UNIVERSAL HEALTH REALTY INCOME TRUST
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	**23-6858580**
(State or other jurisdiction of	**(I. R. S. Employer**
incorporation or organization)	**Identification No.)**
UNIVERSAL CORPORATE CENTER	
367 SOUTH GULPH ROAD	
KING OF PRUSSIA, PENNSYLVANIA	**19406**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (610) 265-0688

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

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

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

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

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

Number of common shares of beneficial interest outstanding at July 31, 2015 13,312,955

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UNIVERSAL HEALTH REALTY INCOME TRUST

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This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2015. In this Quarterly Report, we, us, our and the Trust refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Quarterly Report, including in *Part I, Item 1. Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions,* a wholly-owned subsidiary of UHS (UHS of Delaware, Inc.) serves as our Advisor pursuant to the terms of an annually renewable Advisory Agreement dated December 24, 1986. Our officers are all employees of UHS through its wholly-owned subsidiary, UHS of Delaware, Inc. In addition, three of our hospital facilities are leased to subsidiaries of UHS and thirteen medical office buildings and two free-standing emergency departments , that are either wholly or jointly-owned by us, include tenants which are subsidiaries of UHS. Any reference to UHS or UHS facilities in this report is referring to Universal Health Services, Inc. s subsidiaries, including UHS of Delaware, Inc.

In this Quarterly Report, the term revenues does not include the revenues of the unconsolidated limited liability companies (LLCs) in which we have various non-controlling equity interests ranging from 33% to 95%. We currently account for our share of the income/loss from these investments by the equity method (see Note 5 to the Consolidated Financial Statements included herein).

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Part I. Financial Information

Item I. Financial Statements

Universal Health Realty Income Trust

Condensed Consolidated Statements of Income

For the Three and Six Months Ended June 30, 2015 and 2014

(amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Base rental - UHS facilities	$ 3,991	$ 3,916	$ 7,897	$ 7,830
Base rental - Non-related parties	8,806	7,045	17,675	14,271
Bonus rental - UHS facilities	1,150	1,222	2,368	2,372
Tenant reimbursements and other - Non-related parties	1,894	1,948	3,903	3,781
Tenant reimbursements and other - UHS facilities	208	186	408	351
	16,049	14,317	32,251	28,605
Expenses:				
Depreciation and amortization	5,870	4,782	11,393	9,608
Advisory fees to UHS	693	620	1,359	1,230
Other operating expenses	4,738	4,134	9,460	8,067
Transaction costs	147	41	204	103
	11,448	9,577	22,416	19,008
Income before equity in income of unconsolidated limited liability companies (LLCs), interest expense and gains	4,601	4,740	9,835	9,597
Equity in income of unconsolidated LLCs	673	679	1,265	1,272
Gain on property exchange	8,742		8,742	
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs				316
Interest expense, net	(2,012)	(2,011)	(4,142)	(4,003)
Net income	$ 12,004	$ 3,408	$ 15,700	$ 7,182
Basic earnings per share	$ 0.90	$ 0.26	$ 1.18	$ 0.56

Diluted earnings per share	$ 0.90	$ 0.26	$ 1.18	$ 0.56
Weighted average number of shares outstanding - Basic	13,286	12,902	13,284	12,875
Weighted average number of share equivalents	10	6	11	6
Weighted average number of shares and equivalents outstanding - Diluted	13,296	12,908	13,295	12,881

See accompanying notes to these condensed consolidated financial statements.

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Universal Health Realty Income Trust

Condensed Consolidated Statements of Comprehensive Income

For the Three and Six Months Ended June 30, 2015 and 2014

(dollar amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income	$ 12,004	$ 3,408	$ 15,700	$ 7,182
Other comprehensive income/(loss):				
Unrealized derivative losses on interest rate caps	(18)	(95)	(79)	(92)
Amortization of interest rate cap fees	23	23	46	38
Total other comprehensive income/(loss):	5	(72)	(33)	(54)
Total comprehensive income	$ 12,009	$ 3,336	$ 15,667	$ 7,128

See accompanying notes to these condensed consolidated financial statements.

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Universal Health Realty Income Trust

Condensed Consolidated Balance Sheets

(dollar amounts in thousands)

(unaudited)

	June 30, 2015	December 31, 2014
Assets:		
Real Estate Investments:		
Buildings and improvements	$ 468,334	$ 451,005
Accumulated depreciation	(113,087)	(106,480)
	355,247	344,525
Land	41,724	35,584
Net Real Estate Investments	396,971	380,109
Investments in limited liability companies (LLCs), net	8,150	8,605
Other Assets:		
Cash and cash equivalents	4,350	3,861
Base and bonus rent receivable from UHS	2,080	2,086
Rent receivable - other	4,173	4,219
Intangible assets (net of accumulated amortization of $22.7 million and $19.7 million at June 30, 2015 and December 31, 2014, respectively)	22,173	23,123
Deferred charges and other assets, net	6,455	6,863
Total Assets	$ 444,352	$ 428,866
Liabilities:		
Line of credit borrowings	$ 115,275	$ 89,750
Mortgage and other notes payable, non-recourse to us (including net debt premium of $412 and $523 at June 30, 2015 and December 31, 2014, respectively)	116,735	123,405
Accrued interest	482	545
Accrued expenses and other liabilities	5,843	8,522
Tenant reserves, escrows, deposits and prepaid rents	2,434	2,063
Total Liabilities	240,769	224,285
Equity:		
Preferred shares of beneficial interest, $.01 par value; 5,000,000 shares authorized; none issued and outstanding		
	133	133

Common shares, $.01 par value; 95,000,000 shares authorized; issued and outstanding: 2015 - 13,312,792 2014 -13,301,204		
Capital in excess of par value	241,136	240,835
Cumulative net income	547,295	531,595
Cumulative dividends	(584,860)	(567,894)
Accumulated other comprehensive loss	(121)	(88)
Total Equity	203,583	204,581
Total Liabilities and Equity	$ 444,352	$ 428,866

See accompanying notes to these condensed consolidated financial statements.

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Universal Health Realty Income Trust

Condensed Consolidated Statement of Cash Flows

(dollar amounts in thousands)

(unaudited)

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$ 15,700	$ 7,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,442	9,653
Amortization of debt premium	(111)	(191)
Stock-based compensation expense	205	197
Gain on property exchange	(8,742)	0
Gains on purchase of minority interests in majority-owned LLCs	0	(316)
Income in excess of cash distributions from LLCs	(198)	0
Changes in assets and liabilities:		
Rent receivable	(135)	(431)
Accrued expenses and other liabilities	(294)	(1,209)
Tenant reserves, escrows, deposits and prepaid rents	371	304
Accrued interest	(63)	(13)
Other, net	(360)	119
Net cash provided by operating activities	17,815	15,295
Cash flows from investing activities:		
Investments in LLCs	(392)	(887)
Cash distributions in excess of income from LLCs	0	741
Cash distribution of refinancing proceeds from LLCs	1,045	0
Additions to real estate investments, net	(3,190)	(1,548)
Cash received for property exchange	2,000	0
Net cash paid for acquisition of properties	(16,765)	(7,050)
Cash paid to acquire minority interests in majority-owned LLCs	(2,250)	(170)
Net cash used in investing activities	(19,552)	(8,914)
Cash flows from financing activities:		
Net borrowings on line of credit	25,525	8,650
Repayments of mortgages and other notes payable	(6,559)	(1,583)
Financing costs paid	(1,000)	0
Dividends paid	(16,966)	(16,195)
Issuance of shares of beneficial interest, net	1,226	3,013

Net cash provided by/(used in) financing activities		2,226		(6,115)
Increase in cash and cash equivalents		489		266
Increase in cash due to recording of LLCs on a consolidated basis		0		257
Cash and cash equivalents, beginning of period		3,861		3,337
Cash and cash equivalents, end of period	$	4,350	$	3,860
Supplemental disclosures of cash flow information:				
Interest paid	$	4,084	$	3,971
Supplemental disclosures of non-cash transactions:				
Consolidation of LLCs:				
Net real estate investments	$	0	$	19,489
Cash and cash equivalents		0		257
Intangible assets		0		2,820
Rent receivable - other		0		330
Deferred charges and other assets, net		0		46
Investment in LLCs		0		(11,392)
Mortgage and other notes payable, non-recourse to us		0		(10,726)
Accrued interest		0		(33)
Accrued expenses and other liabilities		0		(248)
Tenant reserves, escrows, deposits and prepaid rents		0		(57)
Gains on purchases of minority interests in majority-owned LLCs		0		(316)
Cash paid for purchase of minority interests in majority-owned LLCs	$	0	$	170
Property Exchange Transaction:				
Fair value of real property assets acquired in property exchange	$	9,886	$	0
Net book value of assets relinquished in property exchange		(3,144)		0

See accompanying notes to these condensed consolidated financial statements.

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UNIVERSAL HEALTH REALTY INCOME TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(unaudited)

(1) General

This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2015. In this Quarterly Report, we, us, our and the Trust refer to Universal Health Realty Income Trust and its subsidiaries.

In this Quarterly Report on Form 10-Q, the term revenues does not include the revenues of the unconsolidated limited liability companies (LLCs) in which we have various non-controlling equity interests ranging from 33% to 95%. As of June 30, 2015, we had investments in five jointly-owned LLCs which own medical office buildings, all of which are accounted for by the equity method (see Note 5). These LLCs are included in our financial statements for all periods presented on an unconsolidated basis since they are not variable interest entities for which we are the primary beneficiary, nor do we hold a controlling voting interest.

The financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the SEC and reflect all normal and recurring adjustments which, in our opinion, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, the notes thereto and accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2014.

(2) Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions

Leases: We commenced operations in 1986 by purchasing properties of certain subsidiaries from UHS and immediately leasing the properties back to the respective subsidiaries. Most of the leases were entered into at the time we commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. The current base rentals and lease and rental terms for each facility are provided below. The base rents are paid monthly and each lease also provides for additional or bonus rents which are computed and paid on a quarterly basis based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. These hospital leases with subsidiaries of UHS are unconditionally guaranteed by UHS and are cross-defaulted with one another.

The combined revenues generated from the leases on the UHS hospital facilities comprised approximately 25% and 30% of our consolidated revenues for the three months ended June 30, 2015 and 2014, respectively, and approximately 25% and 29% of our consolidated revenues for the six months ended June 30, 2015 and 2014, respectively. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 95%, the leases on the UHS hospital facilities accounted for approximately 20% and 22% of the combined consolidated and unconsolidated revenue for the three months ended June 30, 2015 and 2014, respectively, and 20% and 22% of the combined consolidated and unconsolidated revenue for the six months ended June 30, 2015 and 2014, respectively. In addition, thirteen medical office buildings (MOBs)

and two free-standing emergency departments (FEDs), that are either wholly or jointly-owned by us, include tenants which are subsidiaries of UHS.

Pursuant to the Master Lease Document by and among us and certain subsidiaries of UHS, dated December 24, 1986 (the Master Lease), which governs the leases of all hospital properties with subsidiaries of UHS, UHS has the option to renew the leases at the lease terms described below by providing notice to us at least 90 days prior to the termination of the then current term. UHS also has the right to purchase the respective leased facilities at the end of the lease terms or any renewal terms at the appraised fair market value. In addition, the Master Lease, as amended during 2006, includes a change of control provision whereby UHS has the right, upon one month s notice should a change of control of the Trust occur, to purchase any or all of the three leased hospital properties listed below at their appraised fair market value. Additionally, UHS has rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

During the third quarter of 2014, a wholly-owned subsidiary of UHS provided notification to us that, upon expiration of The Bridgeway s lease term which occurred in December, 2014, it intended to exercise its option to purchase the real property of the facility. Pursuant to the terms of the lease, we and the wholly-owned subsidiary of UHS were both required to obtain independent appraisals of the property to determine its fair market value. On December 31, 2014, The Bridgeway, a 103-bed behavioral health facility located in North Little Rock, Arkansas, was sold to UHS for $17.3 million. During each of the three years ended December 31, 2014, our revenues, net cash provided by operating activities and funds from operations have included approximately $1.1 million earned annually in connection with The Bridgeway s lease.

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The table below details the existing lease terms and renewal options for our three acute care hospitals operated by wholly-owned subsidiaries of UHS:

Hospital Name	Annual Minimum Rent	End of Lease Term	Renewal Term (years)
McAllen Medical Center	$ 5,485,000	December, 2016	15(a)
Wellington Regional Medical Center	$ 3,030,000	December, 2016	15(b)
Southwest Healthcare System, Inland Valley Campus	$ 2,648,000	December, 2016	15(b)

(a) UHS has three 5-year renewal options at existing lease rates (through 2031).
(b) UHS has one 5-year renewal option at existing lease rates (through 2021) and two 5-year renewal options at fair market value lease rates (2022 through 2031).

During the first quarter of 2015, we purchased from wholly-owned subsidiaries of UHS, the real property of two newly-constructed and recently opened FEDs located in Weslaco and Mission, Texas. Each FED consists of approximately 13,600 square feet and is operated by wholly-owned subsidiaries of UHS. In connection with these acquisitions, ten-year lease agreements with six, 5-year renewal terms have been executed with UHS for each FED. The first four, 5-year renewal terms (covering years 2025 through 2044) include 2% annual lease rate increases, computed on accumulative and compounded basis, and the last two, 5-year renewal terms (covering the years 2045 through 2054) will be at the then fair market value lease rates. These leases are cross-defaulted with one another. UHS has the option to purchase the leased properties upon the expiration of the fixed term and each five-year extended term at the fair market value at that time. The aggregate acquisition cost of these facilities was approximately $12.8 million, and the aggregate rental revenue earned by us at the commencement of the leases is approximately $900,000 annually.

Management cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates or fair market value lease rates, or any of our other leases, will be renewed at the end of their lease term. If the leases are not renewed at their current rates or the fair market value lease rates, we would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to us than the current leases. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital and FED facilities upon expiration of the lease terms, our future revenues could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to these leases.

Advisory Agreement: UHS of Delaware, Inc. (the Advisor), a wholly-owned subsidiary of UHS, serves as Advisor to us under an Advisory Agreement (the Advisory Agreement) dated December 24, 1986. Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the Independent Trustees). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor s performance has been satisfactory. In December of 2014, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the Advisory

agreement was renewed for 2015 pursuant to the same terms as the Advisory Agreement in place during 2014.

The average real estate assets for advisory fee calculation purposes exclude certain items from our consolidated balance sheet such as, among other things, accumulated depreciation, cash and cash equivalents, base and bonus rent receivables, deferred charges and other assets. The advisory fee is payable quarterly, subject to adjustment at year-end based upon our audited financial statements. In addition, the Advisor is entitled to an annual incentive fee equal to 20% of the amount by which cash available for distribution to shareholders for each year, as defined in the Advisory Agreement, exceeds 15% of our equity as shown on our consolidated balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. The Advisory Agreement defines cash available for distribution to shareholders as net cash flow from operations less deductions for, among other things, amounts required to discharge our debt and liabilities and reserves for replacement and capital improvements to our properties and investments. No incentive fees were paid during the first six months of 2015 or 2014 since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to $693,000 and $620,000 for the three months ended June 30, 2015 and 2014, respectively, and were based upon average invested real estate assets of $396 million and $354 million for the three-month periods ended June 30, 2015 and 2014, respectively. Advisory fees incurred and paid (or payable) to UHS amounted to $1.36 million and $1.23 million for the six months ended June 30, 2015 and 2014, respectively, and were based upon average invested real estate assets of $388 million and $351 million for the six-month periods ended June 30, 2015 and 2014, respectively.

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Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of June 30, 2015 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock. In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

Share Ownership: As of June 30, 2015 and December 31, 2014, UHS owned 5.9% of our outstanding shares of beneficial interest.

SEC reporting requirements of UHS: UHS is subject to the reporting requirements of the SEC and is required to file annual reports containing audited financial information and quarterly reports containing unaudited financial information. Since the leases on the hospital facilities leased to wholly-owned subsidiaries of UHS comprised approximately 25% and 30% of our consolidated revenues during the three month periods ended June 30, 2015 and 2014, respectively, and comprised approximately 25% and 29% of our consolidated revenues during the six months ended June 30, 2015 and 2014, respectively, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain the publicly available filings for Universal Health Services, Inc. from the SEC s website. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

(3) Dividends and Equity Issuance Program

Dividends:

We declared and paid dividends of $8.5 million, or $.640 per share, during the second quarter of 2015 and $8.1 million, or $.630 per share, during the second quarter of 2014. We declared and paid dividends of $17.0 million, or $1.275 per share, during the six-month period ended June 30, 2015 and $16.2 million, or $1.255 per share, during the six-month period ended June 30, 2014.

Equity Issuance Program:

During the fourth quarter of 2013, we commenced an at-the-market (ATM) equity issuance program, pursuant to the terms of which we may sell, from time-to-time, common shares of our beneficial interest up to an aggregate sales price of $50 million to or through Merrill Lynch, Pierce, Fenner and Smith, Incorporated (Merrill Lynch), as sales agent and/or principal. The common shares will be offered pursuant to the Registration Statement filed with the Securities and Exchange Commission, which became effective in November, 2012.

There were no shares issued pursuant to the ATM program during the first six months of 2015. Since inception of this ATM program, we have issued 580,900 shares at an average price of $45.97 per share, which generated approximately $25.6 million of net proceeds (net of approximately $1.1 million, consisting of compensation of $667,000 to Merrill Lynch as well as $391,000 of other various fees and expenses). Included in the above was approximately $1.1 million of the net cash proceeds (net of approximately $29,000 of compensation to Merrill Lynch) related to shares issued in late December, 2014 which were received by us during the first quarter of 2015.

(4) Property Exchange Transaction and Acquisitions

Six Months Ended June 30, 2015:

Property Exchange Transaction:

In May, 2015, in exchange for the real property of Sheffield Medical Building (Sheffield), a 73,446 square foot medical office building (MOB) located in Atlanta, Georgia, we received $2 million in cash and the real property of two MOBs located in Sandy Springs and Vinings, Georgia, from an unrelated third party. In connection with the two MOBs acquired in this transaction, triple net, master lease agreements applicable to 100% of the combined 36,700 rentable square feet of these properties have been executed with Piedmont Healthcare. These master lease agreements have initial terms of 15 years and provide for 3% annual rent increases. We recorded an $8.7 million non-cash gain, which is included in our Condensed Consolidated Statements of Income for the three and six-months ended June 30, 2015, representing the difference between recorded net book value of Sheffield and the fair values of the properties exchanged, combined with the cash proceeds received.

Acquisitions:

In February, 2015, we purchased the Haas Medical Office Park, two single story buildings having an aggregate of approximately 16,000 rentable square feet, located in Ottumwa, Iowa, for approximately $4.1 million.

In January and February of 2015, we purchased from wholly-owned subsidiaries of UHS, the real property of two newly-constructed and recently opened FEDs located in Weslaco and Mission, Texas, for an aggregate acquisition cost of approximately $12.8 million. Each FED consists of approximately 13,600 square feet and is operated by wholly-owned subsidiaries of UHS. In connection with these acquisitions, ten-year lease agreements with six 5-year renewal terms have been executed with UHS for each FED. In connection with the lease agreements, the lessee shall have the option to purchase the leased property upon the expiration of the fixed term and each five-year extended term at the fair market value at that time.

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Six Months Ended June 30, 2014:

Acquisitions:

We paid an aggregate of $7.2 million to purchase the following in January, 2014 in a single transaction:

- The Children s Clinic at Springdale a 9,800 square foot, single-tenant medical office building located in Springdale, Arkansas, and;

- The Northwest Medical Center at Sugar Creek a 16,700 square foot, multi-tenant medical office building located in Bentonville, Arkansas.

Additionally, effective January 1, 2014, we paid an aggregate of $170,000 to purchase the 5% minority ownership interests held by third-party members in two LLCs in which we previously held noncontrolling, 95% majority ownership interests (Palmdale Medical Properties and Sparks Medical Properties). As a result of these minority ownership purchases, we now own 100% of each of these LLCs and began accounting for each property on a consolidated basis effective January 1, 2014. Pursuant to accounting standards, during the first quarter of 2014, we were required to record each property s assets and liabilities at their fair values which resulted in the recording of a $316,000 non-cash gain, which is included in our Condensed Consolidated Statement of Income for the six months ended June 30, 2014, representing the difference between the fair values and the equity method carrying value of each investment. Other than the increased depreciation and amortization expense resulting from the amortization of the intangible assets recorded in connection with these transactions, there was no material impact on our net income as a result of the consolidation of these LLCs.

(5) Summarized Financial Information of Equity Affiliates

Our condensed consolidated financial statements include the consolidated accounts of our controlled investments and those investments that meet the criteria of a variable interest entity where we are or were the primary beneficiary. In accordance with the Financial Accounting Standards Board s (FASB) standards and guidance relating to accounting for investments and real estate ventures, we account for our unconsolidated investments in LLCs which we do not control using the equity method of accounting. The third-party members in these investments have equal voting rights with regards to issues such as, but not limited to: (i) divestiture of property; (ii) annual budget approval, and; (iii) financing commitments. These investments, which represent 33% to 95% non-controlling ownership interests, are recorded initially at our cost and subsequently adjusted for our net equity in the net income, cash contributions to, and distributions from, the investments. Pursuant to certain agreements, allocations of sales proceeds and profits and losses of some of the LLC investments may be allocated disproportionately as compared to ownership interests after specified preferred return rate thresholds have been satisfied.

At June 30, 2015, we have non-controlling equity investments or commitments in five jointly-owned LLCs which own MOBs. We accounted for these LLCs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities. The majority of these LLCs are joint-ventures between us and non-related parties that manage and hold minority ownership interests in the entities. Each LLC is generally self-sustained from a cash flow perspective and generates sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing.

Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans. These LLCs maintain property insurance on the properties.

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The following property table represents the five LLCs in which we own a noncontrolling interest and were accounted for under the equity method as of June 30, 2015 and December 31, 2014:

Name of LLC/LP	Ownership	Property Owned by LLC
Suburban Properties	33%	Suburban Medical Plaza II
Brunswick Associates (a.)	74%	Mid Coast Hospital MOB
Arlington Medical Properties (b.)	75%	Saint Mary s Professional Office Building
Grayson Properties (c.)	95%	Texoma Medical Plaza
FTX MOB Phase II (d.)	95%	Forney Medical Plaza II

(a.) This LLC has a third-party term loan, which is non-recourse to us, of $8.9 million outstanding as of June 30, 2015.

(b.) We have funded $5.2 million in equity as of June 30, 2015 and are committed to invest an additional $1.2 million. This LLC has a third-party term loan, which is non-recourse to us, of $22.9 million, outstanding as of June 30, 2015.

(c.) We have funded $2.7 million in equity as of June 30, 2015, and are committed to fund an additional $300,000. This building is on the campus of a UHS hospital and has tenants that include subsidiaries of UHS. This LLC has a third-party term loan, which is non-recourse to us, of $14.8 million outstanding as of June 30, 2015

(d.) We have committed to invest up to $2.5 million in equity and debt financing, of which $1.5 million has been funded as of June 30, 2015. This LLC has a third-party term loan, which is non-recourse to us, of $5.5 million outstanding as of June 30, 2015.

Effective August 1, 2014, we purchased the minority ownership interests, ranging from 5% to 15%, held by third-party members in six LLCs in which we previously held noncontrolling majority ownership interests, as noted in the table below. As a result of these minority ownership purchases, we now own 100% of each of these LLCs and began to account for them on a consolidated basis effective August 1, 2014. Prior to August 1, 2014, these LLCs were accounted for on an unconsolidated basis pursuant to the equity method.

Name of LLC/LP	Ownership prior to minority interest purchase	Property Owned by LLC
DVMC Properties	90%	Desert Valley Medical Center
Santa Fe Scottsdale	90%	Santa Fe Professional Plaza
PCH Medical Properties	85%	Rosenberg Children s Medical Plaza
Sierra Medical Properties	95%	Sierra San Antonio Medical Plaza
PCH Southern Properties	95%	Phoenix Children s East Valley Care Center
3811 Bell Medical Properties	95%	North Valley Medical Plaza

Below are the condensed combined statements of income (unaudited) for the LLCs accounted for under the equity method at June 30, 2015 and 2014. The combined statements of income for the three and six months ended June 30, 2014 include the financial results for the six LLCs that we began to account for on a consolidated basis as of August 1,

2014, as discussed above.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014 (b.)	2015	2014 (b.)
	(amounts in thousands)			
Revenues	$ 3,576	$ 5,014	$ 7,161	$ 9,923
Operating expenses	1,396	2,164	2,733	4,135
Depreciation and amortization	574	879	1,154	1,775
Interest, net	632	1,361	1,251	2,679
Net income	$ 974	$ 610	$ 2,023	$ 1,334
Our share of net income (a.)	$ 673	$ 679	$ 1,265	$ 1,272

(a.) Our share of net income for the three and six months ended June 30, 2014 includes interest income earned by us on various advances made to LLCs of approximately $360,000 and $712,000, respectively. There were no advances outstanding during the first six months of 2015, therefore there was no interest income earned by us for the three or six months ended June 30, 2015.

(b.) As mentioned above, we began to account for six LLCs on a consolidated basis as of August 1, 2014. Prior to August 1, 2014, the financial results of these entities were accounted for under the equity method on an unconsolidated basis. The three and six months ended June 30, 2014, include the financial results of the six mentioned LLCs.

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Below are the condensed combined balance sheets (unaudited) for the five above-mentioned LLCs in which we hold noncontrolling ownership interests and that were accounted for under the equity method as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(amounts in thousands)	
Net property, including CIP	$ 62,085	$ 62,450
Other assets	5,693	7,367
Total assets	$ 67,778	$ 69,817
Liabilities	$ 2,508	$ 3,348
Mortgage notes payable, non-recourse to us	52,036	52,728
Equity	13,234	13,741
Total liabilities and equity	$ 67,778	$ 69,817
Our share of equity in LLCs	$ 8,150	$ 8,605

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As of June 30, 2015, and December 31, 2014, aggregate principal amounts due on mortgage notes payable by unconsolidated LLCs, which are accounted for under the equity method and are non-recourse to us, are as follows (amounts in thousands):

	Mortgage Loan Balance (a.)		
Name of LLC	**6/30/2015**	**12/31/2014**	**Maturity Date**
Arlington Medical Properties (b.)	$ 22,888	$ 23,287	October, 2015
FTX MOB Phase II	5,487	5,548	August, 2017
Grayson Properties	14,780	14,893	September, 2021
Brunswick Associates	8,881	9,000	December, 2024
	$ 52,036	$ 52,728	

(a.) All mortgage loans, other than construction loans, require monthly principal payments through maturity and include a balloon principal payment upon maturity.

(b.) We believe the terms of this loan are within current market underwriting criteria. At this time, we expect to refinance this loan during 2015 for three to ten year terms at the then current market interest rates. In the unexpected event that we are unable to refinance this loan on reasonable terms, we will explore other financing alternatives, including, among other things, increasing our equity investment in the property or utilizing funds borrowed under our revolving credit agreement.

Pursuant to the operating and/or partnership agreements of most of the five LLCs in which we continue to hold non-controlling majority ownership interests, the third-party member and the Trust, at any time, have the right to make an offer (Offering Member) to the other member(s) (Non-Offering Member) in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member (Offer to Sell) at a price as determined by the Offering Member (Transfer Price), or; (ii) purchase the entire ownership interest of the Non-Offering Member (Offer to Purchase) at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member.

(6) Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued an update to the accounting standard relating to the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability. This amendment becomes effective for annual periods beginning on or after December 15, 2015, and interim periods beginning on or after December 15, 2015; however, early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which amends the consolidation requirements in Accounting Standards Codification (ASC) 810, *Consolidation*. ASU 2015-02 makes targeted amendments to the current consolidation guidance, which could change consolidation conclusions. This guidance will be effective for us beginning in our first quarter of 2016 and early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

(7) Debt and Financial Instruments

Debt:

On March 27, 2015, we entered into a new $185 million revolving credit agreement (Credit Agreement). The Credit Agreement, which will mature in four years, replaced our previous revolving credit facility which was scheduled to mature on July 24, 2015. The Credit Agreement includes a $50 million sub limit for letters of credit and a $20 million sub limit for swingline/short-term loans. The Credit Agreement also provides a one-time option to extend the maturity date for an additional one year period, and an option to increase the total facility borrowing capacity up to an additional $50 million, subject to lender agreement. Borrowings under the new facility are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the new facility are secured by first priority security interests in and liens on all equity interests in the Trust s wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.50% to 2.00% or at the Base Rate plus an applicable margin ranging from 0.50% to 1.00%. The Credit Agreement defines Base Rate as the greatest of: (a) the administrative agent s prime rate; (b) the federal funds effective rate

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plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A commitment fee of 0.20% to 0.40% (depending on our total leverage ratio) will be charged on the average unused portion of the revolving credit commitments. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. At June 30, 2015, the applicable margin over the LIBOR rate was 1.625%, the margin over the Base Rate was 0.625%, and the commitment fee was 0.25%.

At June 30, 2015, we had $115.3 million of outstanding borrowings and $5.1 million of letters of credit outstanding against our revolving credit agreement. We had $64.6 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of June 30, 2015. At December 31, 2014, we had $89.8 million of outstanding borrowings and $6.3 million of letters of credit outstanding against our previous $150 million revolving credit agreement (which was replaced in March, 2015, as discussed above). We had $54.0 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of December 31, 2014. There are no compensating balance requirements.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust s ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at June 30, 2015. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

The following table includes a summary of the required compliance ratios, giving effect to the covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2015
Tangible net worth	$ 125,000	$ 181,410
Total leverage	< 60%	44.6%
Secured leverage	< 30%	21.0%
Unencumbered leverage	< 60%	35.6%
Fixed charge coverage	> 1.50x	3.2x

We have fifteen mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of June 30, 2015, with a combined outstanding balance of $116.3 million (excluding net debt premium of $412,000 at June 30, 2015). The following table summarizes our outstanding mortgages, excluding net debt premium, at June 30, 2015 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands)(a)	Interest Rate	Maturity Date
Desert Valley Medical Center floating rate mortgage loan (b.)	$ 3,805	3.43%	October, 2015
	5,931	3.69%	October, 2015

Palmdale Medical Plaza fixed rate mortgage loan (b.)			
Summerlin Hospital Medical Office Building III floating rate mortgage loan	10,861	3.43%	December, 2016
Peace Health fixed rate mortgage loan	21,021	5.64%	April, 2017
Auburn Medical II floating rate mortgage loan	7,069	2.93%	April, 2017
Medical Center of Western Connecticut fixed rate mortgage loan	4,724	6.00%	June, 2017
Summerlin Hospital Medical Office Building II fixed rate mortgage loan	11,575	5.50%	October, 2017
Phoenix Children s East Valley Care Center fixed rate mortgage loan	6,417	5.88%	December, 2017

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Facility Name	Outstanding Balance (in thousands)(a)	Interest Rate	Maturity Date
Centennial Hills Medical Office Building floating rate mortgage loan	10,491	3.43%	January, 2018
Sparks Medical Building/Vista Medical Terrace floating rate mortgage loan	4,415	3.43%	February, 2018
Rosenberg Children s Medical Plaza fixed rate mortgage loan	8,399	4.85%	May, 2018
Vibra Hospital-Corpus Christi fixed rate mortgage loan	2,859	6.50%	July, 2019
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	6,516	4.54%	June, 2022
BRB Medical Office Building fixed rate mortgage loan	6,586	4.27%	December, 2022
Tuscan Professional Building fixed rate mortgage loan	5,654	5.56%	June, 2025
Total	$ 116,323		

(a) All mortgage loans require monthly principal payments through maturity and include a balloon principal payment upon maturity.

(b) We expect these loans to be refinanced for three to ten year terms at the then current market interest rates. In the unexpected event that we are unable to refinance this loan on reasonable terms, we will explore other financing alternatives, including, among other things, utilizing funds borrowed under our revolving credit facility.

The mortgages are secured by the real property of the buildings as well as property leases and rents. The mortgages have a combined fair value of approximately $119 million as of June 30, 2015. Changes in market rates on our fixed rate debt impacts the fair value of debt, but it has no impact on interest incurred or cash flow.

At December 31, 2014, we had sixteen mortgages, all of which were non-recourse to us, included in our consolidated balance sheet. The combined outstanding balance of these sixteen mortgages was $122.9 million (excluding net debt premium of $523,000 at December 31, 2014), and had a combined fair value of approximately $124.7 million at December 31, 2014.

Financial Instruments:

During the third quarter of 2013, we entered into an interest rate cap on a total notional amount of $10 million whereby we paid a premium of $136,000. During the first quarter of 2014, we entered into two additional interest rate cap agreements on a total notional amount of $20 million whereby we paid premiums of $134,500. In exchange for the premium payments, the counterparties agreed to pay us the difference between 1.50% and one-month LIBOR if one-month LIBOR rises above 1.50% during the term of the cap. From inception through June 30, 2015, no payments have been made to us by the counterparties pursuant to the terms of these caps which expire in January, 2017.

(8) Segment Reporting

Our primary business is investing in and leasing healthcare and human service facilities through direct ownership or through joint ventures, which aggregate into a single reportable segment. We actively manage our portfolio of healthcare and human service facilities and may from time to time make decisions to sell lower performing properties not meeting our long-term investment objectives. The proceeds of sales are typically reinvested in new developments or acquisitions, which we believe will meet our planned rate of return. It is our intent that all healthcare and human service facilities will be owned or developed for investment purposes. Our revenue and net income are generated from the operation of our investment portfolio.

Our portfolio is located throughout the United States, however, we do not distinguish or group our operations on a geographical basis for purposes of allocating resources or measuring performance. We review operating and financial data for each property on an individual basis; therefore, we define an operating segment as our individual properties. Individual properties have been aggregated into one reportable segment based upon their similarities with regard to both the nature and economics of the facilities, tenants and operational processes, as well as long-term average financial performance.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a real estate investment trust (REIT) that commenced operations in 1986. We invest in healthcare and human service related facilities currently including acute care hospitals, rehabilitation hospitals, sub-acute facilities, surgery centers, free-standing emergency departments, childcare centers and medical office buildings (MOBs). As of June 30, 2015, we have sixty-two real estate investments located in eighteen states consisting of:

- six hospital facilities consisting of three acute care, one rehabilitation and two sub-acute;
- three free-standing emergency departments (FEDs);
- forty-nine medical office buildings, including five owned by unconsolidated limited liability companies (LLCs), and;
- four pre-school and childcare centers.

Forward Looking Statements and Certain Risk Factors

You should carefully review all of the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the SEC). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called forward-looking statements by words such as may, will, should, could, would, predicts, potential, continue, expects, intends, plans, believes, estimates, appears, projects and similar expressions, as well as statements in future te should be aware that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks outlined herein and in our Annual Report on Form 10-K for the year ended December 31, 2014 in *Item 1A Risk Factors* and in *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements*. Those factors may cause our actual results to differ materially from any of our forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or our good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Such factors include, among other things, the following:

- a substantial portion of our revenues are dependent upon one operator, Universal Health Services, Inc. (UHS). We cannot assure you that subsidiaries of UHS will renew the leases on our three acute care hospitals and two FEDs at existing lease rates or fair market value lease rates. In addition, if subsidiaries of

UHS exercise their options to purchase the respective leased hospital facilities upon expiration of the lease terms, our future revenues and results of operations could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to these leases;

in certain of our markets, the general real estate market has been unfavorably impacted by increased competition/capacity and decreases in occupancy and rental rates which may adversely impact our operating results and the underlying value of our properties;

a number of legislative initiatives have recently been passed into law that may result in major changes in the health care delivery system on a national or state level to the operators of our facilities, including UHS. No assurances can be given that the implementation of these new laws will not have a material adverse effect on the business, financial condition or results of operations of our operators;

a subsidiary of UHS is our Advisor and our officers are all employees of a wholly-owned subsidiary of UHS, which may create the potential for conflicts of interest;

lost revenues resulting from the exercise of purchase options, lease expirations and renewals, loan repayments and other restructuring;

our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund future growth of our business;

the outcome of known and unknown litigation, government investigations, and liabilities and other claims asserted against us or the operators of our facilities;

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failure of the operators of our hospital facilities to comply with governmental regulations related to the Medicare and Medicaid licensing and certification requirements could have a material adverse impact on our future revenues and the underlying value of the property;

the potential unfavorable impact on our business of deterioration in national, regional and local economic and business conditions, including a worsening of credit and/or capital market conditions, which may adversely affect, our ability to obtain capital which may be required to fund the future growth of our business and refinance existing debt with near term maturities;

a deterioration in general economic conditions which could result in increases in the number of people unemployed and/or insured and likely increase the number of individuals without health insurance; as a result, the operators of our facilities may experience decreases in patient volumes which could result in decreased occupancy rates at our medical office buildings;

a worsening of the economic and employment conditions in the United States could materially affect the business of our operators, including UHS, which may unfavorably impact our future bonus rentals (on the UHS hospital facilities) and may potentially have a negative impact on the future lease renewal terms and the underlying value of the hospital properties;

real estate market factors, including without limitation, the supply and demand of office space and market rental rates, changes in interest rates as well as an increase in the development of medical office condominiums in certain markets;

government regulations, including changes in the reimbursement levels under the Medicare and Medicaid program resulting from, among other things, the various health care reform initiatives being implemented;

there have been several attempts in Congress to repeal or modify various provisions of the Patient Protection and Affordable Care Act (the PPACA). We cannot predict whether or not any of these proposed changes to the PPACA will become law and therefore can provide no assurance that changes to the PPACA, as currently implemented, will not have a material adverse effect on the future operating results of the tenants/operators of our properties and, thus, our business;

the issues facing the health care industry that affect the operators of our facilities, including UHS, such as: changes in, or the ability to comply with, existing laws and government regulations; unfavorable changes in the levels and terms of reimbursement by third party payors or government programs, including Medicare (including, but not limited to, the potential unfavorable impact of future reductions to Medicare reimbursements resulting from the Budget Control Act of 2011, as discussed below) and Medicaid (most states have reported significant budget deficits that have, in the past, resulted in the reduction of Medicaid funding to the operators of our facilities, including UHS); demographic changes; the ability to enter into managed care provider agreements on acceptable terms; an increase in uninsured and self-pay patients which unfavorably impacts the collectability of patient accounts; decreasing in-patient admission trends;

technological and pharmaceutical improvements that may increase the cost of providing, or reduce the demand for, health care, and; the ability to attract and retain qualified medical personnel, including physicians;

in August, 2011, the Budget Control Act of 2011 (the 2011 Act) was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by $917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. The 2011 Act provides for new spending on program integrity initiatives intended to reduce fraud and abuse under the Medicare program. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the Joint Committee), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what federal other deficit reduction initiatives may be proposed by Congress. We also cannot predict the effect this enactment will have on operators (including UHS), and, thus, our business;

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in March, 2010, the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act were enacted into law and created significant changes to health insurance coverage for U.S. citizens as well as material revisions to the federal Medicare and state Medicaid programs. The two combined primary goals of these acts are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses. Medicare, Medicaid and other health care industry changes are scheduled to be implemented at various times during this decade. We cannot predict the effect, if any, these enactments will have on operators (including UHS) and, thus, our business;

competition for our operators from other REITs;

the operators of our facilities face competition from other health care providers, including physician owned facilities and other competing facilities, including certain facilities operated by UHS but the real property of which is not owned by us. Such competition is experienced in markets including, but not limited to, McAllen, Texas, the site of our McAllen Medical Center, a 430-bed acute care hospital, and Riverside County, California, the site of our Southwest Healthcare System-Inland Valley Campus, a 132-bed acute care hospital;

changes in, or inadvertent violations of, tax laws and regulations and other factors than can affect REITs and our status as a REIT;

should we be unable to comply with the strict income distribution requirements applicable to REITs, utilizing only cash generated by operating activities, we would be required to generate cash from other sources which could adversely affect our financial condition;

our majority ownership interests in five LLCs in which we hold non-controlling equity interests. In addition, pursuant to the operating and/or partnership agreements of most of the five LLCs in which we continue to hold non-controlling majority ownership interests, the third-party member and the Trust, at any time, have the right to make an offer (Offering Member) to the other member(s) (Non-Offering Member) in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member (Offer to Sell) at a price as determined by the Offering Member (Transfer Price), or; (ii) purchase the entire ownership interest of the Non-Offering Member (Offer to Purchase) at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member;

fluctuations in the value of our common stock, and;

other factors referenced herein or in our other filings with the Securities and Exchange Commission.

Given these uncertainties, risks and assumptions, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition, including the operating results of our lessees

and the facilities leased to subsidiaries of UHS, could differ materially from those expressed in, or implied by, the forward-looking statements.

Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our financial statements, including the following:

Revenue Recognition: Our revenues consist primarily of rentals received from tenants, which are comprised of minimum rent (base rentals), bonus rentals and reimbursements from tenants for their pro-rata share of expenses such as common area maintenance costs, real estate taxes and utilities.

The minimum rent for all hospital facilities is fixed over the initial term or renewal term of the respective leases. Rental income recorded by our properties, including our consolidated and unconsolidated MOBs, relating to leases in excess of one year in length, is recognized using the straight-line method under which contractual rents are recognized evenly over the lease term regardless of when payments are due. The amount of rental revenue resulting from straight-line rent adjustments is dependent on many factors including

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the nature and amount of any rental concessions granted to new tenants, stipulated rent increases under existing leases, as well as the acquisitions and sales of properties that have existing in-place leases with terms in excess of one year. As a result, the straight-line adjustments to rental revenue may vary from period-to-period. Bonus rents are recognized when earned based upon increases in each facility s net revenue in excess of stipulated amounts. Bonus rentals are determined and paid each quarter based upon a computation that compares the respective facility s current quarter s net revenue to the corresponding quarter in the base year. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred.

Real Estate Investments: On the date of acquisition, the purchase price of a property is allocated to the property s land, buildings and intangible assets based upon our estimates of their fair values. Depreciation is computed using the straight-line method over the useful lives of the buildings and capital improvements. The value of intangible assets is amortized over the remaining lease term.

Asset Impairment: Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management s estimate of the aggregate future cash flows, less estimated capital expenditures, to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition, local market conditions and other factors.

The determination of undiscounted cash flows requires significant estimates by management, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated action to be taken with respect to the property could impact the determination of whether an impairment exists and whether the effects could materially impact our net income. To the extent estimated undiscounted cash flows are less than the carrying value of the property, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

Assessment of the recoverability by us of certain lease related costs must be made when we have reason to believe that a tenant might not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs. If we determine that the intangible assets are not recoverable from future cash flows, the excess of carrying value of the intangible asset over its estimated fair value is charged to income.

An other than temporary impairment of an investment/advance in an LLC is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value, including projected declines in cash flow. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

Investments in Limited Liability Companies (LLCs): Our consolidated financial statements include the consolidated accounts of our controlled investments and those investments that meet the criteria of a variable interest entity where we are the primary beneficiary. In accordance with the FASB s standards and guidance relating to accounting for investments and real estate ventures, we account for our unconsolidated investments in LLCs which we do not control using the equity method of accounting. The third-party members in these investments have equal voting rights with regards to issues such as, but not limited to: (i) divestiture of property; (ii) annual budget approval, and; (iii) financing commitments. These investments, which represent 33% to 95% non-controlling ownership interests, are recorded initially at our cost and subsequently adjusted for our net equity in the net income, cash contributions to, and distributions from, the investments. Pursuant to certain agreements, allocations of sales proceeds and profits and

losses of some of the LLC investments may be allocated disproportionately as compared to ownership interests after specified preferred return rate thresholds have been satisfied.

At June 30, 2015, we have non-controlling equity investments or commitments in five jointly-owned LLCs which own medical office buildings. These LLCs are included in our financial statements for all periods presented on an unconsolidated basis pursuant to the equity method since they are not variable interest entities. These LLCs are joint-ventures between us and non-related parties that manage and hold minority ownership interests in the entities. Each LLC is generally self-sustained from a cash flow perspective and generates sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing. Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans.

Federal Income Taxes: No provision has been made for federal income tax purposes since we qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, and intend to continue to remain so qualified. As such, we are exempt from federal income taxes and we are required to distribute at least 90% of our real estate investment taxable income to our shareholders.

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We are subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the amount by which 85% of our ordinary income plus 95% of any capital gain income for the calendar year exceeds cash distributions during the calendar year, as defined. No provision for excise tax has been reflected in the financial statements as no tax is expected to be due.

Earnings and profits, which determine the taxability of dividends to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the cost basis of assets and in the estimated useful lives used to compute depreciation and the recording of provision for investment losses.

Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions UHS is our principal tenant and through UHS of Delaware, Inc., a wholly owned subsidiary of UHS, serves as our advisor (the Advisor) under an Advisory Agreement dated December 24, 1986 between the Advisor and us (the Advisory Agreement). Our officers are all employees of UHS (through UHS of Delaware, Inc.) and although as of June 30, 2015 we had no salaried employees, our officers do receive stock-based compensation from time-to-time.

Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the Independent Trustees). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor s performance has been satisfactory. In December of 2014, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the Advisory Agreement was renewed for 2015 pursuant to the same terms as the Advisory Agreement in place during 2014.

The combined revenues generated from the leases on the UHS hospital facilities comprised approximately 25% and 30% of our consolidated revenues for the three months ended June 30, 2015 and 2014, respectively, and approximately 25% and 29% of our consolidated revenues for the six months ended June 30, 2015 and 2014, respectively. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 95%, the leases on the UHS hospital facilities accounted for approximately 20% and 22% of the combined consolidated and unconsolidated revenue for the three months ended June 30, 2015 and 2014, respectively, and 20% and 22% for the six months ended June 30, 2015 and 2014, respectively. In addition, fifteen MOBs and FEDs, that are either wholly or jointly-owned by UHT, include tenants which are subsidiaries of UHS. The leases to the hospital facilities of UHS are guaranteed by UHS and cross-defaulted with one another.

Pursuant to the Master Lease Document by and among us and certain subsidiaries of UHS, dated December 24, 1986 (the Master Lease), which governs the leases of all hospital properties with subsidiaries of UHS, UHS has the option to renew the leases at the lease terms described below by providing notice to us at least 90 days prior to the termination of the then current term. UHS also has the right to purchase the respective leased facilities at the end of the lease terms or any renewal terms at the appraised fair market value. In addition, the Master Lease, as amended during 2006, includes a change of control provision whereby UHS has the right, upon one month s notice should a change of control of the Trust occur, to purchase any or all of the three leased hospital properties listed below at their appraised fair market value. Additionally, UHS has rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or;

(ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

During the third quarter of 2014, a wholly-owned subsidiary of UHS provided notification to us that, upon expiration of The Bridgeway s lease term which occurred in December, 2014, it intended to exercise its option to purchase the real property of the facility. Pursuant to the terms of the lease, we and the wholly-owned subsidiary of UHS were both required to obtain independent appraisals of the property to determine its fair market value. On December 31, 2014, The Bridgeway, a 103-bed behavioral health facility located in North Little Rock, Arkansas, was sold to UHS for $17.3 million. During each of the three years ended December 31, 2014, our revenues, net cash provided by operating activities and funds from operations have included approximately $1.1 million earned annually in connection with The Bridgeway s lease.

During the first quarter of 2015, we purchased from wholly-owned subsidiaries of UHS, the real property of two newly-constructed and recently opened FEDs located in Weslaco and Mission, Texas. Each FED consists of approximately 13,600 square feet and is operated by wholly-owned subsidiaries of UHS. In connection with these acquisitions, ten-year lease agreements with six, 5-year renewal terms have been executed with UHS for each FED. The first four, 5-year renewal terms (covering years 2025 through 2044) include 2% annual lease rate increases, computed on accumulative and compounded basis, and the last two, 5-year renewal terms (covering the years 2045 through 2054) will be at the then fair market value lease rates. UHS has the option to purchase the leased

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properties upon the expiration of the fixed term and each five-year extended term at the fair market value at that time. The leases on the FEDs are cross-defaulted with one another. The aggregate acquisition cost of these facilities was approximately $12.8 million, and the aggregate rental revenue earned by us at the commencement of the leases is approximately $900,000 annually.

For additional disclosure related to our relationship with UHS, please refer to Note 2 to the condensed consolidated financial statements, Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions.

Results of Operations

Effective August 1, 2014, we purchased the minority ownership interests, ranging from 5% to 15%, held by third-party members in six LLCs in which we previously held noncontrolling majority ownership interests. As a result of these minority ownership purchases, we now own 100% of each of these six LLCs and our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2015 includes the revenues and expenses associated with each of these properties. Prior to August 1, 2014, these LLCs were accounted for on an unconsolidated basis pursuant to the equity method, as discussed above.

The table below provides supplemental financial information related to each of the above-mentioned entities for the three and six-month periods ended June 30, 2014, and also presents the three and six-month periods of 2014 on an As Adjusted financial statement presentation basis similar to the presentation applied for each entity for the three and six-month periods ended June 30, 2015. Other than increased depreciation and amortization expense resulting from the amortization of the intangible assets recorded in connection with these transactions, there was no material impact to our net income as a result of the consolidation of these LLCs.

Three Months Ended June 30, 2015 as compared to Three Months Ended June 30, 2014:

	As reported in Condensed Consolidated Statements of Income for the Three Months Ended June 30, 2015	As reported in Condensed Consolidated Statements of Income for the Three Months Ended June 30, 2014	Three months ended June 30, 2014 Statements of Income Adjustments (a.)	As Adjusted Three Months Ended June 30, 2014	As Adjusted Variance
Revenues	$ 16,049	$ 14,317	$ 1,560	$ 15,877	$ 172
Expenses:					
Depreciation and amortization	5,870	4,782	315	5,097	(773)
Advisory fees to UHS	693	620	0	620	(73)
Other operating expenses	4,738	4,134	702	4,836	98
Transaction costs	147	41	0	41	(106)
	11,448	9,577	1,017	10,594	(854)
	4,601	4,740	543	5,283	(682)

Income before equity in income of unconsolidated LLCs, interest expense and gain					
Equity in income of unconsolidated LLCs	673	679	(263)	416	257
Gain on property exchange	8,742	0	0	0	8,742
Interest expense, net	(2,012)	(2,011)	(280)	(2,291)	279
Net income	$ 12,004	$ 3,408	$ 0	$ 3,408	$ 8,596

(a.) Adjustments consist of revenues and expenses for the three months ended June 30, 2014, for the six LLCs that we began consolidating effective August 1, 2014, as mentioned above.

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Six Months Ended June 30, 2015 as compared to Six Months Ended June 30, 2014:

	As reported in Condensed Consolidated Statements of Income for the Six Months Ended June 30, 2015	As reported in Condensed Consolidated Statements of Income for the Six Months Ended June 30, 2014	Six months ended June 30, 2014 Statements of Income Adjustments (a.)	As Adjusted Six Months Ended June 30, 2014	As Adjusted Variance
Revenues	$ 32,251	$ 28,605	$ 3,057	$ 31,662	$ 589
Expenses:					
Depreciation and amortization	11,393	9,608	626	10,234	(1,159)
Advisory fees to UHS	1,359	1,230	0	1,230	(129)
Other operating expenses	9,460	8,067	1,403	9,470	10
Transaction costs	204	103	0	103	(101)
	22,416	19,008	2,029	21,037	(1,379)
Income before equity in income of unconsolidated LLCs, interest expense and gains	9,835	9,597	1,028	10,625	(790)
Equity in income of unconsolidated LLCs	1,265	1,272	(469)	803	462
Gain on property exchange	8,742	0	0	0	8,742
Gains on fair value recognition resulting from purchase of minority interests in majority-owned LLCs	0	316	0	316	(316)
Interest expense, net	(4,142)	(4,003)	(559)	(4,562)	420
Net income	$ 15,700	$ 7,182	$ 0	$ 7,182	$ 8,518

(a.) Adjustments consist of revenues and expenses for the six months ended June 30, 2014, for the six LLCs that we began consolidating effective August 1, 2014, as mentioned above.

For the three months ended June 30, 2015, net income was $12.0 million as compared to $3.4 million during the comparable prior year quarter. The $8.6 million increase in net income during the second quarter of 2015, as compared to the comparable prior year quarter, was attributable to:

an increase of $8.7 million due to the gain recorded during the second quarter of 2015 in connection with a property exchange transaction, as discussed above in Note 4 to the Condensed Consolidated Financial Statements, *Property Exchange Transaction, Acquisitions, Dispositions and New Construction*;

a decrease of approximately $773,000 (As Adjusted) attributable to a net increase in depreciation and amortization expense partially resulting from the fair value recognition recorded in connection with our acquisition of minority ownership interests in various LLCs in August, 2014;

an increase of $278,000 attributable to a decrease in interest expense (As Adjusted) due primarily to the repayment of two mortgages during the third quarter of 2014 and the first quarter of 2015 utilizing funds borrowed under our revolving credit facility which bear interest at a comparatively lower interest rate;

an increase of $257,000 (As Adjusted) in equity in income of unconsolidated LLCs, resulting from combined net increases at various unconsolidated properties, and;

other combined net increases of approximately $92,000, including increases in net income at various consolidated properties.

For the six months ended June 30, 2015, net income was $15.7 million as compared to $7.2 million during the comparable prior year period. The $8.5 million increase in net income during the first six months of 2015, as compared to the comparable prior year period, was attributable to:

an increase of $8.7 million due to the gain recorded during the second quarter of 2015 in connection with a property exchange transaction;

a decrease of $316,000 due to the gains recorded during the first quarter of 2014, on fair value recognition in connection with the purchase of minority interests in majority-owned LLCs, as discussed above;

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a decrease of approximately $1.2 million (As Adjusted) attributable to a net increase in depreciation and amortization expense partially resulting from the fair value recognition recorded in connection with our acquisition of minority ownership interests in various LLCs in August, 2014;

an increase of $421,000 attributable to a decrease in interest expense (As Adjusted) due primarily to the repayment of two mortgages during the third quarter of 2014 and the first quarter of 2015 utilizing funds borrowed under our revolving credit facility which bear interest at a comparatively lower interest rate;

an increase of $462,000 (As Adjusted) in equity in income of unconsolidated LLCs, resulting from combined net increases at various unconsolidated properties, and;

other combined net increases of approximately $368,000, including increases in net income at various consolidated properties.

Total revenues increased by $172,000 (As Adjusted) during the three months ended June 30, 2015 as compared to the comparable period of 2014, and $589,000 (As Adjusted) during the six months ended June 30, 2015 as compared to the comparable period of 2014. The increases in revenues during the second quarter and the first six months of 2015, as compared to the comparable periods of 2014, was primarily due to the revenues generated at MOBs acquired during the third quarter of 2014 and the first and second quarters of 2015.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $4.3 million (As Adjusted) for each of the three-month periods ended June 30, 2015 and 2014, and $8.7 million and $8.4 million for the six-month periods ended June 30, 2015 and 2014, respectively. A large portion of the expenses associated with our consolidated medical office buildings is passed on directly to the tenants either directly as tenant reimbursements of common area maintenance expenses or included in base rental amounts. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred and are included as tenant reimbursement revenue in our condensed consolidated statements of income.

Funds from operations (FFO) is a widely recognized measure of performance for Real Estate Investment Trusts (REITs). We believe that FFO and FFO per diluted share, and adjusted funds from operations (AFFO) and AFFO per diluted share, which are non-GAAP financial measures (GAAP is Generally Accepted Accounting Principles in the United States of America), are helpful to our investors as measures of our operating performance. We compute FFO, as reflected below, in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we interpret the definition. AFFO was also computed for the three and six-month periods ended June 30, 2015 and 2014, as reflected below, since we believe it is helpful to our investors since it adjusts for the effect of the transaction costs related to acquisitions. FFO/AFFO do not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income determined in accordance with GAAP. In addition, FFO/AFFO should not be used as: (i) an indication of our financial performance determined in accordance with GAAP; (ii) an alternative to cash flow from operating activities determined in accordance with GAAP; (iii) a measure of our liquidity, or; (iv) an indicator of funds available for our cash needs, including our ability to make cash distributions to shareholders.

Below is a reconciliation of our reported net income to FFO and AFFO for the three and six-month periods ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$ 12,004	$ 3,408	$ 15,700	$ 7,182
Depreciation and amortization expense on consolidated investments	5,778	4,703	11,188	9,455
Depreciation and amortization expense on unconsolidated affiliates	418	709	828	1,382
Gain on property exchange	(8,742)	0	(8,742)	0
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs	0	0	0	(316)
Funds From Operations	$ 9,458	$ 8,820	$ 18,974	$ 17,703
Transaction costs	147	41	204	103
Adjusted Funds From Operations	$ 9,605	$ 8,861	$ 19,178	$ 17,806

Our FFO and AFFO increased by $638,000 and $744,000, respectively, during the three-month period ended June 30, 2015, as compared to the comparable period of 2014. Our FFO and AFFO increased by $1.3 million and $1.4 million, respectively, during the six-month period ended June 30, 2015, as compared to the comparable period of 2014. The $638,000 increase in FFO during the

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second quarter of 2015 as compared to the second quarter of 2014 was attributable to: (i) the $8.6 million increase in net income, as discussed above, offset by; (ii) the $8.7 million gain recorded during the three months ended June 30, 2015, which was deducted for FFO purposes, plus; (iii) a $784,000 net increase in the add back of depreciation and amortization expense incurred at our properties (on a consolidated and unconsolidated basis). The $1.3 million increase in FFO during the first six months of 2015, as compared to the first six months of 2014, was attributable to: (i) the $8.5 million increase in net income, as discussed above, offset by; (ii) the $8.7 million gain recorded during the six months ended June 30, 2015, as discussed above, which was deducted for FFO purposes, plus; (iii) the $316,000 gain recorded during the first six months of 2014 on the fair value recognition resulting from the purchase of minority interests in majority-owned LLCs which was deducted for FFO purposes in the 2014 period, and; (iv) a $1.2 million net increase in the depreciation and amortization expense incurred at our properties (on a consolidated and unconsolidated basis).

Our AFFO increased by $744,000 during the three-month period ended June 30, 2015, as compared to the comparable period of 2014, due to the $638,000 increase in FFO, as discussed above, plus the $106,000 change/increase in transaction costs incurred during each quarter. Our AFFO increased by $1.4 million during the first six months of 2015, as compared to the first six months of 2014. The $1.4 million increase in AFFO during the first six months of 2015, as compared to the comparable period of 2014 was due to the $1.3 million increase/increase in FFO, as discussed above, plus the $101,000 change/increase in transaction costs incurred during each six-month period.

Liquidity and Capital Resources

Net cash provided by operating activities

Net cash provided by operating activities was $17.8 million and $15.3 million during the six-month periods ended June 30, 2015 and 2014, respectively. The $2.5 million net increase was attributable to:

- a favorable change of $1.8 million due to an increase in net income plus/minus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, amortization of debt net premium, stock-based compensation, gain on property exchange, gains on purchase of minority interests in majority-owned LLCs and income in excess of cash distributions from LLCs), as discussed above in Results of Operations;

- a favorable change of $915,000 in accrued expenses and other liabilities, primarily resulting from the timing of payments of accrued expenses (a significant amount of liabilities accrued as of December 31, 2013 were paid during the first quarter of 2014), and;

- other combined net unfavorable changes of $164,000.

Net cash used in investing activities

Net cash used in investing activities was $19.6 million during the six months ended June 30, 2015 as compared to $8.9 million during the six months ended June 30, 2014.

During the six-month period ended June 30, 2015, we funded: (i) $392,000 in equity investments in various unconsolidated LLCs; (ii) $3.2 million in capital additions to real estate investments primarily for tenant

improvements at various MOBs; (iii) $16.8 million to acquire the real estate assets of a medical office building and two free-standing emergency departments, and; (iv) $2.3 million payment of a note payable related to the purchase of third-party minority ownership interests in six majority-owned LLCs during the third quarter of 2014, as discussed above. In addition, during the six-month period ended June 30, 2015, we received: (i) $1.1 million of cash proceeds in connection with the refinancing of third-party debt by a majority-owned LLC in which we hold a noncontrolling ownership interest, and; (ii) $2.0 million of cash proceeds in connection with the property exchange with an unrelated third party.

During the six-month period ended June 30, 2014, we funded: (i) $887,000 in equity investments in various unconsolidated LLCs; (ii) $1.5 million in capital additions to real estate investments primarily for tenant improvements at various MOBs; (iii) $7.1 million to acquire the real estate assets of two medical office buildings, as discussed above, and; (iv) $170,000 to acquire the minority interests in two majority-owned LLCs, as discussed above. In addition, during the six-month period ended June 30, 2014, we received $741,000 of cash distributions in excess of income from our unconsolidated LLCs.

Net cash provided by/(used in) financing activities

Net cash provided by financing activities was $2.2 million during the six months ended June 30, 2015, as compared to $6.1 million net cash used in financing activities during the six months ended June 30, 2014.

During the six-month period ended June 30, 2015, we: (i) received $25.5 million of additional net borrowings on our revolving line of credit, and; (ii) received $1.2 million of net cash from the issuance of shares of beneficial interest in late December, 2014, (as

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discussed below). Additionally, during the six months ended June 30, 2015, we paid: (i) $6.5 million on mortgages and other notes payable that are non-recourse to us, (including the pay-off of the $4.9 million outstanding mortgage on the Spring Valley Medical Office Building utilizing funds borrowed under our revolving credit facility); (ii) $1 million of financing costs paid on the new revolving credit facility, and; (iii) $17.0 million of dividends.

During the six-month period ended June 30, 2014, we: (i) received $8.7 million of additional net borrowings on our revolving line of credit, and; (ii) generated $3.0 million of net cash from the issuance of shares of beneficial interest. Additionally, during the six months ended June 30, 2014, we paid: (i) $1.6 million on mortgage and other notes payable that are non-recourse to us, and; (ii) $16.2 million of dividends.

During the fourth quarter of 2013, we commenced an at-the-market (ATM) equity issuance program, pursuant to the terms of which we may sell, from time-to-time, common shares of our beneficial interest up to an aggregate sales price of $50 million to or through Merrill Lynch, Pierce, Fenner and Smith, Incorporated (Merrill Lynch), as sales agent and/or principal. The common shares will be offered pursuant to the Registration Statement filed with the Securities and Exchange Commission, which became effective in November, 2012.

There were no shares issued pursuant to the ATM program during the first six months of 2015. Since inception of this ATM program, we have issued 580,900 shares at an average price of $45.97 per share, which generated approximately $25.6 million of net proceeds (net of approximately $1.1 million, consisting of compensation of $667,000 to Merrill Lynch as well as $391,000 of other various fees and expenses). Included in the above was approximately $1.1 million of the net cash proceeds (net of approximately $29,000 of compensation to Merrill Lynch) related to shares issued in late December, 2014 which were received by us during the first quarter of 2015.

Additional cash flow and dividends paid information for the six-month periods ended June 30, 2015 and 2014:

As indicated on our condensed consolidated statement of cash flows, we generated net cash provided by operating activities of $17.8 million and $15.3 million during the six-month periods ended June 30, 2015 and 2014, respectively. As also indicated on our statement of cash flows, noncash expenses such as depreciation and amortization expense, stock-based compensation expense, the gains recorded during the first six months of 2015 and 2014, as well as the income in excess of cash distributions from LLCs are the primary differences between our net income and net cash provided by operating activities during each period. In addition, as reflected in the cash flows from investing activities section, we received $741,000 during the six months ended June 30, 2014, of cash distributions in excess of income from various unconsolidated LLCs which represents our share of the net cash flow distributions from these entities. The cash distributions in excess of income represent operating cash flows net of capital expenditures and debt repayments made by the LLCs.

We generated $17.8 million and $16.0 million of net cash during the six months ended June 30, 2015 and 2014, respectively, related to the operating activities of our properties recorded on a consolidated and an unconsolidated basis. We paid dividends of $17.0 million and $16.2 million during the six months ended June 30, 2015 and 2014, respectively. During the first six months of 2015, the $17.8 million of net cash generated related to the operating activities of our properties was approximately $800,000 greater than the $17.0 million of dividends paid during the six-month period. During the first six months of 2014, the $15.3 million of net cash generated related to operating activities of our properties was approximately $1.1 million less than the $16.2 million of dividends paid during the six-month period.

As indicated in the cash flows from investing activities and cash flows from financing activities sections of the statements of cash flows, there were various other sources and uses of cash during the six months ended June 30, 2015 and 2014. Therefore, the funding source for our dividend payments is not wholly dependent on the operating cash

flow generated by our properties in any given period. Rather, our dividends, as well as our capital reinvestments into our existing properties, acquisitions of real property and other investments are funded based upon the aggregate net cash inflows or outflows from all sources and uses of cash from the properties we own either in whole or through LLCs, as outlined above.

In determining and monitoring our dividend level on a quarterly basis, our management and Board of Trustees consider many factors in determining the amount of dividends to be paid each period. These considerations primarily include: (i) the minimum required amount of dividends to be paid in order to maintain our REIT status; (ii) the current and projected operating results of our properties, including those owned in LLCs, and; (iii) our future capital commitments and debt repayments, including those of our LLCs. Based upon the information discussed above, as well as consideration of projections and forecasts of our future operating cash flows, management and the Board of Trustees have determined that our operating cash flows have been sufficient to fund our dividend payments. Future dividend levels will be determined based upon the factors outlined above with consideration given to our projected future results of operations.

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Included in the various sources of cash were: (i) cash distributions of refinancing proceeds from an LLC ($1.1 million for the six months ended June 30, 2015); (ii) cash received in connection with the property exchange transaction, as discussed above ($2.0 million for the six months ended June 30, 2015); (iii) net borrowings on our revolving credit agreement ($25.5 million and $8.7 million for the six months ended June 30, 2015 and 2014, respectively), and; (iv) net cash generated in connection with the issuance of shares of beneficial interest ($1.2 million and $3.0 million for the six months ended June 30, 2015 and 2014, respectively).

In addition to the dividends paid, the following were also included in the various uses of cash: (i) investments in LLCs ($392,000 and $887,000 for the six months ended June 30, 2015 and 2014, respectively); (ii) net real estate additions ($3.2 million and $1.5 million for the six months ended June 30, 2015 and 2014, respectively); (iii) repayments of mortgage and other notes payable ($6.6 million and $1.6 million for the six months ended June 30, 2015 and 2014, respectively); (iv) financing cost paid on new Revolving Credit Facility ($1.0 million for the six months ended June 30, 2015); (v) payments made in connection with acquisition of minority interests in majority-owned LLCs, ($2.3 million and $170,000 for the six months ended June 30, 2015 and 2014, respectively), and; (vi) acquisitions of properties ($16.8 million and $7.1 million for the six months ended June 30, 2015 and 2014, respectively).

We expect to finance all capital expenditures and acquisitions and pay dividends utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing $185 million revolving credit facility agreement (which has $64.6 million of available borrowing capacity, net of outstanding borrowings and letters of credit, as of June 30, 2015); (ii) the issuance of equity pursuant to an at-the-market equity issuance program; (iii) borrowings under or refinancing of existing third-party debt pursuant to mortgage and construction loan agreements entered into by our LLCs, and/or; (iv) the issuance of other long-term debt.

We believe that our operating cash flows, cash and cash equivalents, available borrowing capacity under our revolving credit facility and access to the capital markets provide us with sufficient capital resources to fund our operating, investing and financing requirements for the next twelve months, including providing sufficient capital to allow us to make distributions necessary to enable us to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986. In the event we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time. Our inability to obtain financing on terms acceptable to us could have a material unfavorable impact on our results of operations, financial condition and liquidity.

Credit facilities and mortgage debt

On March 27, 2015, we entered into a new $185 million revolving credit agreement (Credit Agreement). The Credit Agreement, which will mature in four years, replaced our previous revolving credit facility which was scheduled to mature on July 24, 2015. The Credit Agreement includes a $50 million sub limit for letters of credit and a $20 million sub limit for swingline/short-term loans. The Credit Agreement also provides a one-time option to extend the maturity date for an additional one year period, and an option to increase the total facility borrowing capacity up to an additional $50 million, subject to lender agreement. Borrowings under the new facility are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the new facility are secured by first priority security interests in and liens on all equity interests in the Trust s wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.50% to 2.00% or at the Base Rate plus an applicable margin ranging from 0.50% to 1.00%. The Credit Agreement defines Base Rate as the greatest of: (a) the administrative agent s prime rate; (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A commitment fee of 0.20% to 0.40% (depending on the Trust s total leverage ratio) will be charged on the average unused portion of the revolving credit commitments. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. At June 30,

2015, the applicable margin over the LIBOR rate was 1.625%, the margin over the Base Rate was 0.625%, and the commitment fee was 0.25%.

At June 30, 2015, we had $115.3 million of outstanding borrowings and $5.1 million of letters of credit outstanding against our revolving credit agreement. We had $64.6 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of June 30, 2015. There are no compensating balance requirements.

On February 10, 2015, we borrowed an additional $4.9 million under our previous revolving credit agreement, which was utilized to repay the outstanding mortgage balance on the Spring Valley Medical Office Building. The mortgage loan on this property matured on February 10, 2015.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust s ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at June 30, 2015. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

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The following table includes a summary of the required compliance ratios, giving effect to the covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2015
Tangible net worth	$ 125,000	$ 181,410
Total leverage	< 60%	44.6%
Secured leverage	< 30%	21.0%
Unencumbered leverage	< 60%	35.6%
Fixed charge coverage	> 1.50x	3.2x

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We have fifteen mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of June 30, 2015, with a combined outstanding balance of $116.3 million (excluding net debt premium, of $412,000 at June 30, 2015). The following table summarizes our outstanding mortgages, excluding net debt premium, at June 30, 2015 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands)(a)	Interest Rate	Maturity Date
Desert Valley Medical Center floating rate mortgage loan (b.)	$ 3,805	3.43%	October, 2015
Palmdale Medical Plaza fixed rate mortgage loan (b.)	5,931	3.69%	October, 2015
Summerlin Hospital Medical Office Building III floating rate mortgage loan	10,861	3.43%	December, 2016
Peace Health fixed rate mortgage loan	21,021	5.64%	April, 2017
Auburn Medical II floating rate mortgage loan	7,069	2.93%	April, 2017
Medical Center of Western Connecticut fixed rate mortgage loan	4,724	6.00%	June, 2017
Summerlin Hospital Medical Office Building II fixed rate mortgage loan	11,575	5.50%	October, 2017
Phoenix Children s East Valley Care Center fixed rate mortgage loan	6,417	5.88%	December, 2017

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Facility Name	Outstanding Balance (in thousands)(a)	Interest Rate	Maturity Date
Centennial Hills Medical Office Building floating rate mortgage loan	10,491	3.43%	January, 2018
Sparks Medical Building/Vista Medical Terrace floating rate mortgage loan	4,415	3.43%	February, 2018
Rosenberg Children s Medical Plaza fixed rate mortgage loan	8,399	4.85%	May, 2018
Vibra Hospital-Corpus Christi fixed rate mortgage loan	2,859	6.50%	July, 2019
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	6,516	4.54%	June, 2022
BRB Medical Office Building fixed rate mortgage loan	6,586	4.27%	December, 2022
Tuscan Professional Building fixed rate mortgage loan	5,654	5.56%	June, 2025
Total	$ 116,323		

(a) Amortized principal payments are made on a monthly basis.
(b) We expect this loan to be refinanced for three to ten year terms at the then current market interest rates. In the unexpected event that we are unable to refinance this loan on reasonable terms, we will explore other financing alternatives, including, among other things, utilizing funds borrowed under our revolving credit facility.

Off Balance Sheet Arrangements

As of June 30, 2015, we are party to certain off balance sheet arrangements consisting of standby letters of credit and equity and debt financing commitments. Our outstanding letters of credit at June 30, 2015 totaled $5.1 million consisting of: (i) $1.9 million related to Centennial Hills Medical Properties; (ii) $1.1 million related to Palmdale Medical Properties; (iii) $1.0 million related to FTX MOB Phase II, LP; (iv) $646,000 related to Banburry Medical Properties, and; (v) $478,000 related to Arlington Medical Properties.

Acquisition and Divestiture Activity

Please see Note 4 to the condensed consolidated financial statements for completed transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in the quantitative and qualitative disclosures during the first six months of 2015.

Item 4. Controls and Procedures

As of June 30, 2015, under the supervision and with the participation of our management, including the Trust s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act

of 1934, as amended (the 1934 Act).

Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the 1934 Act and the SEC rules thereunder.

There have been no changes in our internal control over financial reporting or in other factors during the first six months of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

UNIVERSAL HEALTH REALTY INCOME TRUST

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2014 includes a listing of risk factors to be considered by investors in our securities. There have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

(a.) Exhibits:

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2015

UNIVERSAL HEALTH REALTY INCOME TRUST

(Registrant)

/s/ Alan B. Miller
Alan B. Miller,
Chairman of the Board,

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Charles F. Boyle
Charles F. Boyle, Vice President and Chief Financial Officer

(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Description
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