 2005, the Company sets aside quarterly an amount equal to 25% of the officer's salary for that quarter, calculates the dividend payout ratio (dividends as a percentage of funds from operations) for the four previous quarters, and grants restricted shares based on a sliding scale of the ratio over the previous number of shares reserved for such officer. The lower the payout ratio, the greater the number of restricted shares issued to such officer. Restricted shares granted to an officer will vest in ten years subject to the officer's continued employment with the Company during the vesting period.

During the vesting period under both programs, the recipients receive dividends and have full voting rights to these shares.

### **Compensation of Chief Executive Officer**

Under David R. Emery's employment agreement, Mr. Emery's annual cash compensation is subject to cost of living adjustments and annual increases at the discretion of the Compensation Committee. Mr. Emery is entitled to participate in all of the Company's benefit programs generally available to executive officers of the Company. The Company does not provide Mr. Emery with incidental perquisites such as club memberships, company vehicles, or other similar items, although it does provide to him certain financial and tax planning assistance. The Compensation Committee established Mr. Emery's 2003 base cash compensation, as the Chief Executive Officer, at \$461,331.

*Compliance with Internal Revenue Code Section 162(m).* Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over \$1 million paid to the corporation's chief executive officer and the four other most highly compensated executive officers. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The Company currently intends to structure the performance-based portion of the compensation of its executive officers in a manner that complies with this statute.

#### Members of the Compensation Committee

Edwin B. Morris III (*Chairman*)  
Batey M. Gresham, Jr.  
John Knox Singleton



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**AUDIT COMMITTEE REPORT**

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

The Audit Committee of the Board of Directors of the Company consists entirely of directors who meet the independence and experience requirements of the New York Stock Exchange. Audit Committee members may serve on the audit committees of no more than three public companies.

Pursuant to the Sarbanes-Oxley Act of 2002 which became effective on July 30, 2002, and rules adopted by the SEC, the Company must disclose which members, if any, of the Audit Committee are audit committee financial experts (as defined in the SEC's rules). The Company's Board has determined that none of the members of the Audit Committee meets the criteria to be an audit committee financial expert. The Company has begun a search for a nominee who meets the criteria.

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The Company's management has primary responsibility for preparing the Company's financial statements and implementing internal controls over financial reporting. The Company's 2003 independent auditors, Ernst & Young LLP, are responsible for expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

The role and responsibilities of the Audit Committee are set forth in a revised charter approved by the Board in January 2003, which is attached to this Proxy Statement as Appendix A.

As more fully described in its charter, the Audit Committee reviews the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent auditors are responsible for performing an audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and expressing an opinion on the conformity of the financial statements to generally accepted accounting principles. The internal auditors are responsible to the Audit Committee and the Board for testing the integrity of the financial accounting and reporting control systems and such other matters as the Audit Committee and Board determine.

To fulfill its responsibilities, the Audit Committee has met and held discussions with management and the independent auditors concerning the consolidated financial statements for the fiscal year ended December 31, 2003. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Audit Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also has considered whether the independent auditors' provision of consulting and other non-audit services to the Company is comparable with the auditors' independence.

In addition, the Audit Committee reviewed major initiatives and programs aimed at strengthening the effectiveness of the Company's internal control structure. The Audit Committee discussed with the internal auditors the Company's internal controls and reporting procedures. As part of this process, the Audit Committee continued to monitor the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls.

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Based on the Audit Committee's review of the audited financial statements and discussions with management and Ernst & Young LLP as described above and in reliance thereon, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements for the fiscal year ended December 31, 2003 be included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

## Members of the Audit Committee

Marliese E. Mooney (*Chairperson*)  
 Errol L. Biggs, Ph.D.  
 Charles Raymond Fernandez, M.D.

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's annual financial statements for the last two years, and fees billed for other services rendered by Ernst & Young LLP for the last two years:

|                       | <u>2003</u> | <u>2002</u> |
|-----------------------|-------------|-------------|
| Audit fees            | \$262,098   | \$231,000   |
| Audit-related fees(1) | \$149,200   | \$61,000    |
| Tax fees              | \$0         | \$0         |
| All other fees(2)     | \$18,916    | \$41,219    |

- (1) Such services consisted primarily of SEC registration statement related work, SEC comment letter related work, audits of employee benefit plans, and accounting consultations.
- (2) Such services consisted of consulting services for the Compensation Committee of the Board of Directors on executive and officer compensation matters.

All services provided by the Company's independent auditors were approved by the Audit Committee, which concluded that the provision of such services by Ernst & Young LLP was compatible with the maintenance of the accounting firm's independence in the conduct of its auditing functions.

For the purpose of insuring the continued independence of the auditor of the Company's financial statements, the Company determined that its independent auditors will not provide consulting services to the Company in the future. Additionally, the charter of the Audit Committee provides that the Audit Committee must pre-approve all services to be provided by the auditor. The Audit Committee's Audit and Non-Audit Services Pre-Approval Policy provides for the pre-approval of audit, audit-related and tax services specifically described by the Audit Committee on an annual basis and, in addition, proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

**Change in Independent Auditors**

On March 17, 2004, the Audit Committee voted to appoint KPMG LLP to replace Ernst & Young LLP as the Company's independent auditors for 2004. The Audit Committee did not take this action because of any concerns about the quality of Ernst & Young's audit or due to any disagreements with Ernst & Young.

Ernst & Young's report on the financial statements of the Company for each of the fiscal years ended December 31, 2002 and December 31, 2003 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2002 and December 31, 2003 there were no disagreements between the Company and Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction



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of Ernst & Young LLP, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report on the financial statements for that fiscal year. During the fiscal years ended December 31, 2002 and December 31, 2003 there were no reportable events that would have required disclosure under Item 304(a)(1)(v) of Regulation S-K promulgated by the SEC.

During the fiscal years ended December 31, 2003 and 2002, the Company did not consult KPMG LLP regarding the application of generally accepted accounting principles to a specific transaction, either proposed or completed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Representatives of both Ernst & Young LLP and KPMG LLP are expected to be present at the annual meeting and will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions.

**COMPARATIVE PERFORMANCE GRAPH**

The SEC requires the Company to include in this Proxy Statement a line graph which compares the yearly percentage change in cumulative total shareholder return on the Company's Common Stock with (a) the performance of a broad equity market indicator and (b) the performance of a published industry index or peer group. The following graph compares the monthly percentage change in the return on the Company's Common Stock since January 1, 1998 with the cumulative total return on the Total Return Index for Equity REITs, published by the National Association of Real Estate Investment Trusts, Inc. and the Standard and Poor's 500 Index. The graph assumes the investment on January 1, 1999 of \$100 and that all dividends were reinvested at the time they were paid.

|                              | 12/31/98 | 12/31/99 | 12/31/00 | 12/31/01 | 12/31/02 | 12/31/03 |
|------------------------------|----------|----------|----------|----------|----------|----------|
| Healthcare Realty Trust      | 100.00   | 78.32    | 120.07   | 173.40   | 195.97   | 259.46   |
| S&P 500*                     | 100.00   | 121.11   | 110.34   | 97.32    | 75.75    | 97.51    |
| NAREIT All Equity REIT Index | 100.00   | 95.38    | 120.53   | 137.32   | 143.13   | 195.51   |

\* Source: CRSP, Center for Research in Security Prices, Graduate School of Business, The University of Chicago 2004. Used with permission. All rights reserved. crsp.com.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The architectural firm Gresham, Smith & Partners received fees of approximately \$211,000 during 2003 for services rendered to the Company. Batey M. Gresham, Jr., a director of the Company, is a founder of Gresham, Smith & Partners and is currently a non-profit-participating principal in such firm. Accordingly, Mr. Gresham received no personal benefit from such fees.

**GENERAL INFORMATION**

**Shareholder Proposals for 2005 Annual Meeting**

Shareholder proposals intended to be presented at the 2005 annual meeting of shareholders must comply with the SEC's proxy rules, be stated in writing and be received by the Company at its executive offices at 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203 not earlier than November 1, 2004 nor later than December 1, 2004, in order to be included in the Proxy Statement and proxy for that meeting. Additionally, the proxy for next year's annual meeting will confer discretionary authority to vote on any shareholder proposal which the Company receives notice of later than the close of business on January 31, 2005.

**Counting of Votes**

All matters specified in this Proxy Statement will be voted on at the annual meeting by written ballot. Inspectors of election will be appointed, among other things, to determine the number of shares of Common Stock outstanding, the shares of Common Stock represented at the annual meeting, the existence of a quorum and the authenticity, validity and effect of proxies, to receive votes of ballots, to hear and determine all challenges and questions in any way arising in connection with the right to vote, to count and tabulate all votes and to determine the result.

The inspectors of election will treat shares represented by proxies that reflect abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Abstentions, however, do not constitute a vote for or against any matter and thus will be disregarded in the calculation of a plurality or of votes cast.

Inspectors of election will treat shares referred to as broker non-votes (i.e. shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote that the broker or nominee does not have discretionary power to vote on a particular matter) as shares that are present and entitled to vote for purposes of determining the presence of a quorum. However, for purposes of determining the outcome of any matter as to which the broker has physically indicated on the proxy that it does not have discretionary authority to vote, those shares will be treated as not present and not entitled to vote with respect to that matter (even though those shares are considered entitled to vote for quorum purposes and may be entitled to vote on other matters).

**Miscellaneous**

The Company will bear the cost of printing, mailing and other expenses in connection with this solicitation of proxies and will also reimburse brokers and other persons holding shares in their names or in the names of nominees for their expenses in forwarding this proxy material to the beneficial owners of such shares. The Company has retained The Altman Group, Inc. to aid in the solicitation. For its services, the Company will pay The Altman Group, Inc. a fee of \$4,500 and reimburse it for certain out-of-pocket disbursements and expenses. Certain of the directors, officers and employees of the Company may, without any additional compensation, solicit proxies in person or by telephone.

Management of the Company is not aware of any matters other than those described in this Proxy Statement which may be presented for action at the meeting. If any other matters properly come before the meeting, it is intended that the proxies will be voted with respect thereto in accordance with the judgment of the person or persons voting such proxies subject to the direction of the Board of Directors.

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A copy of the Company's Annual Report has been mailed to all shareholders entitled to notice of and to vote at this meeting.

HEALTHCARE REALTY TRUST  
INCORPORATED

David R. Emery  
Chairman and Chief Executive Officer

March 31, 2004

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**Appendix A**

**HEALTHCARE REALTY TRUST INCORPORATED**

**CHARTER**

**OF THE**

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**1. Purpose**

The Audit Committee of Healthcare Realty Trust Incorporated (the Company) is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities by monitoring and reviewing:

The integrity of the Company's financial reports and other financial information provided by the Company to the public or any governmental body;

The Company's compliance with applicable legal and regulatory requirements;

The qualifications and independence of the Company's independent auditing firm; and

The performance of the Company's systems of internal financial controls.

Consistent with this purpose, the Committee shall encourage continuous improvement of, and shall foster adherence to, the Company's financial and accounting policies, procedures and practices at all levels.

It is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements fairly present the Company's financial condition and results of operations and have been prepared in accordance with generally accepted accounting principles (GAAP) and applicable laws and regulations.

Management of the Company has the responsibility for the Company's financial reporting process, which includes preparing the financial statements and implementing internal controls over financial reporting. The independent audit firm has the responsibility for expressing an opinion that the Company's consolidated financial statements conform in all material respects to GAAP and for reporting any material weaknesses in internal controls discovered during the course of the audit. The Committee's role is to monitor and review these processes.

**2. Composition**

The Committee shall be comprised of no less than three directors, the exact number to be determined by the Board of Directors. Each Committee member shall meet the independence requirements of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE), as from time to time in effect.

In addition, each member of the Committee shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Committee.

No member of the Committee may receive any compensation from the Company other than director's fees for serving on the Board and its committees and regular benefits that other directors receive.

The members of the Committee shall be appointed and removed by the Board on the recommendation of the Corporate Governance Committee. The members of the Committee shall designate a chairman.

**3. Financial Expertise**

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Each member of the Committee shall have a working familiarity with basic finance and accounting principles and practices. This working familiarity with basic finance and accounting principles and practices

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shall be determined in accordance with the financial literacy definitions and rules of the NYSE. The composition of the Committee shall meet all applicable requirements for financial expertise necessary to ensure compliance with the rules promulgated by the SEC pursuant to Section 407(a) of the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange.

The Company shall certify to the NYSE annually that the chairman of the Committee has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

### **4. Meetings**

The Committee shall meet as often as circumstances dictate. The Committee shall also meet at least annually with the executive officers of the Company, representatives of the independent audit firm, and the employees responsible for the Company's internal audit function in separate executive sessions to discuss the Company's internal controls, the completeness and accuracy of the Company's financial statements, and any other matters that the Committee or any of these persons believe should be discussed privately. In addition, the Committee shall meet with representatives of the independent audit firm and management quarterly in connection with the Committee's review of the Company's interim financial statements included in the quarterly reports filed with the SEC. Any or all members of the Committee may participate in meetings by conference telephone call or any other means of communication by which all members participating may simultaneously hear each other during the meeting. The Committee shall set its own rules of procedure and may delegate authority to subcommittees of its members. The Committee shall keep minutes of its activities.

### **5. Committee Authority and Responsibilities**

A. The Committee shall have the authority to conduct any investigation appropriate to fulfilling its responsibilities contained in this charter, and it shall have the authority to communicate directly with the independent audit firm and any employee of the Company. The Committee shall have the authority to retain, at the Company's expense, special accounting, legal or other consultants or experts it deems necessary in the performance of its duties.

B. The Committee shall conduct its activities in accordance with the policies and principles contained in the Company's Corporate Governance Principles.

C. The Committee shall select, engage and, if necessary, terminate the engagement of the Company's independent audit firm, which is ultimately accountable to the Board of Directors through the Committee.

D. The Committee has the sole authority and responsibility to approve all audit engagement fees and terms, as well as all significant (i.e. non-de minimus) permitted non-audit services by the Company's independent audit firm. The Committee shall consider the independence and effectiveness of the independent audit firm and shall consider whether the provision of any permitted non-audit services by the independent audit firm (those services not related to the audit of the annual financial statements or the review of the interim financial statements included in the Company's Forms 10-Q for such year) is compatible with maintaining the audit firm's independence.

E. As part of its responsibilities and duties, the Committee shall:

1. Prepare annually, consulting with the Company's legal counsel, if necessary, a report of the Committee to shareholders to be included in the Company's proxy statement as required by the SEC. At a minimum, this report shall state whether the Committee has:

a. Reviewed and discussed the audited financial statements with management;

b. Discussed with the independent audit firm the matters required to be discussed by generally accepted auditing standards, as may be modified or supplemented;

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c. Received the written disclosures and the letter from the independent audit firm regarding the firm's independence as required by Independence Standards Board Standard No. 1, as it may be modified or supplemented, and discussed with the independent audit firm its independence; and

d. Based on the review and discussions noted in this charter, recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the preceding fiscal year for filing with the SEC.

2. Following completion of the annual audit, review and discuss with management, the independent audit firm, and the employees responsible for the Company's internal audit function, the following matters, each to the extent deemed by the members of the Committee to be necessary or appropriate:

a. The Company's critical accounting policies and the audit firm's judgments of the quality and appropriateness of accounting policies and financial disclosure practices of the Company;

b. Any disagreements between management and the audit firm over the application of accounting principles;

c. Accounting policies applied, especially significant estimates made by management or significant changes in accounting methods;

d. Significant transactions or courses of dealing with parties related to the Company that are relevant to an understanding of the Company's financial condition or results of operation;

e. Significant audit adjustments;

f. Any material financial or non-financial arrangements of the Company that do not appear on the financial statements of the Company;

g. The Company's internal controls regarding financial and accounting matters; and

h. Any other matters related to the conduct of the audit required to be communicated to the Committee by the independent audit firm or that any member of the Committee desires to review or discuss.

3. At least annually, obtain and review a report by the independent audit firm describing:

The audit firm's internal quality-control procedures;

Any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by an inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the audit firm, and any steps taken to deal with any such issues; and

(To assess the audit firm's independence) all relationships between the independent audit firm and the Company.

After reviewing the foregoing report and the independent audit firm's work throughout the year, the Committee shall evaluate the audit firm's qualifications, performance and independence. This evaluation shall include the review and evaluation of the lead partner and the reviewing partner of the independent audit firm. In making its evaluation, the Committee shall take into account the opinions of management and the Company's personnel responsible for the internal audit function. The Committee shall present its conclusions with respect to the independent audit firm to the full Board.

4. Review and discuss with the independent audit firm, the audit procedures to be followed, including the scope and timing of the audit, and the results of the annual audit examination and any accompanying management letters, and any reports of the independent audit firm with respect to interim periods.

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5. Review regularly with the independent audit firm, any difficulties the audit team encountered in the course of the audit work, including any restrictions on the scope of the independent audit firm's activities or on access to requested information, and any significant disagreements with management. Among the items the Committee shall discuss with the audit firm, to the extent material, are:

Any accounting adjustments that were noted or proposed by the audit team but were passed (as immaterial or otherwise);

Any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and

Any management or internal control letter issued, or proposed to be issued, by the audit firm to the Company. The review shall also include discussion of the responsibilities, budget and staffing of the Company's internal audit function.

6. Review and discuss policies with respect to risk assessment and risk management. The Committee shall discuss the Company's major financial risk exposure and the steps management has taken to monitor and control such exposure.

7. Review and discuss with management and the independent audit firm, the annual audited financial statements and quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

8. Review and discuss with management, the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

9. Review and discuss with management, the Company's pending legal proceedings or investigations, compliance issues and other contingent liabilities that could have a significant impact on the Company's financial statements.

10. In coordination with the General Counsel of the Company, set clear policies consistent with applicable law regarding the hiring of employees or former employees of the Company's independent audit firm.

11. In coordination with the General Counsel of the Company, establish procedures for the receipt, retention and treatment of complaints received by the Company regarding material accounting, internal accounting controls, auditing and related matters, and for the confidential, anonymous submission by employees of the Company of concerns regarding accounting and auditing issues.

12. Review and reassess the adequacy of this charter periodically as conditions dictate. If the Committee determines that this charter needs amendment, it shall submit its proposals for amendments to the Board of Directors for approval.

F. The Committee shall also have such additional authority to assume additional responsibilities and take additional actions as may be delegated to it by the Board of Directors.

**6. Annual Assessment**

The Committee shall conduct an annual self-evaluation to determine whether it is functioning effectively. The Committee shall solicit comments from all directors and report annually to the Board with an assessment of the Committee's performance. This assessment shall be discussed with the full Board following the end of each fiscal year. This assessment shall focus on the Committee's contribution to the Company and specifically focus on areas in which the Board or management believes the Committee could improve.

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Recommended by the Audit Committee on January 28, 2003 and adopted by the Board of Directors on January 28, 2003.

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Proxy Statement 1188-PS-04

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**COMMON STOCK PROXY**

**HEALTHCARE REALTY TRUST INCORPORATED**

**PROXY FOR ANNUAL MEETING OF SHAREHOLDERS**

The undersigned hereby appoints David R. Emery and John M. Bryant, Jr., and either of them, as proxies, with full power of substitution and resubstitution, to vote all of the shares of Common Stock which the undersigned is entitled to vote at the annual meeting of shareholders of Healthcare Realty Trust Incorporated, to be held at 3310 West End Avenue, Suite 700, Nashville, Tennessee, on Tuesday, May 11, 2004, at 10:00 a.m., and at any adjournment thereof.

**This proxy is being solicited by the Board of Directors and will be voted as specified. If not otherwise specified, the above named proxies will vote (a) FOR the election as directors of the nominees named below and (b) in accordance with the recommendations of the Board of Directors on any other matters that may properly come before the meeting.**

1. Election of Class 2 Directors.

Nominees: Marliese E. Mooney, Edwin B. Morris III, and John Knox Singleton

**FOR ALL NOMINEES**

**WITHHOLD FROM ALL NOMINEES**

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**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, write the nominee's name on the space provided above.)**

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT   
MARK HERE IF YOU PLAN TO ATTEND THE MEETING

Date:

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Signature

Date:

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Signature

**IMPORTANT**

Please sign exactly as your name or names appear on this proxy and mail promptly in the enclosed envelope. If you sign as agent or in any other capacity, please state the capacity in which you sign.