UNIVERSAL HEALTH REALTY INCOME TRUST
Form 10-K
March 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	23-6858580 (I.R.S. Employer Identification Number)
Universal Corporate Center 367 South Gulph Road P.O. Box 61558 King of Prussia, Pennsylvania (Address of principal executive offices)	19406-0958 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Shares of beneficial interest, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨	Smaller reporting company ¨ (Do not check if a smaller reporting company)

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

Aggregate market value of voting shares and non-voting shares held by non-affiliates as of June 30, 2015: $574,054,742 (For the purpose of this calculation only, all members of the Board of Trustees are deemed to be affiliates). Number of shares of beneficial interest outstanding of registrant as of January 31, 2016: 13,327,067

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for our 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2015 (incorporated by reference under Part III).

UNIVERSAL HEALTH REALTY INCOME TRUST

2015 FORM 10-K ANNUAL REPORT

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This Annual Report on Form 10-K is for the year ended December 31, 2015. This Annual Report modifies and supersedes documents filed prior to this Annual Report. Information that we file with the Securities and Exchange Commission (the "SEC") in the future will automatically update and supersede information contained in this Annual Report. In this Annual Report, "we," "us," "our" and the "Trust" refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Annual Report, including in Part I, Item 1.-Relationship with Universal Health Services, Inc. ("UHS"), 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 and two free-standing emergency departments ("FEDs") are leased to subsidiaries of UHS and fourteen medical office buildings (MOBs"), 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 Annual 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 8 to the Consolidated Financial Statements included herein).

PART I

ITEM 1. Business

General

We are a real estate investment trust ("REIT") which commenced operations in 1986. We invest in health care 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 February 29, 2016, we have sixty-two real estate investments located in eighteen states in the United States consisting of: (i) six hospital facilities including three acute care, one rehabilitation and two sub-acute; (ii) forty-nine MOBs; (iii) three free-standing emergency departments ("FEDs"), and; (iv) four preschool and childcare centers.

Available Information

We have our principal executive offices at Universal Corporate Center, 367 South Gulph Road, King of Prussia, PA 19406. Our telephone number is (610) 265-0688. Our website is located at http://www.uhrit.com. Copies of the annual, quarterly and current reports we file with the SEC, and any amendments to those reports, are available free of charge on our website. Additionally, we have adopted governance guidelines, a Code of Business Conduct and Ethics applicable to all of our officers and directors, a Code of Ethics for Senior Officers and charters for each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of the Board of Trustees. These documents are also available free of charge on our website. Copies of such reports and charters are available in print to any shareholder who makes a request. Such requests should be made to our Secretary at our King of Prussia, PA corporate headquarters. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers of any provision of our Code of Ethics for Senior Officers by promptly posting this information on our website. The information posted on our website is not incorporated into this Annual Report.

In accordance with Section 303A.12(a) of The New York Stock Exchange Listed Company Manual, we submitted our CEO's Certification to the New York Stock Exchange in 2015. Additionally, contained in Exhibits 31.1 and 31.2 of this Annual Report are our CEO's and CFO's certifications regarding the quality of our public disclosure under Section 302 of the Sarbanes-Oxley Act of 2002.

Overview of Facilities

As of February 29, 2016, we have investments in sixty-two facilities, located in eighteen states and consisting of the following:

Facility Name	Location	Type of Facility	Ownership	Guarantor
Southwest Healthcare System, Inland Valley Campus(A)	Wildomar, CA	Acute Care	100%	Universal Health Services, Inc.
McAllen Medical Center(A)	McAllen, TX	Acute Care	100%	Universal Health Services, Inc.
Wellington Regional Medical Center(A)	W. Palm Beach, FL	Acute Care	100%	Universal Health Services, Inc.
Kindred Hospital Chicago Central(B)	Chicago, IL	Sub-Acute Care	100%	Kindred Healthcare, Inc.
Vibra Hospital of Corpus Christi(B)	Corpus Christi, TX	Sub-Acute Care	100%	Kindred Healthcare, Inc.
HealthSouth Deaconess Rehabilitation Hospital(F)	Evansville, IN	Rehabilitation	100%	HealthSouth Corporation
Family Doctor’s Medical Office Bldg.(B)	Shreveport, LA	MOB	100%	Christus Health Northern Louisi
Kelsey-Seybold Clinic at Kings Crossing(B)	Kingwood, TX	MOB	100%	Kelsey-Seybold Medical Group, PLLC
Professional Bldgs. at Kings Crossing Building A(B)				
Building A(B)	Kingwood, TX	MOB	100%	—
Building B(B)	Kingwood, TX	MOB	100%	—
Chesterbrook Academy(B)	Audubon, PA	Preschool & Childcare	100%	Nobel Learning Comm. & Subs.
Chesterbrook Academy(B)	New Britain, PA	Preschool & Childcare	100%	Nobel Learning Comm. & Subs.
Chesterbrook Academy(B)	Newtown, PA	Preschool & Childcare	100%	Nobel Learning Comm. & Subs.
Chesterbrook Academy(B)	Uwchlan, PA	Preschool & Childcare	100%	Nobel Learning Comm. & Subs.
Southern Crescent Center I(B)	Riverdale, GA	MOB	100%	—
Southern Crescent Center, II(D)	Riverdale, GA	MOB	100%	—
Suburban Medical Plaza II(C)	Louisville, KY	MOB	33%	—
Desert Valley Medical Center(E)	Phoenix, AZ	MOB	100%	—
Cypresswood Professional Center(B)				
8101	Spring, TX	MOB	100%	—
8111	Spring, TX	MOB	100%	—
Desert Springs Medical Plaza(D)	Las Vegas, NV	MOB	100%	—
701 South Tonopah Bldg.(A)	Las Vegas, NV	MOB	100%	—
Santa Fe Professional Plaza(E)	Scottsdale, AZ	MOB	100%	—
Summerlin Hospital MOB I(D)	Las Vegas, NV	MOB	100%	—
Summerlin Hospital MOB II(D)	Las Vegas, NV	MOB	100%	—
Medical Center of Western Connecticut(B)	Danbury, CT	MOB	100%	—
Mid Coast Hospital MOB(C)	Brunswick, ME	MOB	74%	—

Rosenberg Children's Medical Plaza(E)	Phoenix, AZ	MOB	100%	—
Gold Shadow(D)				
700 Shadow Lane MOB	Las Vegas, NV	MOB	100%	—
2010 & 2020 Goldring MOBs	Las Vegas, NV	MOB	100%	—
St. Mary's Professional Office Building(C)	Reno, NV	MOB	85%	—
Apache Junction Medical Plaza(E)	Apache Junction, AZ	MOB	100%	—
Spring Valley Medical Office Building(D)	Las Vegas, NV	MOB	100%	—
Spring Valley Hospital Medical Office Building II(D)	Las Vegas, NV	MOB	100%	—
Sierra San Antonio Medical Plaza(E)	Fontana, CA	MOB	100%	—
Phoenix Children's East Valley Care Center(E)	Phoenix, AZ	MOB	100%	—
Centennial Hills Medical Office Building(D)	Las Vegas, NV	MOB	100%	—
Palmdale Medical Plaza(D)	Palmdale, CA	MOB	100%	—
Summerlin Hospital Medical Office Building III(D)	Las Vegas, NV	MOB	100%	—
Vista Medical Terrace(D)	Sparks, NV	MOB	100%	—
The Sparks Medical Building(D)	Sparks, NV	MOB	100%	—
Auburn Medical Office Building II(E)	Auburn, WA	MOB	100%	—
Texoma Medical Plaza(G)	Denison, TX	MOB	95%	—
BRB Medical Office Building(E)	Kingwood, TX	MOB	100%	—
3811 E. Bell(E)	Phoenix, AZ	MOB	100%	—
Lake Pointe Medical Arts Building(E)	Rowlett, TX	MOB	100%	—
Forney Medical Plaza(E)	Forney, TX	MOB	100%	—
Tuscan Professional Building(E)	Irving, TX	MOB	100%	—
Emory at Dunwoody Building(E)	Atlanta, GA	MOB	100%	—
PeaceHealth Medical Clinic(E)(H)	Bellingham, WA	MOB	100%	—
Forney Medical Plaza II(J)	Forney, TX	MOB	95%	—
Northwest Texas Professional Office Tower(E)	Amarillo, TX	MOB	100%	—
5004 Poole Road MOB(A)	Denison, TX	MOB	100%	—
Ward Eagle Office Village(E)	Farmington Hills, MI	MOB	100%	—
The Children's Clinic at Springdale(E)	Springdale, AR	MOB	100%	—
The Northwest Medical Center at Sugar Creek(E)	Bentonville, AR	MOB	100%	—
Hanover Emergency Center (E)(K)	Mechanicsville, VA	FED	100%	—
Weslaco Free-standing Emergency Department(L)	Weslaco, TX	FED	100%	—
Mission Free-standing Emergency Department(L)	Mission, TX	FED	100%	—
Haas Medical Office Park (E)(I)	Ottumwa, IA	MOB	100%	Regional Hospital Partners
Piedmont - Roswell Physician Center (M)	Sandy Springs, GA	MOB	100%	—
Piedmont - Vinings Physician Center (M)	Vinings, GA	MOB	100%	—

(A) Real estate assets owned by us and leased to subsidiaries of Universal Health Services, Inc. (“UHS”).

(B) Real estate assets owned by us and leased to an unaffiliated third-party or parties.
(C) Real estate assets owned by a limited liability company ("LLC") in which we have a noncontrolling ownership interests and include tenants who are unaffiliated third-parties.
(D) Real estate assets owned by us or an LLC in which we hold 100% ownership interests and include tenants who are subsidiaries of UHS.
(E) Real estate assets owned by us or an LLC in which we hold 100% ownership interests and include tenants who are unaffiliated third-parties.
(F) The lessee on the HealthSouth Deaconess Rehabilitation Hospital ("Deaconess") is HealthSouth/Deaconess L.L.C., a joint venture between HealthSouth Properties Corporation and Deaconess Hospital, Inc. The lease with Deaconess is scheduled to expire on May 31, 2019.
(G) Real estate assets owned by an LLC or a limited partnership ("LP") in which we have a noncontrolling ownership interest. Tenants of this MOB include subsidiaries of UHS.
(H) This MOB was acquired during the first quarter of 2012. In connection with the third-party loan agreement on this property, we are required to maintain separate financial records for the related entities.
(I) This MOB was acquired during the first quarter of 2015.
(J) Real estate assets owned by an LP in which we have a noncontrolling ownership interest as indicated above and include tenants who are unaffiliated third-parties.
(K) This free-standing emergency department was acquired during the third quarter of 2014 and has a 10-year initial term lease agreement with HCA Health Services of Virginia, Inc.
(L) This free-standing emergency department was acquired during the first quarter of 2015 and has a 10-year initial term lease agreement with a subsidiary of UHS.
(M) These MOBs, in addition to $2 million in cash, were acquired during the second quarter of 2015 in exchange for the real property of Sheffield Medical Building, and have 15-year initial term master lease agreements with Piedmont Healthcare, Inc.

Other Information

Included in our portfolio at December 31, 2015 are six hospital facilities with an aggregate investment of $130.4 million. The leases with respect to the six hospital facilities comprised approximately 29% of our consolidated revenues in 2015. The leases with respect to the seven hospital facilities, including The Bridgeway which was sold on December 31, 2014, as discussed below, comprised approximately 33% of our consolidated revenues in 2014 and approximately 36% of our consolidated revenues in 2013.

As of January 1, 2016, the leases on our six hospital facilities have fixed terms with an average of 1.8 years remaining and include renewal options ranging from one to five, five-year terms. The remaining lease terms for each hospital facility, which vary by hospital, are included herein in Item 2. Properties.

We believe a facility's earnings before interest, taxes, depreciation, amortization and lease rental expense ("EBITDAR") and a facility's EBITDAR divided by the sum of minimum rent plus additional rent payable to us ("Coverage Ratio"), which are non-GAAP financial measures, are helpful to us and our investors as a measure of the operating performance of a hospital facility. EBITDAR, which is used as an indicator of a facility's estimated cash flow generated from operations (before rent expense, capital additions and debt service), is used by us in evaluating a facility's financial viability and its ability to pay rent. For the hospital facilities owned by us at the end of each respective year (including The Bridgeway which was sold on December 31, 2014, as discussed herein), the combined weighted average Coverage Ratio was approximately 8.1 (ranging from 1.1 to 19.3) during 2015, 8.0 (ranging from 2.7 to 18.3) during 2014 and 6.3 (ranging from 2.5 to 18.5) during 2013. The Coverage Ratio for individual facilities varies. See "Relationship with Universal Health Services, Inc." below for Coverage Ratio information related to the hospital facilities leased to subsidiaries of UHS.

Pursuant to the terms of the leases for our hospital facilities, free-standing emergency departments and the preschool and childcare centers, each lessee, including subsidiaries of UHS, is responsible for building operations, maintenance, renovations and property insurance. We, or the LLCs in which we have invested, are responsible for the building

operations, maintenance and renovations of the MOBs, however, a portion, or in some cases all, of the expenses associated with the MOBs are passed on directly to the tenants. Cash reserves have been established to fund required building maintenance and renovations at the multi-tenant MOBs. Lessees are required to maintain all risk, replacement cost and commercial property insurance policies on the leased properties and we, or the LLC in which we have invested, are also named insureds on these policies. In addition, we, UHS or the LLCs in which we have invested, maintain property insurance on all properties. For additional information on the terms of our leases, see "Relationship with Universal Health Services, Inc."

See our consolidated financial statements and accompanying notes to the consolidated financial statements included in this Annual Report for our total assets, liabilities, debt, revenues, income and other operating information.

Relationship with Universal Health Services, Inc. ("UHS")

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. The 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 accounted for approximately 31% of our total revenue for the five years ended December 31, 2015 (approximately 25% for the year ended December 31, 2015 and approximately 28% and 30% for the years ended December 31, 2014 and 2013, respectively). The decrease during 2015 and 2014 as compared to 2013 is due primarily to the 2014 purchase of the third-party minority ownership interests in eight LLCs in which we previously held noncontrolling ownership interests. As a result of these transactions, we own 100% of each of these LLCs and began accounting for each on a consolidated basis effective on the dates of purchase of the minority ownership interests (January and August, 2014). 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% of the combined consolidated and unconsolidated revenue for the five years ended December 31, 2015 (approximately 20% for the year ended December 31, 2015 and 22% for each of the years ended December 31, 2014 and 2013). In addition, including the two free-standing emergency departments ("FEDs") acquired by us from subsidiaries of UHS during the first quarter of 2015 (as discussed below), sixteen MOBs/FEDs, that are either wholly or jointly-owned, 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. A gain on divestiture of real property of approximately $13.0 million is included in our results of operations for the twelve-month period ended December 31, 2014. Prior to its divestiture in 2014, our revenues, net cash provided by operating activities and funds from operations included approximately $1.1 million earned annually in connection with The Bridgeway's lease.

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	Type of Facility	Annual Minimum Rent	End of Lease Term	Renewal Term (years)
McAllen Medical Center	Acute Care	$5,485,000	December, 2016	15(a)
Wellington Regional Medical Center	Acute Care	$3,030,000	December, 2016	15(b)
Southwest Healthcare System, Inland Valley Campus	Acute Care	$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 were 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 the these leases. The existing lease terms for our three acute care hospitals operated by wholly-owned subsidiaries of UHS are scheduled to expire in December, 2016 and we can provide no assurance that these leases will be renewed at the existing lease rates.

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. Our advisory fee was 0.70% during each of 2015, 2014 and 2013 of our average invested real estate assets, as derived from our consolidated balance sheet. In December of 2015, 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 2016 pursuant to the same terms as the Advisory Agreement in place during the last three years.

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 2015, 2014 or 2013 since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to $2.8 million during 2015, $2.5 million during 2014 and $2.4 million during 2013 and were based upon average invested real estate assets of $401 million, $363 million and $338 million during 2015, 2014 and 2013, respectively.

Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of December 31, 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 compensation awards in the form of restricted stock and/or cash bonuses.

Share Ownership: As of December 31, 2015 and 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 Securities and Exchange Commission ("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% of our consolidated revenues for the year ended December 31,

2015 and 28% and 30% of our consolidated revenues for the years ended December 31, 2014 and 2013, 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 at www.sec.gov. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

Taxation

We believe we have operated in such a manner as to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, and we intend to continue to operate in such a manner. If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to shareholders. This treatment substantially eliminates the "double taxation", i.e., at the corporate and shareholder levels, that usually results from investment in the stock of a corporation.

Please see the heading "If we fail to maintain our REIT status, we will become subject to federal income tax on our taxable income at regular corporate rates" under "Risk Factors" for more information.

Competition

We compete for the acquisition, leasing and financing of health care related facilities. Our competitors include, but are not limited to, other REITs, banks and other companies, including UHS. Some of these competitors are larger and may have a lower cost of capital than we do. These developments could result in fewer investment opportunities for us and lower spreads over the cost of our capital, which would hurt our growth.

In most geographical areas in which our facilities operate, there are other facilities that provide services comparable to those offered by our facilities. In addition, some competing facilities are owned by tax-supported governmental agencies or by nonprofit corporations and may be supported by endowments and charitable contributions and exempt from property, sales and income taxes. Such exemptions and support are not available to certain operators of our facilities, including UHS. In some markets, certain competing facilities may have greater financial resources, be better equipped and offer a broader range of services than those available at our facilities. Certain hospitals that are located in the areas served by our facilities are specialty hospitals that provide medical, surgical and behavioral health services that may not be provided by the operators of our hospitals. The increase in outpatient treatment and diagnostic facilities, ambulatory surgical centers and freestanding emergency departments also increases competition for us.

In addition, the number and quality of the physicians on a hospital's staff are important factors in determining a hospital's success and competitive advantage. Typically, physicians are responsible for making hospital admission decisions and for directing the course of patient treatment. The operators of our facilities also compete with other health care providers in recruiting and retaining qualified hospital management, nurses and other medical personnel. From time-to-time, the operators of our acute care hospitals may experience the effects of a shortage of skilled nursing staff nationwide, which has caused and may continue to cause an increase in salaries, wages and benefits expense in excess of the inflation rate. Our operators may experience difficulties attracting and retaining qualified physicians, nurses and medical support personnel. We anticipate that our operators, including UHS, will continue to encounter increased competition in the future that could lead to a decline in patient volumes and harm their businesses, which in turn, could harm our business.

A large portion of our non-hospital properties consist of MOBs which are located either close to or on the campuses of hospital facilities. These properties are either directly or indirectly affected by the factors discussed above as well as general real estate factors such as the supply and demand of office space and market rental rates. To improve our competitive position, we anticipate that we will continue investing in additional healthcare related facilities and leasing the facilities to qualified operators, perhaps including subsidiaries of UHS.

Regulation and Other Factors

During 2015, 2014 and 2013, 25%, 25% and 28%, respectively, of our revenues were earned pursuant to leases with operators of acute care services hospitals, all of which are subsidiaries of UHS. A significant portion of the revenue earned by the operators of our acute care hospitals is derived from federal and state healthcare programs, including Medicare and Medicaid (excluding managed Medicare and Medicaid programs).

Our hospital facilities derive a significant portion of their revenue from third-party payors, including the Medicare and Medicaid programs. Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for healthcare services. Payments from federal and state government programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. Neither we nor the operators of our hospital facilities are able to predict the effect of recent and future policy changes on our respective results of operations. In addition, the uncertainty and fiscal pressures placed upon federal and state governments as a result of, among other things, the funding requirements and other provisions of the Patient Protection and Affordable Care Act, may affect the availability of taxpayer funds for

Medicare and Medicaid programs. If the rates paid or the scope of services covered by government payors are reduced, there could be a material adverse effect on the business, financial position and results of operations of the operators of our hospital facilities, and in turn, ours.

In addition, the healthcare industry is required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: hospital billing practices and prices for services; relationships with physicians and other referral sources; adequacy of medical care and quality of medical equipment and services; ownership of facilities; qualifications of medical and support personnel; confidentiality, maintenance, privacy and security issues associated with health-related information and patient medical records; the screening, stabilization and transfer of patients who have emergency medical conditions; certification, licensure and accreditation of our facilities; operating policies and procedures, and; construction or expansion of facilities and services.

These laws and regulations are extremely complex, and, in many cases, the operators of our facilities do not have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations or enforcement of these laws and regulations could subject the current or past practices of our operators to allegations of impropriety or illegality or could require them to make changes in their facilities, equipment, personnel, services, capital expenditure programs and operating expenses. Although UHS and the other operators of our hospital facilities believe that their policies, procedures and practices comply with governmental regulations, no assurance can be given that they will not be subjected to additional governmental inquiries or actions, or that they would not be faced with sanctions, fines or penalties if so subjected. Even if they were to ultimately prevail, a significant governmental inquiry or action under one of the above laws, regulations or rules could have a material adverse effect upon them, and in turn, us.

Each of our hospital facilities is deemed certified, meaning that they are accredited, properly licensed under the relevant state laws and regulations and certified under the Medicare program. The effect of maintaining certified facilities is to allow such facilities to participate in the Medicare and Medicaid programs. The operators of our hospital facilities believe that the facilities are in material compliance with applicable federal, state, local and other relevant regulations and standards. However, should any of our hospital facilities lose their deemed certified status and thereby lose certification under the Medicare or Medicaid programs, such facilities would be unable to receive reimbursement from either of those programs and their business, and in turn, ours, could be materially adversely affected.

The various factors and government regulation related to the healthcare industry, such as those outlined above, affects us because:

(i) The financial ability of lessees to make rent payments to us may be affected by governmental regulations such as licensure, certification for participation in government programs, and government reimbursement, and;
(ii) Our bonus rents on the three acute care hospitals operated by subsidiaries of UHS are based on our lessees' net revenues which in turn are affected by the amount of reimbursement such lessees receive from the government.

A significant portion of the revenue earned by the operators of our acute care hospitals is derived from federal and state healthcare programs, including Medicare and Medicaid. Under the statutory framework of the Medicare and Medicaid programs, many of the general acute care operations are subject to administrative rulings, interpretations and discretion that may affect payments made under either or both of such programs as well as by other third party payors. The federal government makes payments to participating hospitals under its Medicare program based on various formulas. For inpatient services, the operators of our acute care hospitals are subject to an inpatient prospective payment system ("IPPS"). Under IPPS, hospitals are paid a predetermined fixed payment amount for each hospital discharge. The fixed payment amount is based upon each patient's Medicare severity diagnosis related group ("MS-DRG"). Every MS-DRG is assigned a payment rate based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. These rates are based upon historical national average costs and do not consider the actual costs incurred by a hospital in providing care. The MS-DRG rates are adjusted annually based on geographic region and are weighted based upon a statistically normal distribution of severity.

For outpatient services, acute care hospitals are paid under an outpatient prospective payment system ("PPS") according to ambulatory procedure codes. The outpatient PPS rate is a geographic adjusted national payment amount that includes the Medicare payment and the beneficiary co-payment. Special payments under the outpatient PPS may be made for certain new technology items and services through transitional pass-through payments and special reimbursement rates.

Three of our acute care hospital facilities operated by subsidiaries of UHS and two sub-acute care hospital facilities operated by an unaffiliated third-party are located in Texas, Florida, California and Illinois. The majority of these states have reported significant budget deficits that have resulted in reductions of Medicaid funding at various times during the last few years and which could adversely affect future levels of Medicaid reimbursement received by certain operators of our facilities, including the operators of our hospital facilities. We can provide no assurance that

reductions to Medicaid revenues earned by operators of certain of our facilities, particularly our hospital operators in the above-mentioned states, will not have a material adverse effect on the future operating results of those operators which, in turn, could have a material adverse effect on us.

Executive Officers of the Registrant

Name	Age	Position
Alan B. Miller	78	Chairman of the Board, Chief Executive Officer and President
Charles F. Boyle	56	Vice President and Chief Financial Officer
Cheryl K. Ramagano	53	Vice President, Treasurer and Secretary
Timothy J. Fowler	60	Vice President, Acquisition and Development

Mr. Alan B. Miller has been our Chairman of the Board and Chief Executive Officer since our inception in 1986 and was appointed President in February, 2003. He had previously served as our President until 1990. Mr. Miller has been Chairman of the Board and Chief Executive Officer of UHS since its inception in 1978. He previously held the title of President of UHS as well, until 2009 when Marc D. Miller was elected as President of UHS. He is the father of Marc D. Miller, who was elected to our Board of Trustees in December, 2008 and also serves as President and a member of the Board of Directors of UHS.

Mr. Charles F. Boyle was appointed Chief Financial Officer in February, 2003 and had served as our Vice President and Controller since 1991. Mr. Boyle has held various positions at UHS since 1983 and currently serves as its Vice President and Controller. He was appointed Controller of UHS in 2003 and had served as its Assistant Vice President-Corporate Accounting since 1994.

Ms. Cheryl K. Ramagano was appointed Secretary in February, 2003 and has served as our Vice President and Treasurer since 1992. Ms. Ramagano has held various positions at UHS since 1983 and currently serves as its Vice President and Treasurer. She was appointed Treasurer of UHS in 2003 and had served as its Assistant Treasurer since 1994.

Mr. Timothy J. Fowler was elected as our Vice President of Acquisition and Development upon the commencement of his employment with UHS in 1993.

ITEM 1A. Risk Factors

We are subject to numerous known and unknown risks, many of which are described below and elsewhere in this Annual Report. Any of the events described below could have a material adverse effect on our business, financial condition and results of operations. Additional risks and uncertainties that we are not aware of, or that we currently deem to be immaterial, could also impact our business and results of operations.

The revenues and results of operations of the tenants of our hospital facilities, including UHS, and our medical office buildings, are significantly affected by payments received from the government and other third party payors.

The operators of our hospital facilities and tenants of our medical office buildings derive a significant portion of their revenue from third party payors, including the Medicare and Medicaid programs. Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for health care services. Payments from federal and state government programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. Our tenants are unable to predict the effect of recent and future policy changes on their operations.

Three of our acute care hospital facilities operated by subsidiaries of UHS and two sub-acute care hospital facilities operated by an unaffiliated third-party are located in Texas, Florida, California and Illinois. The majority of these states have reported significant budget deficits that have resulted in reductions of Medicaid funding at various times during the last few years and which could adversely affect future levels of Medicaid reimbursement received by certain operators of our facilities, including the operators of our hospital facilities. We can provide no assurance that reductions to Medicaid revenues earned by operators of certain of our facilities, particularly our hospital operators in the above-mentioned states, will not have a material adverse effect on the future operating results of those operators which, in turn, could have a material adverse effect on us. In addition, the uncertainty and fiscal pressures placed upon federal and state governments as a result of, among other things, the funding requirements and other provisions of the Patient Protection and Affordable Care Act, may affect the availability of taxpayer funds for Medicare and Medicaid programs. If the rates paid or the scope of services covered by government payors are reduced, there could be a material adverse effect on the business, financial position and results of operations of the operators of our hospital facilities, and in turn, ours.

In addition to changes in government reimbursement programs, the ability of our hospital operators to negotiate favorable contracts with private payors, including managed care providers, significantly affects the revenues and operating results of those facilities. Private payors, including managed care providers, increasingly are demanding that hospitals accept lower rates of payment. Our hospital operators expect continued third party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third party payors could have a material adverse effect on the financial position and results of operations of our hospital operators.

Reductions or changes in Medicare funding could have a material adverse effect on the future operating results of the operators of our facilities, including UHS, which could, in turn, materially reduce our revenues and net income.

On January 3, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 (the "2012 Act"). The 2012 Act postponed for two months sequestration cuts mandated under the Budget Control Act of 2011. The postponed sequestration cuts include a 2% annual reduction over ten years in Medicare spending to providers. Medicaid is exempt from sequestration. In order to offset the cost of the legislation, the 2012 Act reduces payments to other providers totaling almost $26 billion over ten years. Approximately half of those funds will come from reductions in Medicare reimbursement to hospitals. Although the Bipartisan Budget Act of 2013 has reduced certain sequestration-related budgetary cuts, spending reductions related to the Medicare program remain in place. On December 26, 2013, President Obama signed into law H.J. Res. 59, the Bipartisan Budget Act of 2013, which includes the Pathway for SGR Reform Act of 2013 ("the Act"). In addition, on February 15, 2014, Public Law 113-082 was enacted. The Act and subsequent federal legislation achieves new savings by extending sequestration for mandatory programs – including Medicare – for another three years, through 2024.

The 2012 Act includes a document and coding ("DCI") adjustment and a reduction in Medicaid disproportionate share hospital ("DSH") payments. Expected to save $10.5 billion over 10 years, the DCI adjustment decreases projected Medicare hospital payments for inpatient and overnight care through a downward adjustment in annual base payment increases. These reductions are meant to recoup what Medicare authorities consider to be "overpayments" to hospitals that occurred as a result of the transition to Medicare Severity Diagnosis Related Groups. The reduction in Medicaid DSH payments is expected to save $4.2 billion over 10 years. This provision extends the changes regarding DSH payments established by the Legislation and determines future allotments off of the rebased level. We cannot predict the effect this enactment will have on operators (including UHS), and, thus, our business.

The uncertainties of health care reform could materially affect the business and future results of operations of the operators of our facilities, including UHS, which could, in turn, materially reduce our revenues and net income.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the "PPACA"). The Healthcare and Education Reconciliation Act of 2010 (the "Reconciliation Act"), which contains a number of amendments to the PPACA, was signed into law on March 30, 2010. Two primary goals of the PPACA, combined with the Reconciliation Act (collectively referred to as the "Legislation"), are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses.

Although it is expected that as a result of the Legislation there may be a reduction in uninsured patients, which should reduce our operators' expense from uncollectible accounts receivable, the Legislation makes a number of other changes to Medicare and Medicaid which we believe may have an adverse impact on the operators of our hospital facilities. It has been projected that the Legislation will result in a net reduction in Medicare and Medicaid payments to hospitals totaling $155 billion over 10 years. The Legislation revises reimbursement under the Medicare and Medicaid programs to emphasize the efficient delivery of high quality care and contains a number of incentives and penalties under these programs to achieve these goals. The Legislation provides for decreases in the annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the market basket update beginning October 1, 2011 for Medicare Part B reimbursable items and services and beginning October 1, 2012 for Medicare inpatient hospital services. The Legislation and subsequent revisions provide for reductions to both Medicare DSH and Medicaid DSH payments. The Medicare DSH reductions began in October, 2013 with no material adverse impact to reimbursements expected until 2015 while Medicaid DSH reimbursements would not be adversely impacted until 2016. The Legislation implements a value-based purchasing program, which will reward the delivery of efficient care. Conversely, certain facilities will receive reduced reimbursement for failing to meet quality parameters; such hospitals will include those with excessive readmission or hospital-acquired condition rates.

A 2012 U.S. Supreme Court ruling limited the federal government's ability to expand health insurance coverage by holding unconstitutional sections of the Legislation that sought to withdraw federal funding for state noncompliance

with certain Medicaid coverage requirements. Pursuant to that decision, the federal government may not penalize states that choose not to participate in the Medicaid expansion program by reducing their existing Medicaid funding. Therefore, states can choose to accept or not to participate without risking the loss of federal Medicaid funding. As a result, many states, including Texas, have not expanded their Medicaid programs without the threat of loss of federal funding.

There have been several attempts in Congress to repeal or modify various provisions of the Legislation. 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 Legislation, as currently implemented, will not have a material adverse effect on the tenants/operators of our properties and, thus, our business.

In addition, in King vs. Burwell, the Supreme Court decided in favor of the federal government's ability to subsidize premiums paid by certain eligible individuals that obtain health insurance policies through federally facilitated exchanges. A number of our properties are located in states that utilize federally facilitated exchanges. The Supreme Court's decision in this case ultimately preserved the viability of federally facilitated exchanges. A different decision by the Supreme Court could have resulted in an

increased number of uninsured patients generally, including an increase of uninsured patients treated at our hospital properties located in these states.

The various provisions in the Legislation that directly or indirectly affect Medicare and Medicaid reimbursement are scheduled to take effect over a number of years. The impact of the Legislation on healthcare providers will be subject to implementing regulations, interpretive guidance and possible future legislation or legal challenges. Certain Legislation provisions, such as those creating the Medicare Shared Savings Program and the Independent Payment Advisory Board, create uncertainty in how healthcare may be reimbursed by federal programs in the future. Thus, at this time, we cannot predict the impact of the Legislation on the future reimbursement of our hospital operators and we can provide no assurance that the Legislation will not have a material adverse effect on the future results of operations of the tenants/operators of our properties and, thus, our business.

The trend toward value-based purchasing may negatively impact the revenues of our hospital operators.

We believe that value-based purchasing initiatives of both governmental and private payers tying financial incentives to quality and efficiency of care will increasingly affect the results of operations of our hospitals and other healthcare facilities and may negatively impact their revenues if they are unable to meet expected quality standards. The Affordable Care Act contains a number of provisions intended to promote value-based purchasing in federal healthcare programs. Medicare now requires providers to report certain quality measures in order to receive full reimbursement increases for inpatient and outpatient procedures that were previously awarded automatically. In addition, hospitals that meet or exceed certain quality performance standards will receive increased reimbursement payments, and hospitals that have “excess readmissions” for specified conditions will receive reduced reimbursement. Furthermore, Medicare no longer pays hospitals additional amounts for the treatment of certain hospital-acquired conditions unless the conditions were present at admission. Beginning in Federal Fiscal Year (FFY) 2015, hospitals that rank in the worst 25% of all hospitals nationally for hospital acquired conditions in the previous year will receive reduced Medicare reimbursements. The ACA also prohibits the use of federal funds under the Medicaid program to reimburse providers for treating certain provider-preventable conditions.

There is a trend among private payers toward value-based purchasing of healthcare services, as well. Many large commercial payers require hospitals to report quality data, and several of these payers will not reimburse hospitals for certain preventable adverse events. We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. We are unable at this time to predict how this trend will affect the results of operations of the operators of our hospitals, but it could negatively impact their revenues if they are unable to meet quality standards established by both governmental and private payers.

Increased competition in the health care industry has resulted in lower revenues and higher costs for our operators, including UHS, and may affect our revenues, property values and lease renewal terms.

The health care industry is highly competitive and competition among hospitals and other health care providers for patients and physicians has intensified in recent years. In most geographical areas in which our facilities are operated, there are other facilities that provide services comparable to those offered by our facilities. In addition, some competing facilities are owned by tax-supported governmental agencies or by nonprofit corporations and may be supported by endowments and charitable contributions and exempt from property, sales and income taxes. Such exemptions and support are not available to certain operators of our facilities, including UHS.

In some markets, certain competing facilities may have greater financial resources, be better equipped and offer a broader range of services than those available at our facilities. Certain hospitals that are located in the areas served by our facilities are specialty hospitals that provide medical, surgical and behavioral health services that may not be provided by the operators of our hospitals. The increase in outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical centers also increases competition for our operators.

In addition, 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.

In addition, the number and quality of the physicians on a hospital's staff are important factors in determining a hospital's competitive advantage. Typically, physicians are responsible for making hospital admission decisions and for directing the course of patient treatment. Since the operators of our facilities also compete with other health care providers, they may experience difficulties in recruiting and retaining qualified hospital management, nurses and other medical personnel.

We anticipate that our operators, including UHS, will continue to encounter increased competition in the future that could lead to a decline in patient volumes and harm their businesses, which in turn, could harm our business.

Operators that fail to comply with governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may be unable to meet their obligations to us.

Our operators, including UHS and its subsidiaries, are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes cannot be predicted. Government regulation may have a dramatic effect on our operators' costs of doing business and the amount of reimbursement received by both government and other third-party payors. The failure of any of our operators to comply with these laws, requirements and regulations could adversely affect their ability to meet their obligations to us. These regulations include, among other items: hospital billing practices and prices for service; relationships with physicians and other referral sources; adequacy of medical care; quality of medical equipment and services; qualifications of medical and support personnel; the implementation of, and continued compliance with, electronic health records' regulations; confidentiality, maintenance and security issues associated with health-related information and patient medical records; the screening, stabilization and transfer of patients who have emergency medical conditions; certification, licensure and accreditation of our facilities; operating policies and procedures, and; construction or expansion of facilities and services.

If our operators fail to comply with applicable laws and regulations, they could be subjected to liabilities, including criminal penalties, civil penalties (including the loss of their licenses to operate one or more facilities), and exclusion of one or more facilities from participation in the Medicare, Medicaid and other federal and state health care programs. The imposition of such penalties could jeopardize that operator's ability to make lease or mortgage payments to us or to continue operating its facility. In addition, our bonus rents are based on net revenues of the UHS hospital facilities, which in turn are affected by the amount of reimbursement that such lessees receive from the government.

Although UHS and the other operators of our acute care facilities believe that their policies, procedures and practices comply with governmental regulations, no assurance can be given that they will not be subjected to governmental inquiries or actions, or that they would not be faced with sanctions, fines or penalties if so subjected. Because many of these laws and regulations are relatively new, in many cases, our operators don't have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations or enforcement of these laws and regulations could subject their current or past practices to allegations of impropriety or illegality or could require them to make changes in the facilities, equipment, personnel, services, capital expenditure programs and operating expenses. Even if they were to ultimately prevail, a significant governmental inquiry or action under one of the above laws, regulations or rules could have a material adverse effect upon them, and in turn, us.

A worsening of the economic and employment conditions in the United States could materially affect our business and future results of operations of the operators of our facilities which could, in turn, materially reduce our revenues and net income.

Our future results of operations could be unfavorably impacted by deterioration in general economic conditions which could result in increases in the number of people unemployed and/or uninsured. Our operators' patient volumes, revenues and financial results depend significantly on the universe of patients with health insurance, which to a large extent is dependent on the employment status of individuals in certain markets. A worsening of economic conditions may result in a higher unemployment rate which will likely increase the number of individuals without health insurance. As a result, the operators of our facilities may experience a decrease in patient volumes. Should that occur, it may result in decreased occupancy rates at our medical office buildings as well as a reduction in the revenues earned by the operators of our hospital facilities which would 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.

The deterioration of credit and capital markets may adversely affect our access to sources of funding and we cannot be certain of the availability and terms of capital to fund the growth of our business when needed.

To retain our status as a REIT, we are required to distribute 90% of our taxable income to shareholders and, therefore, we generally cannot use income from operations to fund our growth. Accordingly, our growth strategy depends, in part, upon our ability to raise additional capital at reasonable costs to fund new investments. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our debts (including third-party debt held by various LLCs in which we own non-controlling equity interests) at or prior to their maturities and to invest at yields which exceed our cost of capital. We can provide no assurance that financing will be available to us on satisfactory terms when needed, which could harm our business. Given these uncertainties, our growth strategy is not assured and may fail.

To fund all or a portion of our future financing needs, we rely on borrowings from various sources including fixed rate, long-term debt as well as borrowings pursuant to our revolving credit agreement. If any of the lenders were unable to fulfill their future commitments, our liquidity could be impacted, which could have a material unfavorable impact on our results of operations and financial condition.

In addition, the degree to which we are, or in the future may become, leveraged, our ability to obtain financing could be adversely impacted and could make us more vulnerable to competitive pressures. Our ability to meet existing and future debt obligations depends upon our future performance and our ability to secure additional financing on satisfactory terms, each of which is subject to financial, business and other factors that are beyond our control. Any failure by us to meet our financial obligations would harm our business.

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.

A substantial portion of our revenues are dependent upon one operator. If UHS experiences financial difficulties, or otherwise fails to make payments to us, or elects not to renew the leases on our three acute care hospitals, our revenues could be materially reduced.

For the year ended December 31, 2015, UHS accounted for 33% of our consolidated revenues. In addition, as of December 31, 2015, subsidiaries of UHS leased three of the six hospital facilities owned by us with terms expiring in 2016 (The Bridgeway was sold on December 31, 2014). We cannot assure you that UHS will continue to satisfy its obligations to us or renew existing leases upon their scheduled maturity (including renewal of the leases on three acute care hospitals at existing lease rates that are scheduled to expire in December, 2016). 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 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 the hospital leases. The failure or inability of UHS to satisfy its obligations to us, or should UHS elect not to renew the leases on our three acute care hospitals, our revenues and net income could be materially reduced, which could in turn reduce the amount of dividends we pay and cause our stock price to decline.

Our relationship with UHS may create conflicts of interest.

In addition to being dependent upon UHS for a substantial portion of our revenues and leases, since 1986, UHS of Delaware, Inc. (the “Advisor”), a wholly-owned subsidiary of UHS, has served as our Advisor. Pursuant to our 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. Further, all of our officers are employees of the Advisor. As of December 31, 2015 we had no salaried employees although 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 compensation awards in the form of restricted stock and/or cash bonuses. We believe that the quality and depth of the management and advisory services provided to us by our Advisor and UHS could not be replicated by contracting with unrelated third parties or by being self-advised without considerable cost increases. We believe that these relationships have been beneficial to us in the past, but we cannot guarantee that they will not become detrimental to us in the future.

All transactions with UHS must be approved by a majority of our Independent Trustees. We believe that our current leases and business dealings with UHS have been entered into on commercially reasonable terms. However, because of our historical and continuing relationship with UHS and its subsidiaries, in the future, our business dealings may

not be on the same or as favorable terms as we might achieve with a third party with whom we do not have such a relationship. Disputes may arise between us and UHS that we are unable to resolve or the resolution of these disputes may not be as favorable to us as a resolution we might achieve with a third party.

We hold non-controlling equity ownership interests in various joint-ventures.

For the year ended December 31, 2015, 18% of our consolidated and unconsolidated revenues were generated by LLCs/LPs in which we hold a non-controlling equity ownership interest. As of December 31, 2015, we hold non-controlling equity ownership interests, ranging from 33% to 95%, in five LLCs/LPs.

Our level of investment and lack of control exposes us to potential losses of our investments and revenues. Although our ownership arrangements have been beneficial to us in the past, we cannot guarantee that they will continue to be beneficial in the future.

Pursuant to the operating and/or partnership agreements of the five LLCs/LPs in which we continue to hold non-controlling ownership interests, the third-party member and the Trust, at any time, potentially subject to certain conditions, 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.

In addition to the above-mentioned rights of the third-party members, from time to time, we have had discussions with third-party members about purchasing or selling the interests to each other or a third party. If we were to sell our interests, we may not be able to redeploy the proceeds into assets at the same or greater return as we currently receive. During any such time that we were not able to do so, our ability to increase or maintain our dividend at current levels could be adversely affected which could cause our stock price to decline.

The bankruptcy, default, insolvency or financial deterioration of our tenants could significantly delay our ability to collect unpaid rents or require us to find new operators.

Our financial position and our ability to make distributions to our shareholders may be adversely affected by financial difficulties experienced by any of our major tenants, including bankruptcy, insolvency or a general downturn in the business. We are exposed to the risk that our operators may not be able to meet their obligations, which may result in their bankruptcy or insolvency. Although our leases and loans provide us the right to terminate an investment, evict an operator, demand immediate repayment and other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to restrict our ability to collect unpaid rents or interest during the bankruptcy proceeding.

Required regulatory approvals can delay or prohibit transfers of our healthcare facilities.

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals under certificate of need laws and Medicare and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability or require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, all of which may materially adversely affect our business, results of operations, and financial condition.

Real estate ownership creates risks and liabilities that may result in unanticipated losses or expenses.

Our business is subject to risks associated with real estate acquisitions and ownership, including:

- general liability, property and casualty losses, some of which may be uninsured;
- the illiquid nature of real estate and the real estate market that impairs our ability to purchase or sell our assets rapidly to respond to changing economic conditions;

- real estate market factors, such as 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;
- costs that may be incurred relating to maintenance and repair, and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- environmental hazards at our properties for which we may be liable, including those created by prior owners or occupants, existing tenants, mortgagors or other persons, and;
- defaults and bankruptcies by our tenants.

In addition to the foregoing risks, we cannot predict whether the leases on our properties, including the leases on the properties leased to subsidiaries of UHS, which have options to purchase the respective leased facilities at the end of the lease or renewal terms at the appraised fair market value, will be renewed at their current rates at the end of the lease terms in 2016. If the leases are not renewed, we may be required to find other operators for these facilities and/or enter into leases with less favorable terms. The exercise of purchase options for our facilities may result in a less favorable rate of return for us than the rental revenue currently earned on such facilities. Further, the purchase options and rights of first refusal granted to the respective lessees to purchase or lease the respective leased facilities, after the expiration of the lease term, may adversely affect our ability to sell or lease a facility, and may present a potential conflict of interest between us and UHS since the price and terms offered by a third-party are likely to be dependent, in part, upon the financial performance of the facility during the final years of the lease term.

Significant potential liabilities and rising insurance costs and availability may have an adverse effect on the operations of our operators, which may negatively impact their ability to meet their obligations to us.

As is typical in the healthcare industry, in the ordinary course of business, our operators, including UHS, are subject to medical malpractice lawsuits, product liability lawsuits, class action lawsuits and other legal actions. Some of these actions may involve large claims, as well as significant defense costs. If their ultimate liability for professional and general liability claims could change materially from current estimates, if such policy limitations should be partially or fully exhausted in the future, or payments of claims exceed estimates or are not covered by insurance, it could have a material adverse effect on the operations of our operators and, in turn, us.

Property insurance rates, particularly for earthquake insurance in California, have also continued to increase. Our tenants and operators, including UHS, may be unable to fulfill their insurance, indemnification and other obligations to us under their leases and mortgages and thereby potentially expose us to those risks. In addition, our tenants and operators may be unable to pay their lease or mortgage payments, which could potentially decrease our revenues and increase our collection and litigation costs. Moreover, to the extent we are required to foreclose on the affected facilities, our revenues from those facilities could be reduced or eliminated for an extended period of time. In addition, we may in some circumstances be named as a defendant in litigation involving the actions of our operators. Although we have no involvement in the activities of our operators and our standard leases generally require our operators to carry insurance to cover us in certain cases, a significant judgment against us in such litigation could exceed our and our operators' insurance coverage, which would require us to make payments to cover the judgment.

If we fail to maintain our REIT status, we will become subject to federal income tax on our taxable income at regular corporate rates.

In order to qualify as a REIT, we must comply with certain highly technical and complex Internal Revenue Code provisions. Although we believe we have been qualified as a REIT since our inception, there can be no assurance that we have been so qualified or will remain qualified in the future. Failure to qualify as a REIT may subject us to income tax liabilities, including federal income tax at regular corporate rates. The additional income tax incurred may significantly reduce the cash flow available for distribution to shareholders and for debt service. In addition, if disqualified, we might be barred from qualification as a REIT for four years following disqualification. Also, if disqualified, we will not be allowed a deduction for distributions to stockholders in computing our taxable income and we could be subject to increased state and local income taxes.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any of these taxes would decrease cash available for the payment of our debt obligations.

Dividends paid by REITs generally do not qualify for reduced tax rates.

In general, dividends (qualified) paid by a U.S. corporation to individual U.S. shareholders are subject to Federal income tax at a maximum rate of 20% (subject to certain additional taxes for certain taxpayers). In contrast, since we are a REIT, our distributions to individual U.S. shareholders are not eligible for the reduced rates which apply to distributions from regular corporations, and thus may be subject to Federal income tax at a rate as high as 39.6% (subject to certain additional taxes for certain taxpayers).

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.

To obtain the favorable tax treatment associated with qualifying as a REIT, in general, we are required each year to distribute to our shareholders at least 90% of our net taxable income. In addition, we are subject to a tax on any undistributed portion of our income at regular corporate rates and might also be subject to a 4% excise tax on this undistributed income. To meet the distribution requirements necessary to achieve the tax benefits associated with qualifying as a REIT, we could be required to: (i) seek borrowed funds even if conditions are not favorable for borrowing; (ii) issue equity which could have a dilutive effect on the future dividends and share value of our existing shareholders, and/or; (iii) divest assets that we might have otherwise decided to retain. Securing funds through these other non-operating means could adversely affect our financial condition and future results of operations.

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

To qualify as a REIT for federal income tax purposes, we continually must satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income, asset-diversification or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

The market value of our common stock could be substantially affected by various factors.

Many factors, certain of which are outside of our control, could have an adverse effect on the share price of our common stock. These factors include certain of the risks discussed herein, our financial condition, performance and prospects, the market for similar securities issued by REITs, demographic changes, operating results of our operators and other hospital companies, changes in our financial estimates or recommendations of securities analysts, speculation in the press or investment community, the possible effects of war, terrorist and other hostilities, adverse weather conditions, the level of seasonal illnesses, changes in general conditions in the economy, financial markets or overall interest rate environment, or other developments affecting the health care industry.

Ownership limitations and anti-takeover provisions in our declaration of trust and bylaws and under Maryland law and in our leases with UHS may delay, defer or prevent a change in control or other transactions that could provide shareholders with a take-over premium. We are subject to significant anti-takeover provisions.

In order to protect us against the risk of losing our REIT status for federal income tax purposes, our declaration of trust permits our Trustees to redeem shares acquired or held in excess of 9.8% of the issued and outstanding shares of our voting stock and, which in the opinion of the Trustees, would jeopardize our REIT status. In addition, any acquisition of our common or preferred shares that would result in our disqualification as a REIT is null and void. The right of redemption may have the effect of delaying, deferring or preventing a change in control of our company and could adversely affect our shareholders’ ability to realize a premium over the market price for the shares of our common stock.

Our declaration of trust authorizes our Board of Trustees to issue additional shares of common and preferred stock and to establish the preferences, rights and other terms of any series of preferred stock that we issue. Although our Board of Trustees has no intention to do so at the present time, it could establish a series of preferred stock that could delay, defer or prevent a transaction or a change in control that might involve the payment of a premium over the market price for our common stock or otherwise be in the best interests of our shareholders.

The Master Lease Documents by and among us and certain subsidiaries of UHS, which governs the three acute care hospital properties and the freestanding emergency departments leased to subsidiaries of UHS, includes a change of control provision. The change of control provision grants UHS the right, upon one month's notice should a change of control of the Trust occur, to purchase any or all of the leased hospital properties at their appraised fair market values. The exercise of this purchase option may result in a less favorable rate of return earned on the sales proceeds received than the rental revenue currently earned on such facilities.

These provisions could discourage unsolicited acquisition proposals or make it more difficult for a third-party to gain control of us, which could adversely affect the market price of our securities and prevent shareholders from receiving a take-over premium.

We depend heavily on key management personnel and the departure of one or more of our key executives or a significant portion of our operators' local hospital management personnel could harm our business.

The expertise and efforts of our senior executives and key members of our operators' local hospital management personnel are critical to the success of our business. The loss of the services of one or more of our senior executives or of a significant portion of our operators' local hospital management personnel could significantly undermine our management expertise and our operators' ability to provide efficient, quality health care services at our facilities, which could harm their business, and in turn, harm our business.

Increasing investor interest in our sector and consolidation at the operator or REIT level could increase competition and reduce our profitability.

Our business is highly competitive and we expect that it may become more competitive in the future. We compete for the acquisition, leasing and financing of health care related facilities. Our competitors include, but are not limited to, other REITs, banks and other companies, including UHS, some of which are larger and may have a lower cost of capital than we do. These developments could result in fewer investment opportunities for us and lower spreads over our cost of our capital, which would hurt our growth. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected.

We may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other operators and tenants.

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific. A new or replacement operator or tenant may require different features in a property, depending on that operator's or tenant's particular operations. If a current operator or tenant is unable to pay rent and vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another operator or tenant. Also, if the property needs to be renovated to accommodate multiple operators or tenants, we may incur substantial expenditures before we are able to re-lease the space. These expenditures or renovations may materially adversely affect our business, results of operations and financial condition.

We are subject to significant corporate regulation as a public company and failure to comply with all applicable regulations could subject us to liability or negatively affect our stock price.

As a publicly traded company, we are subject to a significant body of regulation, including the Sarbanes-Oxley Act of 2002. While we have developed and instituted a corporate compliance program based on what we believe are the current best practices in corporate governance and continue to update this program in response to newly implemented or changing regulatory requirements, we cannot provide assurance that we are or will be in compliance with all potentially applicable corporate regulations. For example, we cannot provide assurance that in the future our management will not find a material weakness in connection with its annual review of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We also cannot provide assurance that we could correct any such weakness to allow our management to assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year in time to enable our independent registered public accounting firm to state that we have maintained effective internal control over financial reporting as of the end of our fiscal year. If we fail to comply with any of these regulations, we could be subject to a range of regulatory actions, fines or other sanctions or litigation. If we must disclose any material weakness in our internal control over financial reporting, our

stock price could decline.

Different interpretations of accounting principles could have a material adverse effect on our results of operations or financial condition.

Generally accepted accounting principles are complex, continually evolving and may be subject to varied interpretation by us, our independent registered public accounting firm and the SEC. Such varied interpretations could result from differing views related to specific facts and circumstances. Differences in interpretation of generally accepted accounting principles could have a material adverse effect on our financial position or results of operations.

Item 1B. Unresolved Staff Comments
None.

ITEM 2. Properties

The following table shows our investments in hospital facilities leased to UHS and other non-related parties and also provides information related to various properties in which we have significant investments, some of which are accounted for by the equity method. The capacity in terms of beds (for the hospital facilities) and the five-year occupancy levels are based on information provided by the lessees.

Hospital Facility Name and Location	Type of facility	Number of available beds @ 12/31/2015	Average Occupancy(1)					Lease Term					
			2015	2014	2013	2012	2011	Minimum rent(5)	End of initial or renewed term	Renewal term (years)	% of RSF under lease with guaranteed escalators		Range of guaranteed escalation
Southwest Healthcare System:													
Inland Valley Campus(2)(7) Wildomar, California	Acute Care	132	63%	59%	58%	62%	70%	$2,648,000	2016	15	0	%	—
McAllen Medical Center(3)(7) McAllen, Texas	Acute Care	430	48%	44%	43%	43%	45%	5,485,000	2016	15	0	%	—
Wellington Regional Medical Center(7) West Palm Beach, Florida	Acute Care	153	56%	59%	58%	69%	73%	3,030,000	2016	15	0	%	—
HealthSouth Deaconess Rehab. Hospital(8) Evansville, Indiana	Rehabilitation	85	80%	80%	79%	79%	75%	714,000	2019	5	0	%	—
Vibra Hospital of Corpus	Sub-	74	56%	58%	58%	53%	54%	738,000	2019	25	100	%	3 %

Christi Corpus Christi, Texas	Acute Care														
Kindred Hospital Chicago Central(9) Chicago, Illinois	Sub-Acute Care	84	52%	54%	51%	51%	46%	1,474,000	2016	5	0	%	—		

Facility Name and Location	Type of facility	Average Occupancy(1) 2015	2014	2013	2012	2011	Lease Term Minimum rent(5)	End of initial or renewed term	Renewal term (years)	% of RSF under lease with guarantees	Range of guaranteed escalators
Spring Valley MOB I(4) Las Vegas, Nevada	MOB	61%	60%	64%	68%	75%	$714,000	2016-2021	Various	91%	2%-3%
Spring Valley MOB II(4) Las Vegas, Nevada	MOB	84%	77%	76%	76%	67%	1,079,000	2016-2022	Various	34%	1%-3%
Summerlin Hospital MOB I(4) Las Vegas, Nevada	MOB	62%	66%	77%	81%	90%	964,000	2016-2020	Various	66%	2%-3%
Summerlin Hospital MOB II(4) Las Vegas, Nevada	MOB	74%	78%	74%	82%	83%	1,496,000	2016-2021	Various	69%	2%-3%
Summerlin Hospital MOB III(4) Las Vegas, Nevada	MOB	100%	90%	81%	71%	64%	1,830,000	2016-2024	Various	53%	2%-3%

St. Mary's Professional Office Building(6) Reno, Nevada	MOB	100%	100%	98%	99%	100%	4,491,000	2016-2025	Various	31%	2%-3%			
Rosenberg Children's Medical Plaza Phoenix, Arizona	MOB	99%	99%	99%	100%	100%	1,746,000	2016-2020	Various	59%	3%			
Gold Shadow—700 Shadow(4) Las Vegas, Nevada	MOB	99%	97%	84%	82%	78%	886,000	2016-2020	Various	57%	2%			
Gold Shadow—2010 & 2020 Goldring MOBs (4) Las Vegas, Nevada	MOB	67%	64%	92%	95%	95%	1,213,000	2016-2023	Various	76%	2%-3%			
Centennial Hills MOB(4) Las Vegas, Nevada	MOB	73%	71%	62%	62%	63%	1,432,000	2016-2024	Various	48%	2%-3%			
Deset Springs Medical Plaza (4) Las Vegas, Nevada	MOB	53%	52%	56%	68%	69%	917,000	2016-2025	Various	96%	2%-3%			
PeaceHealth Medical Clinic(10) Bellingham, Washington	MOB	100%	100%	100%	100%	0%	2,565,000	2021	20	100%	1%			

(1) Average occupancy rate for the hospital facilities is based on the average number of available beds occupied during each of the five years ended December 31, 2015. Average available beds is the number of beds which are actually in service at any given time for immediate patient use with the necessary equipment and staff available for patient care. A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, incomplete construction and anticipation of future needs. The average occupancy rate of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical

and surgical practices and the degree of outpatient use of the hospital services. Average occupancy rate for the multi-tenant medical office buildings is based on the occupied square footage of each building, including any applicable master leases.

(2) In July, 2002, the operations of Inland Valley Regional Medical Center ("Inland Valley") were merged with the operations of Rancho Springs Medical Center ("Rancho Springs"), an acute care hospital located in California and also operated by UHS, the real estate assets of which are not owned by us. Inland Valley, our lessee, was merged into Universal Health Services of Rancho Springs, Inc. The merged entity is now doing business as Southwest Healthcare System ("Southwest Healthcare"). As a result of merging the operations of the two facilities, the revenues of Southwest Healthcare include the revenues of both Inland Valley and Rancho Springs. Although we do not own the real estate assets of the Rancho Springs facility, Southwest Healthcare became the lessee on the lease relating to the real estate assets of the Inland Valley facility. Since the bonus rent calculation for the Inland Valley campus is based on net revenues and the financial results of the two facilities are no longer separable, the lease was amended during 2002 to exclude from the bonus rent calculation the estimated net revenues generated at the Rancho Springs campus (as calculated pursuant to a percentage based allocation determined at the time of the merger). The average occupancy rates shown for this facility for all years were based on the combined number of beds occupied at the Inland Valley and Rancho Springs campuses.

(3) During the first quarter of 2001, UHS purchased the assets and operations of the 60-bed McAllen Heart Hospital located in McAllen, Texas. Upon the acquisition by UHS, the Heart Hospital began operating under the same license as an integrated department of McAllen Medical Center. As a result of combining the operations of the two facilities, the revenues of McAllen Medical Center include revenues generated by the Heart Hospital, the real property of which is not owned by us. Accordingly, since the bonus rent calculation for McAllen Medical Center is based on the combined net revenues of the two facilities, the McAllen Medical Center lease was amended during 2001 to exclude from the bonus rent calculation, the estimated net revenues generated at the Heart Hospital (as calculated pursuant to a percentage based allocation determined at the time of the merger). In addition, during 2000, UHS purchased the South Texas Behavioral Health Center, a behavioral health care facility located in McAllen, Texas. In 2006, a newly constructed replacement facility for the South Texas Behavioral Health Center was completed and opened. The license for this facility, the real property of which is not owned by us, was also merged with the license for McAllen Medical Center. There was no amendment to the McAllen Medical Center lease related to the operations of the South Texas Behavioral Health Center and its revenues are excluded from the bonus rent calculation. In 2015, the newly constructed Weslaco and Mission Free Standing Emergency Departments ("FEDs") were completed and opened. The license for these facilities is part of the license of McAllen Medical Center. The real property of these two FEDs was purchased by us and leased back to McAllen Medical Center. There was no amendment to the McAllen Medical Center lease related to the operations of the FEDs and their revenues will be excluded from the bonus rent calculation. No assurance can be given as to the effect, if any, the consolidation of the facilities as mentioned above, had on the underlying value of McAllen Medical Center. Base rental commitments and the guarantee by UHS under the original lease continue for the remainder of the lease terms. The average occupancy rates are based upon the combined occupancy and combined number of beds at McAllen Medical Center and McAllen Heart Hospital.

(4) The real estate assets of this facility are owned by us (either directly or through an LLC in which we hold 100% of the ownership interest) and include tenants who are subsidiaries of UHS.

(5) Minimum rent amounts contain impact of straight-line rent adjustments, if applicable.

(6) The real estate assets of this facility are owned by an LLC in which we hold a 75% non-controlling ownership interest as of December 31, 2015.

(7) See Note 2 to the consolidated financial statements-Relationship with UHS and Related Party Transactions, regarding UHS's purchase option, right of first refusal and change of control purchase option related to these properties.

(8) The lessee of this facility has a purchase option which is exercisable, subject to certain terms and conditions, at the expiration of each lease term. If exercised, the purchase option stipulates that the purchase price be the fair market value of the facility, subject to stipulated minimum and maximum prices. As currently being utilized, we believe the estimated current fair market value of the property is between the stipulated minimum and maximum prices. The lessee also has a first refusal to purchase right which, if applicable and subject to certain terms and conditions,

grants the lessee the option to purchase the property at the same terms and conditions as an accepted third-party offer.

(9) The lessee of this facility has a purchase option which is exercisable, subject to certain terms and conditions, at the expiration of each lease term. If exercised, the purchase option stipulates that the purchase price be the fair market value of the facility, subject to a stipulated minimum price. We believe the estimated current fair market value of the property exceeds the stipulated minimum price. The lessee also has a first refusal to purchase right which, if applicable and subject to certain terms and conditions, grants the lessee the option to purchase the property at the same terms and conditions as an accepted third-party offer. The existing lease on this facility, which had a Coverage Ratio of 1.1 during 2015, is scheduled to expire in December, 2016 and we can provide no assurance that it will be renewed at existing lease rates upon maturity.

(10) This MOB was acquired in January, 2012.

Leasing Trends at Our Significant Medical Office Buildings

During 2015, we had a total of 60 new or renewed leases related to the medical office buildings indicated above, in which we have significant investments, some of which are accounted for by the equity method. These leases comprised approximately 14% of the aggregate rentable square feet of these properties (4% related to renewed leases and 10% related to new leases). Rental rates, tenant improvement costs and rental concessions vary from property to property based upon factors such as, but not limited to, the current occupancy and age of our buildings, local overall economic conditions, proximity to hospital campuses and the vacancy rates, rental rates and capacity of our competitors in the market. The weighted-average tenant improvement costs associated with these new or renewed leases was approximately $11 per square foot during 2015. The weighted-average leasing commissions on the new and renewed leases commencing during 2015 was approximately 2% of base rental revenue over the term of the leases. The average aggregate value of the tenant concessions, generally consisting of rent abatements, provided in connection with new and renewed leases commencing during 2015 was approximately 2% of the future aggregate base rental revenue over the lease terms. Rent abatements were, or will be, recognized in our results of operations under the straight-line method over the lease term regardless of when payments are due. In connection with lease renewals executed during 2015, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 3%.

Set forth is information detailing the rentable square feet ("RSF") associated with each of our investments as of December 31, 2015 and the percentage of RSF on which leases expire during the next five years and thereafter. For the MOBs that have scheduled lease expirations during 2016 of 20% or greater (of RSF), we have included information regarding estimated market rates relative to lease rates on the expiring leases.

			Percentage of RSF with lease expirations					
	Total RSF	Available for Lease Jan. 1, 2016	2016	2017	2018	2019	2020	2021 and Later
Hospital Investments:								
McAllen Medical Center	422,276	0 %	100%	0 %	0 %	0 %	0 %	0 %
Wellington Regional Medical Center	196,489	0 %	100%	0 %	0 %	0 %	0 %	0 %
Southwest Healthcare System - Inland Valley	164,377	0 %	100%	0 %	0 %	0 %	0 %	0 %
Kindred Hospital Chicago Central	115,554	0 %	100%	0 %	0 %	0 %	0 %	0 %
HealthSouth Deaconess Rehab. Hospital	77,440	0 %	0 %	0 %	0 %	100 %	0 %	0 %
Vibra Hospital Corpus Christi	69,700	0 %	0 %	0 %	0 %	100 %	0 %	0 %
Sub-total Hospitals	1,045,836	0 %	86 %	0 %	0 %	14 %	0 %	0 %
Medical Office Buildings:								
Saint Mary's Professional Office Building	190,754	0 %	2 %	8 %	0 %	2 %	43 %	45 %
Goldshadow - 2010 - 2020 Goldring MOB's	74,774	28 %	9 %	25 %	2 %	3 %	7 %	26 %
Goldshadow - 700 Shadow Lane MOB (a.)	42,060	1 %	21 %	11 %	19 %	25 %	23 %	0 %
Texoma Medical Plaza	115,284	0 %	0 %	2 %	6 %	2 %	54 %	36 %
Suburban Medical Plaza II	103,011	0 %	11 %	1 %	6 %	2 %	0 %	80 %
Desert Springs Medical Plaza	102,579	45 %	2 %	0 %	14 %	8 %	0 %	31 %
Peace Health Medical Clinic	98,886	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Centennial Hills Medical Office Building	96,573	26 %	10 %	2 %	13 %	5 %	22 %	22 %
Summerlin Hospital MOB II	92,313	24 %	10 %	13 %	13 %	20 %	0 %	20 %
Summerlin Hospital MOB I (a.)	89,636	37 %	31 %	9 %	4 %	4 %	15 %	0 %
The Sparks Medical Building	35,127	0 %	13 %	4 %	6 %	3 %	17 %	57 %
Vista Medical Terrace	50,921	51 %	8 %	10 %	10 %	0 %	7 %	14 %
3811 E. Bell	80,379	59 %	1 %	18 %	10 %	3 %	4 %	5 %
Summerlin Hospital MOB III	77,713	0 %	16 %	0 %	6 %	44 %	10 %	24 %
Mid Coast Hospital MOB (b.)	74,629	0 %	77 %	0 %	7 %	0 %	0 %	16 %
North West Texas Professional Office Tower (c.)	72,351	0 %	50 %	3 %	0 %	0 %	0 %	47 %
Rosenberg Children's Medical Plaza	66,231	1 %	17 %	0 %	74 %	5 %	3 %	0 %
Sierra San Antonio Medical Plaza	59,160	32 %	6 %	9 %	7 %	3 %	0 %	43 %
Palmdale Medical Plaza	58,150	38 %	8 %	5 %	9 %	0 %	9 %	31 %
Spring Valley Medical Office Building	57,828	36 %	14 %	30 %	12 %	2 %	0 %	6 %
Spring Valley Medical Office Building II	57,432	15 %	7 %	0 %	39 %	14 %	17 %	8 %
Southern Crescent Center II	53,680	39 %	10 %	0 %	0 %	8 %	4 %	39 %
Desert Valley Medical Center	53,625	13 %	11 %	9 %	11 %	7 %	9 %	40 %
Tuscan Professional Building	52,868	26 %	8 %	0 %	12 %	0 %	30 %	24 %
Lake Pointe Medical Arts Building	50,974	0 %	0 %	33 %	23 %	14 %	17 %	13 %

Forney Medical Plaza	50,947	9	%	0	%	0	%	72	%	0	%	0	%	19	%
Southern Crescent Center I	41,897	68	%	0	%	6	%	21	%	5	%	0	%	0	%
Auburn Medical Office Building	41,311	10	%	0	%	9	%	0	%	0	%	20	%	61	%
BRB Medical Office Building	40,733	9	%	4	%	0	%	17	%	3	%	67	%	0	%
Cypresswood Professional Center - 8101	10,200	100	%	0	%	0	%	0	%	0	%	0	%	0	%
Cypresswood Professional Center - 8111	29,882	10	%	0	%	11	%	7	%	16	%	56	%	0	%
Medical Center of Western Connecticut	36,141	0	%	0	%	24	%	5	%	71	%	0	%	0	%
Phoenix Children’s East Valley Care Center	30,960	0	%	0	%	0	%	0	%	0	%	0	%	100	%
Forney Medical Plaza II	30,507	67	%	0	%	0	%	5	%	0	%	0	%	28	%
Apache Junction Medical Plaza	26,901	9	%	4	%	22	%	0	%	0	%	0	%	65	%
Santa Fe Professional Plaza	24,883	25	%	6	%	11	%	11	%	17	%	10	%	20	%
Professional Bldg at King's Crossing - Bldg A	11,528	100	%	0	%	0	%	0	%	0	%	0	%	0	%
Professional Bldg at King's Crossing - Bldg B	12,790	0	%	0	%	32	%	20	%	11	%	18	%	19	%
The Children's Clinic at Springdale	9,761	0	%	0	%	0	%	0	%	0	%	0	%	100	%

			Percentage of RSF with lease expirations						
	Total RSF	Available for Lease Jan. 1, 2016	2016	2017	2018	2019	2020	2021 and Later
Northwest Medical Center at Sugar Creek	13,696	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Kelsey-Seybold Clinic at King's Crossing	20,470	0 %	0 %	0 %	0 %	0 %	100 %	0 %
Emory at Dunwoody Building	20,366	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Piedmont - Roswell Physicians Center	19,927	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Piedmont - Vinings Physicians Center	16,790	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Ward Eagle Office Village	16,282	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Haas Medical Office Park	15,850	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Family Doctor's MOB	12,050	0 %	0 %	0 %	0 %	0 %	0 %	100 %
701 South Tonopah Building	10,747	0 %	0 %	0 %	0 %	0 %	0 %	100 %
5004 Pool Road MOB	4,400	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Preschool and Childcare Centers:								
Chesterbrook Academy - Audubon	8,300	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Chesterbrook Academy - Uwchlan	8,163	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Chesterbrook Academy - Newtown	8,100	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Chesterbrook Academy - New Britain	7,998	0 %	0 %	0 %	100 %	0 %	0 %	0 %
Ambulatory Care Centers:								
Hanover Freestanding Emergency Center	22,000	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Mission Freestanding Emergency Center	13,578	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Weslaco Freestanding Emergency Center	13,578	0 %	0 %	0 %	0 %	0 %	0 %	100 %
Sub-total Other Investments	2,537,674	17 %	10 %	7 %	11 %	6 %	13 %	36 %
Total	3,583,510	12 %	32 %	5 %	8 %	9 %	9 %	25 %

(a) The estimated market rates related to the 2016 expiring RSF are greater than the lease rates on the expiring leases by an average of approximately 3%.

(b) The estimated market rates related to the 2016 expiring RSF are greater than the lease rates on the expiring leases by an average of approximately 2%.

(c) The estimated market rates related to the 2016 expiring RSF are greater than the lease rates on the expiring leases by an average of approximately 1%.

On a combined basis, based upon the aggregate revenues and square footage for the hospital facilities owned as of December 31, 2015 and 2014 (including The Bridgeway for 2014 which was sold on December 31, 2014), the average effective annual rental per square foot was $17.83 and $17.47, respectively. On a combined basis, based upon the aggregate consolidated and unconsolidated revenues and the estimated average occupied square footage for our MOBs and childcare centers owned as of December 31, 2015 and 2014, the average effective annual rental per square foot was $28.34 and $27.22, respectively. On a combined basis, based upon the aggregate consolidated and unconsolidated revenues and estimated average occupied square footage for all of our properties owned as of December 31, 2015 and 2014, the average effective annual rental per square foot was $24.84 and $23.83, respectively. The estimated average occupied square footage for 2015 was calculated by averaging the unavailable rentable square footage on January 1, 2015 and January 1, 2016. The estimated average occupied square footage for 2014 was calculated by averaging the

unavailable rentable square footage on January 1, 2014 and January 1, 2015.

During 2015, one of the UHS-related hospitals (McAllen Medical Center) generated revenues that comprised more than 10% of our consolidated revenues. None of the properties had book values greater than 10% of our consolidated assets as of December 31, 2015. Including 100% of the revenues generated at the properties owned by our unconsolidated LLCs, none of our unconsolidated LLCs had revenues greater than 10% of the combined consolidated and unconsolidated revenues during 2015. Including 100% of the book values of the properties owned by our unconsolidated LLCs, none of the properties had book values greater than 10% of the consolidated and unconsolidated assets.

The following table sets forth the average effective annual rental per square foot for 2015, based upon average occupied square feet for McAllen Medical Center:

Property	2015 Average Occupied Square Feet	2015 Revenues	2015 Average Effective Rental Per Square Foot
McAllen Medical Center	422,276	$7,122,000	$ 16.87

The following table sets forth lease expirations for each of the next ten years for properties owned or invested in as of December 31, 2015.

	Expiring Square Feet	Number of Tenants	Annual Rentals of Expiring Leases(1)	Percentage of Annual Rentals(2)
Hospital properties				
2016	898,696	4	$ 12,637,054	17 %
2017	0	0	0	0 %
2018	0	0	0	0 %
2019	147,140	2	1,452,066	2 %
2020	0	0	0	0 %
2021	0	0	0	0 %
2022	0	0	0	0 %
2023	0	0	0	0 %
2024	0	0	0	0 %
2025	0	0	0	0 %
Thereafter	0	0	0	0 %
Subtotal-hospital facilities	1,045,836	6	$ 14,089,120	19 %
Other consolidated properties				
2016	173,385	59	$ 4,591,022	6 %
2017	148,297	49	4,149,419	6 %
2018	253,764	66	7,588,862	10 %
2019	141,637	38	4,141,667	6 %
2020	194,677	50	5,838,536	8 %
2021	240,192	34	6,607,829	9 %
2022	137,069	15	3,459,019	5 %
2023	99,192	19	2,791,250	4 %
2024	42,544	4	1,361,585	2 %
2025	101,193	11	1,341,406	2 %
Thereafter	70,216	5	1,518,765	2 %
Subtotal-other consolidated properties	1,602,166	350	$ 43,389,360	60 %
Other unconsolidated properties (MOBs)				
2016	72,037	11	$ 1,923,699	2 %
2017	19,146	6	565,608	1 %
2018	19,434	6	589,126	1 %
2019	7,334	4	213,357	0 %
2020	146,591	16	4,341,190	6 %
2021	16,915	5	477,670	1 %
2022	29,279	7	835,970	1 %
2023	24,808	6	865,224	1 %
2024	40,113	7	1,236,728	2 %
2025	118,080	11	3,425,026	5 %

Thereafter	6,944	1	410,087	1	%
Subtotal-other unconsolidated properties	500,681	80	$ 14,883,685	21	%
Total all properties at December 31, 2015	3,148,683	436	$ 72,362,165	100	%

(1) The annual rentals of expiring leases reflected above were calculated based upon each property's 2015 average rental rate per occupied square foot applied to each property's scheduled lease expirations (on a square foot basis). These amounts include the data related to the unconsolidated LLCs/LPs in which we hold various non-controlling ownership interests at December 31, 2015 and exclude the bonus rentals earned on the UHS hospital facilities.

(2) The percentages of annual rentals reflected above were calculated based upon the annual rentals of expiring leases (as reflected above) divided by the total annual rentals of expiring leases (as reflected above).

ITEM 3. Legal Proceedings
None

ITEM 4. Mine Safety Disclosures
Not applicable

PART II

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

Our shares of beneficial interest are listed on the New York Stock Exchange. The high and low closing sales prices for our shares of beneficial interest for each quarter in the years ended December 31, 2015 and 2014 are summarized below:

	2015		2014	
	High Price	Low Price	High Price	Low Price
First Quarter	$56.87	$49.08	$44.21	$40.03
Second Quarter	$56.86	$46.46	$44.55	$41.73
Third Quarter	$50.35	$43.54	$44.74	$41.26
Fourth Quarter	$53.40	$46.76	$49.13	$41.47

Holders

As of January 31, 2016, there were approximately 371 shareholders of record of our shares of beneficial interest.

Dividends

It is our intention to declare quarterly dividends to the holders of our shares of beneficial interest so as to comply with applicable sections of the Internal Revenue Code governing REITs. Our revolving credit facility limits our ability to increase dividends in excess of 95% of cash available for distribution, as defined in our revolving credit agreement, unless additional distributions are required to be made so as to comply with applicable sections of the Internal Revenue Code and related regulations governing REITs. In each of the past two years, dividends per share were declared as follows:

	2015	2014
First Quarter	$.635	$.625
Second Quarter	.640	.630
Third Quarter	.640	.630

Fourth Quarter	.645	.635
	$2.560	$2.520

Stock Price Performance Graph

The following graph compares our performance with that of the S&P 500 and a group of peer companies, where performance has been weighted based on market capitalization. Companies in our peer group are as follows: HCP, Inc., Nationwide Health Properties, Inc. (included until July, 2011 when it was acquired by Ventas, Inc.), Omega Healthcare Investors, Inc., Welltower, Inc. (previously known as Health Care REIT, Inc.), Healthcare Realty Trust, Inc., LTC Properties, Inc., and National Health Investors, Inc.

The total cumulative return on investment (change in the year-end stock price plus reinvested dividends) for each of the periods for us, the peer group and the S&P 500 composite is based on the stock price or composite index at the end of fiscal 2010.

	Base Period Dec	INDEXED RETURNS Years Ending				
Company Name / Index	10	Dec 11	Dec 12	Dec 13	Dec 14	Dec 15
Universal Health Realty Income Trust	$ 100	$113.73	$155.99	$130.51	$165.99	$181.58
S&P 500 Index	$ 100	$102.11	$118.45	$156.82	$178.29	$180.75
Peer Group	$ 100	$115.60	$137.07	$125.67	$172.12	$162.52

ITEM 6. Selected Financial Data

The following table contains our selected financial data for, or at the end of, each of the five years ended December 31, 2015. You should read this table in conjunction with our consolidated financial statements and related notes contained elsewhere in this Annual Report and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	(000s, except per share amounts)				
	2015	2014	2013	2012	2011
Operating Results:					
Total revenues(1)	$63,950	$59,786	$54,280	$53,950	$29,494
Net income(2)	$23,691	$51,551	$13,169	$19,477	$73,794
Balance Sheet Data:					
Real estate investments, net of accumulated depreciation(1)(3)	$390,496	$380,109	$297,748	$314,386	$288,633
Investments in LLCs, net of liabilities(1)(4)	30,492	8,605	39,201	28,636	33,057
Intangible assets, net of accumulated amortization(3)	19,757	23,123	20,782	26,293	28,081
Total assets(1)(3)	458,901	428,866	374,179	383,554	371,241
Total indebtedness, including debt premium(1)(3)(5)	252,704	213,155	199,987	197,936	174,836
Other Data:					
Funds from operations(6)	$38,349	$35,937	$34,955	$34,280	$32,468
Cash provided by (used in):					
Operating activities	38,178	32,796	31,294	30,783	21,372
Investing activities	(44,309)	(4,038)	(13,373)	(8,565)	(7,454)
Financing activities	6,164	(29,815)	(17,491)	(30,819)	(7,426)
Per Share Data:					
Basic earnings per share:					
Total basic earnings per share(2)	$1.78	$3.99	$1.04	$1.54	$5.84
Diluted earnings per share:					
Total diluted earnings per share(2)	$1.78	$3.99	$1.04	$1.54	$5.83
Dividends per share	$2.560	$2.520	$2.495	$2.460	$2.425
Other Information (in thousands)					
Weighted average number of shares outstanding—basic	13,293	12,927	12,689	12,661	12,644
Weighted average number of shares and share equivalents outstanding—diluted	13,301	12,934	12,701	12,669	12,649

(1) As discussed in Note 1 "Summary of Significant Accounting Policies—Investments in Limited Liability Companies", our consolidated financial statements only include the consolidated accounts of our consolidated investments.

(2) Net income and earnings per share during 2015 includes: (i) an $8.7 million gain recorded in connection with a property exchange transaction, as discussed below, and; (ii) $243,000 of transaction costs related to various transactions during 2015. Net income and earnings per share during 2014 includes: (i) a $25.4 million gain recorded in connection with our purchase of third-party minority ownership interests in eight LLCs (January and August, 2014, as discussed below) in which we formerly held non-controlling majority ownership interests (we own 100% of each of these entities since the effective dates); (ii) a $13.0 million gain on the divestiture of real property (the Bridgeway), and; (iii) $427,000 of transaction costs related to the 2014 acquisition and divestiture activity previously mentioned. Net income and earnings per share during 2013 includes approximately $200,000 of transaction costs related to the acquisition of three MOBs during 2013 and the first quarter of 2014. Net income

and earnings per share during 2012 includes an $8.5 million gain on the divestitures of properties owned by two unconsolidated LLCs in which we formerly held non-controlling majority ownership interests, and $680,000 of transaction costs related to the acquisition of a medical clinic and medical office building in 2012. Net income and earnings per share data during 2011 includes: (i) a $28.6 million gain recorded in connection with our purchase of third-party minority ownership interests in various LLCs in which we formerly held non-controlling majority ownership interests (we own 100% of each of these entities since that time); (ii) a $35.8 million gain on the divestitures of properties owned by unconsolidated LLCs in which we formerly held non-controlling majority ownership interests; (iii) $518,000 of transaction costs related to the acquisition of four MOBs during 2011 and the first quarter of 2012, and; (iv) a $5.4 million charge for a provision for asset impairment recorded on a certain MOB.

(3) Amounts include: (i) the fair value of the real property (as of 2014) of the eight previously unconsolidated LLCs, which we began consolidating during the first and third quarters of 2014, subsequent to our purchase of the third-party minority ownership interests on January 1, 2014 and August 1, 2014 (we owned 100% of each of these entities at December 31, 2014), and; (ii) the fair values of the real property (as of 2011) of various previously unconsolidated LLCs, which we began consolidating during

the fourth quarter of 2011 subsequent to our purchase of the third-party minority ownership interests (we owned 100% of each of these entities at December 31, 2011).

(4) Investments in LLCs at December 31, 2014, 2013, 2012 and 2011 reflect the consolidation of various LLCs, as mentioned in notes 2 and 3 above, as well as the divestiture of property owned by various unconsolidated LLCs during 2012 and 2011. Additionally, at December 31, 2013, Investments in LLCs reflects the deconsolidation of Palmdale Medical Properties. This LLC was deemed to be a variable interest entity during the term of the master lease and was consolidated in our financial statements through June 30, 2013 since we were the primary beneficiary through that date. Effective July 1, 2013, this LLC is no longer be deemed a variable interest entity and is accounted for in our financial statements on an unconsolidated basis pursuant to the equity method. Effective January 1, 2014, Investments in LLCs reflects the consolidation of Palmdale Medical Properties, since we purchased the third-party minority ownership interests in Palmdale and began accounting for this LLC on a consolidated basis as of that date.

(5) Excludes third-party debt that is non-recourse to us, incurred by unconsolidated LLCs in which we hold various non-controlling equity interests as follows: $28.9 million as of December 31, 2015, $52.7 million as of December 31, 2014, $80.1 million as of December 31, 2013, $77.5 million as of December 31, 2012 and $101.8 million as of December 31, 2011 (See Note 8 to the consolidated financial statements).

(6) Our funds from operations ("FFO") during 2015, 2014, 2013, 2012 and 2011 are net of reductions for transaction costs of $243,000 $427,000, $203,000, $680,000 and $518,000, respectively.

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 2015, 2014, 2013, 2012 and 2011, 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.

A reconciliation of our reported net income to FFO and AFFO for each of the last five years is shown below:

	(000s)				
	2015	2014	2013	2012	2011
Net income	$23,691	$51,551	$13,169	$19,477	$73,794
Depreciation and amortization expense on real property/intangibles:					
Consolidated investments	21,710	20,548	18,496	20,030	7,173
Unconsolidated affiliates	1,690	2,290	3,290	3,293	10,558
Provision for asset impairment	—	—	—	—	5,354
Less gains:					
Gain on property exchange	(8,742)	—	—	—	—
Gains on fair value recognition resulting from the purchase of minority interests in	—	(25,409)	—	—	(28,576)

majority-owned LLCs, net					
Gain on divestiture of real property	—	(13,043)	—	—	—
Gains on divestiture of properties owned by unconsolidated LLCs, net	—	—	—	(8,520)	(35,835)
Funds From Operations	38,349	35,937	34,955	34,280	32,468
Transaction costs	243	427	203	680	518
Adjusted Funds From Operations	$38,592	$36,364	$35,158	$34,960	$32,986

ITEM 7. 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 February 29, 2016, we have sixty-two real estate investments or commitments in eighteen states consisting of:

- six hospital facilities including three acute care, one rehabilitation and two sub-acute;
- three free-standing emergency departments ("FEDs");
- forty-nine medical office buildings ("MOBs"), including five owned by unconsolidated LLCs, and;
- four preschool and childcare centers.

Forward Looking Statements

This report contains "forward-looking statements" that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of our goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future "plans," "believes," "estimates," "appears," "projects" and similar expressions, as well as statements in future tense, identify 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 (which are scheduled to expire in December, 2016) 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;

- 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. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what federal other deficit reduction initiatives may be proposed by Congress going forward. We also cannot

predict the effect these enactments will have on operators (including UHS), and, thus, our business;

- 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 ownership interests in five LLCs/LPs in which we hold non-controlling equity interests. In addition, pursuant to the operating and/or partnership agreements of the five entities in which we continue to hold non-controlling ownership interests, the third-party member and the Trust, at any time, potentially subject to certain conditions, 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 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 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 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.

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.

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 UHS and Related Party Transactions:

For disclosure related to our relationship with UHS, please refer to Note 2 to the consolidated financial statements—Relationship with UHS and Related Party Transactions.

Results of Operations

Year ended December 31, 2015 as compared to the year ended December 31, 2014:

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 Consolidated Statement of Income for the year ended December 31, 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, and our Consolidated Statement of Income for the year ended December 31, 2014 includes the revenues and expenses associated with each of these properties for the five-month period ended December 31, 2014.

The table below provides supplemental financial information related to each of the above-mentioned entities for the seven-month period ended July 31, 2014, and also presents the twelve-month period of 2014 on an "As Adjusted" financial statement presentation basis similar to the presentation applied for each entity for the twelve-month period ended December 31, 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.

Year Ended December 31, 2015 as compared to the Year Ended December 31, 2014:

	As reported in Consolidated Statements of Income for the Year Ended December 31, 2015	As reported in Consolidated Statements of Income for the Year Ended December 31, 2014	2014 Adjustments (a.)	"As Adjusted" Twelve Months Ended December 31, 2014	"As Adjusted" Variance
Revenues	$ 63,950	$ 59,786	$ 3,581	$ 63,367	$583
Expenses:					
Depreciation and amortization	22,108	20,885	732	21,617	(491)
Advisory fees to UHS	2,810	2,545	—	2,545	(265)
Other operating expenses	18,152	16,882	1,644	18,526	374
Transaction costs	243	427	—	427	184
	43,313	40,739	2,376	43,115	(198)
Income before equity in income of unconsolidated LLCs, interest expense and gains	20,637	19,047	1,205	20,252	385
Equity in income of unconsolidated LLCs	2,536	2,428	(551)	1,877	659
Gain on property exchange	8,742	-	—	-	8,742
Gains on fair value recognition resulting from purchase of minority interests in majority-owned LLCs	-	25,409	—	25,409	(25,409)
Gain on divestiture of real property	-	-	13,043	13,043	(13,043)
Interest expense, net	(8,224)	(8,376)	(654)	(9,030)	806
Net income	$ 23,691	$ 51,551	$ -	$ 51,551	$(27,860)

(a.) Adjustments consist of revenues and expenses for the seven months ended July 31, 2014, for the six LLCs that we began consolidating effective August 1, 2014, as mentioned above.

For the year ended December 31, 2015, net income was $23.7 million as compared to $51.6 million during 2014. The $27.9 million decrease in net income during 2015, as compared to 2014, was primarily attributable to the following, as computed utilizing the "As Adjusted" Variance column indicated on the table above:

- a decrease of approximately $25.4 million from the aggregate gain recorded during 2014 on the fair value recognition resulting from the purchase of minority interests in majority-owned LLCs, as discussed above;
- a decrease of approximately $13.0 million from the gain recorded during 2014 on the divestiture of real property (The Bridgeway);
- an increase of approximately $8.7 million due to the gain recorded during the second quarter of 2015 in connection with a property exchange transaction;
- a decrease of $491,000 ("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 $806,000 attributable to a decrease in interest expense ("As Adjusted") due primarily to the repayment of three third-party mortgages (during the third quarter of 2014 and the first and fourth quarters of 2015) utilizing funds borrowed under our revolving credit facility which bears interest at a comparatively lower interest rate, and a decrease in our average cost of borrowings under our revolving credit facility;
- an increase of $659,000 ("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 $876,000, including the income generated at properties acquired during 2015.

Total revenue increased $583,000 ("As Adjusted") during the year ended December 31, 2015, as compared to 2014, due primarily 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 $16.4 million and $16.9 million ("As Adjusted") for the years ended December 31, 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 consolidated statements of income.

During 2015, we had a total of 60 new or renewed leases related to the medical office buildings in which we have significant investments, some of which are accounted for by the equity method. These leases comprised approximately 14% of the aggregate rentable square feet of these properties (4% related to renewed leases and 10% related to new leases). Rental rates, tenant improvement costs and rental concessions vary from property to property based upon factors such as, but not limited to, the current occupancy and age of our buildings, local overall economic conditions, proximity to hospital campuses and the vacancy rates, rental rates and capacity of our competitors in the market. The weighted-average tenant improvement costs associated with these new or renewed leases was approximately $11 per square foot during 2015. The weighted-average leasing commissions on the new and renewed leases commencing during 2015 was approximately 2% of base rental revenue over the term of the leases. The average aggregate value of the tenant concessions, generally consisting of rent abatements, provided in connection with new and renewed leases commencing during 2015 was approximately 2% of the future aggregate base rental revenue over the lease terms. Rent abatements were, or will be, recognized in our results of operations under the straight-line method over the lease term regardless of when payments are due. In connection with lease renewals executed during 2015, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 3%.

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 years ended 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 2015 and 2014 (in thousands):

	2015	2014
Net income	$23,691	$51,551
Depreciation and amortization expense on consolidated investments	21,710	20,548
Depreciation and amortization expense on unconsolidated affiliates	1,690	2,290
Gain on property exchange	(8,742)	—
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs	—	(25,409)
Gain on divestiture of real property	—	(13,043)
Funds From Operations	$38,349	$35,937
Transaction costs	243	427
Adjusted Funds From Operations	$38,592	$36,364

Our FFO increased $2.4 million to $38.3 million during 2015, as compared to $35.9 million during 2014. The increase in FFO during 2015, as compared to 2014, related primarily to: (i) a net increase in income generated at our properties, including the income generated at our properties acquired at various times during 2015 and 2014, and; (ii) the $806,000 net decrease in interest expense ("As Adjusted"), as discussed above. Our AFFO increased $2.2 million to $38.6 million during 2015, as compared to $36.4 million during 2014. The increase in AFFO during 2015, as compared to 2014, related primarily to the increase in FFO, as discussed above, offset by the $184,000 decrease in transaction costs incurred during 2015 as compared to 2014.

Year ended December 31, 2014 as compared to the year ended December 31, 2013:

As mentioned above, 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 Consolidated Statement of Income for the year ended December 31, 2014 includes the revenues and expenses associated with each of these properties for the five-month period ended December 31, 2014. Prior to August 1, 2014, these LLCs were accounted for on an unconsolidated basis pursuant to the equity method, as discussed above.

Effective January 1, 2014, we purchased the 5% minority ownership interests held by third-party members in Palmdale Medical Properties ("Palmdale") and Sparks Medical Properties, two 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 LLCs and our Consolidated Statement of Income for the year ended December 31, 2014 includes the revenues and expenses associated with each of these properties. Prior to January 1, 2014, these LLCs were accounted for on an unconsolidated basis pursuant to the equity method. Prior to our purchase of the minority ownership interest in Palmdale, and as a result of a master lease agreement with a wholly-owned subsidiary of UHS which expired on July 1, 2013, Palmdale was previously included in our financial statements on a consolidated basis during the period of January 1, 2013 through June 30, 2013, and on an unconsolidated basis during the period of July 1, 2013 through December 31, 2013.

The table below provides supplemental financial information related to each of the above-mentioned entities for the year ended December 31, 2013 and also presents 2013 on an "As Adjusted" financial statement presentation basis similar to the presentation applied for each entity for the year ended December 31, 2014. 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 to our net income as a result of the consolidation of these LLCs.

Year Ended December 31, 2014 as compared to the Year Ended December 31, 2013:

	As reported in Consolidated Statements of Income for the Year Ended December 31, 2014	As reported in Consolidated Statements of Income for the Year Ended December 31, 2013	2013 Adjustments (a.)	"As Adjusted" Year Ended December 31, 2013	"As Adjusted" Variance
Revenues	$ 59,786	$ 54,280	$ 4,184	$ 58,464	$ 1,322
Expenses:					
Depreciation and amortization	20,885	18,753	1,044	19,797	(1,088)
Advisory fees to UHS	2,545	2,369	0	2,369	(176)
Other operating expenses	16,882	14,409	2,083	16,492	(390)
Transaction costs	427	203	0	203	(224)
	40,739	35,734	3,127	38,861	(1,878)
Income before equity in income of unconsolidated LLCs, interest expense and gains	19,047	18,546	1,057	19,603	(556)
Equity in income of unconsolidated LLCs	2,428	2,095	(207)	1,888	540
Gains on fair value recognition resulting from purchase of minority interests in majority-owned LLCs	25,409	0	0	0	25,409
Gain on divestiture of real property	13,043	0	0	0	13,043
Interest expense, net	(8,376)	(7,472)	(850)	(8,322)	(54)
Net income	$ 51,551	$ 13,169	$ 0	$ 13,169	$ 38,382

(a.) Adjustments include: (i) revenue and expense impact for the five months ended December 31, 2013, for the six LLCs that we began consolidating effective August 1, 2014, as mentioned above, and; (ii) revenue and expense impact for the six months ended December 31, 2013 for Palmdale Medical Properties that we began consolidating effective January 1, 2014 (this LLC was accounted for on a consolidated basis for the first six months of 2013), and; (iii) revenue and expense impact for the year ended December 31, 2013 for Sparks Medical Properties that we

began consolidating effective January 1, 2014.

During 2014, net income increased $38.4 million to $51.6 million as compared to $13.2 million during 2013. The increase was primarily attributable to the following, as computed utilizing the “As Adjusted” Variance column indicated on the table above:

- an increase of approximately $25.4 million from the aggregate gain recorded during 2014 on the fair value recognition resulting from purchase of minority interests in majority-owned LLCs, as discussed above;
- an increase of approximately $13.0 million from the gain recorded during 2014 on the divestiture of real property (The Bridgeway);
- an increase of $347,000 in bonus rental earned on the hospital facilities leased to wholly-owned subsidiaries of UHS;
- a decrease of approximately $1.1 million (“As Adjusted”) attributable to a net increase in depreciation and amortization expense, resulting primarily from the fair value recognition recorded in connection with our acquisition of minority ownership interests in eight LLCs in January and August, 2014;
- a decrease of $224,000 resulting from the increase in transaction costs, and;
- other combined net increase of approximately $895,000, including net income generated at properties acquired during 2014 and 2013.

Total revenues increased by $1.3 million (“As Adjusted”) during 2014 as compared to 2013 primarily due to: (i) the revenues generated at MOBs acquired during 2014 and 2013; (ii) an increase in bonus rental revenue, as mentioned above, and; (iii) other combined net changes at existing properties.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $15.5 million and $14.8 million (“As Adjusted”) for 2014 and 2013, 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 consolidated statements of income.

During 2014, we had a total of 80 new or renewed leases related to the medical office buildings, in which we have significant investments, some of which are accounted for by the equity method. These leases comprised approximately 11% of the aggregate rentable square feet of these properties (6% related to renewed leases and 5% related to new leases). Rental rates, tenant improvement costs and rental concessions vary from property to property based upon factors such as, but not limited to, the current occutopancy and age of our buildings, local overall economic conditions, proximity to hospital campuses and the vacancy rates, rental rates and capacity of our competitors in the market. The weighted-average tenant improvement costs associated with these new or renewed leases was approximately $22 per square foot during 2014. The weighted-average leasing commissions on the new and renewed leases commencing during 2014 was approximately 2% of base rental revenue over the term of the leases. The average aggregate value of the tenant concessions, generally consisting of rent abatements, provided in connection with new and renewed leases commencing during 2014 was approximately 2% of the future aggregate base rental revenue over the lease terms. Rent abatements were, or will be, recognized in our results of operations under the straight-line method over the lease term regardless of when payments are due. In connection with lease renewals executed during 2014, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 1%.

Below is a reconciliation of our reported net income to FFO and AFFO for 2014 and 2013 (in thousands):

	2014	2013
Net income	$51,551	$13,169
Depreciation and amortization expense on consolidated investments	20,548	18,496
Depreciation and amortization expense on unconsolidated affiliates	2,290	3,290
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs	(25,409)	—
Gain on divestiture of real property	(13,043)	—
Funds From Operations	35,937	34,955
Transaction costs	427	203
Adjusted Funds From Operations	$36,364	$35,158

Our FFO increased $1.0 million to $35.9 million during 2014, as compared to $35.0 million during 2013. The increase in FFO during 2014, as compared to 2013, related primarily to a net increase in income generated at our properties, including the income generated at our properties acquired at various times during 2014 and 2013. Our AFFO increased $1.2 million to $36.4 million during 2014, as compared to $35.2 million during 2013. The increase in AFFO during 2014, as compared to 2013, related primarily to the increase in FFO, as discussed above, plus a $224,000 increase in transaction costs incurred during 2014 as compared to 2013.

Effects of Inflation

Inflation has not had a material impact on our results of operations over the last three years. However, since the healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures, as are supply and other costs, we and the operators of our hospital facilities cannot predict the impact that future economic

conditions may have on our/their ability to contain future expense increases. Depending on general economic and labor market conditions, the operators of our hospital facilities may experience unfavorable labor market conditions, including a shortage of nurses which may cause an increase in salaries, wages and benefits expense in excess of the inflation rate. Their ability to pass on increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit their ability to increase prices. Therefore, there can be no assurance that these factors will not have a material adverse effect on the future results of operations of the operators of our facilities which may affect their ability to make lease payments to us.

Most of our leases contain provisions designed to mitigate the adverse impact of inflation. Our hospital leases require all building operating expenses, including maintenance, real estate taxes and other costs, to be paid by the lessee. In addition, certain of the hospital leases contain bonus rental provisions, which require the lessee to pay additional rent to us based on increases in the revenues of the facility over a base year amount. In addition, most of our MOB leases require the tenant to pay an allocable share of operating expenses, including common area maintenance costs, insurance and real estate taxes. These provisions may reduce our exposure to increases in operating costs resulting from inflation. To the extent that some leases do not contain such provisions, our future operating results may be adversely impacted by the effects of inflation.

Liquidity and Capital Resources

Year ended December 31, 2015 as compared to December 31, 2014:

Net cash provided by operating activities

Net cash provided by operating activities was $38.2 million during 2015 as compared to $32.8 million during 2014. The $5.4 million increase was attributable to:

- a favorable change of approximately $3.2 million due to an increase in net income plus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, amortization of debt premium, stock-based compensation, gain on property exchange, gain on divestiture of real property and gains on purchases of minority interests in majority-owned LLCs), as discussed above in Results of Operations, and;
- a favorable change of approximately $2.1 million in tenant reserves, escrows, deposits and prepaid rents, and;
- other combined net favorable changes of approximately $109,000.

Net cash used in investing activities

Net cash used in investing activities was $44.3 million during 2015 as compared to $4.0 million during 2014.

2015:

During 2015, we used $44.3 million of net cash in investing activities as follows:

- spent $667,000 to fund equity investments in unconsolidated LLCs;
- spent $22.8 million in advances in the form of a member loan to an unconsolidated LLC;
- spent $5.3 million in additions to real estate investments primarily for tenant improvements at various MOBs;
- spent $150,000 consisting of a deposit on real estate assets;
- spent $16.8 million to acquire the real estate assets of a medical office building and two free-standing emergency departments;
- spent $2.3 million for payment of a note payable related to the purchase of third-party minority interests in six majority-owned LLCs during the third quarter of 2014, as discussed above;
- received $306,000 of cash as repayment for the above-mentioned member loan to an unconsolidated LLC;
- received $224,000 of cash in excess of income related to our unconsolidated LLCs ($2.8 million of cash distributions received less $2.5 million of equity in income of unconsolidated LLCs);
- received $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;
- received $2.0 million of cash proceeds in connection with the property exchange with an unrelated third party.

2014:

During 2014, we used $4.0 million of net cash in investing activities as follows:

- spent $1.3 million to fund equity investments in unconsolidated LLCs;
- spent $2.9 million on additions to real estate investments primarily for tenant improvements at various MOBs;
- spent $15.6 million to acquire the real estate assets of three medical office buildings;
- spent $4.7 million (plus a net note payable of $2.3 million to the previous third-party minority interest member, which was satisfied during January, 2015, as noted above) to acquire the minority interests in eight majority-owned LLCs in two separate transactions effective August 1, 2014 and January 1, 2014, as previously discussed;

- spent $100,000 consisting of a deposit on real estate assets related to the acquisition of a medical office building that we purchased during the first quarter of 2015;
- received $17.3 million of cash proceeds in connection with the sale of the real property of The Bridgeway, as discussed above;
- received $2.3 million of cash distribution proceeds in connection with refinancing of third-party debt by the LP that owns the Texoma Medical Plaza in which we have a 95% non-controlling equity interest, and;
- received $1.0 million of cash in excess of income related to our unconsolidated LLCs ($3.4 million of cash distributions received less $2.4 million of equity in income of unconsolidated LLCs);

Net cash provided by/(used in) financing activities

Net cash provided by financing activities was $6.2 million during 2015, as compared to $29.8 million of net cash used in financing activities during 2014.

2015:

The $6.2 million of net cash provided by financing activities during 2015 consisted of:

- received $52.4 million of additional borrowings on our revolving line of credit;
- received $5.2 million of proceeds related to a new mortgage note payable (refinance) that is non-recourse to us;
- received $1.7 million of net cash from the issuance of shares of beneficial interest ($1.1 million relates to shares issued in late December, 2014, as discussed below);
- paid $17.8 million on mortgages and other notes payable that are non-recourse to us, (including the pay-off of the $4.9 million and $5.9 million outstanding mortgages on the Spring Valley Medical Office Building and the Palmdale Medical Plaza, respectively, utilizing funds borrowed under our revolving credit facility);
- paid $1.1 million of financing costs paid on the new revolving credit facility and a new mortgage note payable refinance;
- paid $34.1 million of dividends, and;

2014:

The $29.8 million of net cash used in financing activities during 2014 consisted of:

- received $19.3 million of net cash from the issuance of shares of beneficial interest, $19.0 million of which related to our at-the-market equity issuance program (as discussed below) and approximately $250,000 of which was primarily related to our dividend reinvestment program;
- paid $32.7 million of dividends;
- paid $12.3 million on mortgage and other notes payable that are non-recourse to us (including the pay-off of the $9.1 million outstanding mortgage balance on the Summerlin Hospital Medical Office Building I utilizing borrowed funds under our revolving credit facility);
- paid $4.0 million net repayments on our revolving line of credit, and;
- paid $94,000 as partial settlement of accrued dividend equivalent rights.

At-The-Market Equity Issuance Program (“ATM”):

We filed a Registration Statement with the Securities and Exchange Commission which became effective in November, 2015, under which we can offer up to an aggregate of $100 million of our securities pursuant to supplemental prospectuses which we may file from time to time. No offering will be made except pursuant to such supplemental prospectuses.

There were no shares issued pursuant to an ATM program during 2015. During 2013 and 2014, pursuant to an ATM equity issuance program in effect at that time (which has since expired), we issued an aggregate of 580,900 shares at an average price of $45.97 per share, which generated approximately $25.6 million of net cash proceeds or receivables (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), as follows:

- 2014: We issued 426,187 shares at an average price of $47.51 per share which generated approximately $19.5 million of net cash proceeds or receivables (net of approximately $700,000, consisting of compensation of $506,000

to Merrill Lynch, as well as $195,000 of other various fees and expenses), and;

- 2013: We issued 154,713 shares at an average price of $41.71 per share which generated approximately $6.1 million of net cash proceeds or receivables (net of $357,000, consisting of compensation of $161,000 to Merrill Lynch, as well as $196,000 of other various fees and expenses).

In connection with the ATM program, our consolidated balance sheet included approximately $1.1 million at December 31, 2014, and $600,000 at December 31, 2013, of net proceeds due to us in connection with shares issued in late December 2014 and 2013, respectively. The net cash proceeds related to these shares were received by us in early January 2015, and early January, 2014, respectively, and are included in cash received for the issuance of shares of beneficial interest, net, on the Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014, respectively.

Year ended December 31, 2014 as compared to December 31, 2013:

Net cash provided by operating activities

Net cash provided by operating activities was $32.8 million during 2014 as compared to $31.3 million during 2013. The $1.5 million increase was attributable to:

- a favorable change of approximately $2.2 million due to an increase in net income plus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, amortization on debt premium, stock-based compensation, gain on divestiture of real property and gains on purchases of minority interests in majority owned LLCs), as discussed above in Results of Operations;
- an unfavorable change of approximately $1.0 million in accrued expenses and other liabilities resulting primarily from the timing of accrued expenses and other liabilities disbursements;
- an unfavorable change of $319,000 in tenant reserves, escrows, deposits and prepaid rents resulting primarily from a decrease in prepaid rents, and;
- other combined net favorable changes of $646,000, including a favorable change in rent receivable of approximately $200,000.

Net cash used in investing activities

Net cash used in investing activities was $4.0 million during 2014 as compared to $13.4 million during 2013. The factors contributing to the $4.0 million of net cash used in investing activities during 2014 are detailed above.

2013:

During 2013, we used $13.4 million of net cash in investing activities as follows:

- spent $3.0 million to fund equity investments in unconsolidated LLCs;
- spent $4.6 million in advances in the form of member loans to unconsolidated LLCs;
    - spent $3.4 million on additions to real estate investments primarily for tenant improvements at various MOBs;
- spent $4.7 million to acquire the real estate assets of two medical office buildings;
- spent $150,000 consisting of a deposit on real estate assets related to the acquisition of two medical office buildings that we purchased during the first quarter of 2014;
- received $2.3 million of cash in excess of income related to our unconsolidated LLCs ($4.4 million of cash distributions received less $2.1 million of equity in income of unconsolidated LLCs), and;
- received $114,000 in repayments of advances previously made to an unconsolidated LLC.

Net cash used in financing activities

Net cash used in financing activities was $29.8 million during 2014 as compared to $17.5 million during 2013. The factors contributing to the $29.8 million of cash used in financing activities during 2014 are detailed above.

2013:

During 2013, we used $17.5 million of net cash financing activities as follows:

- received $12.0 million from additional net borrowings on our revolving line of credit;
- received $11.2 million of proceeds related to the refinancing of a mortgage note payable that is non-recourse to us;
- received $5.8 million of net cash from the issuance of shares of beneficial interest, $5.5 million of which related to our at-the-market equity issuance program (as discussed above) and approximately $250,000 of which was related to

our dividend reinvestment program;

- paid $31.8 million of dividends;
- paid $14.4 million on mortgage and other notes payable that are non-recourse to us (including the pay-off of a mortgage note payable that was refinanced during the first quarter of 2013, resulting in the above-mentioned $11.2 million of mortgage proceeds to us);
- paid $101,000 as partial settlement of accrued dividend equivalent rights, and;
- paid $95,000 of financing costs on mortgage and other notes payable.

Additional cash flow and dividends paid information for 2015, 2014 and 2013:

As indicated on our consolidated statements of cash flows, we generated net cash provided by operating activities of $38.2 million during 2015, $32.8 million during 2014 and $31.3 million during 2013. As also indicated on our statements of cash flows, noncash expenses such as depreciation and amortization expense, amortization of debt premium, stock-based compensation expense and gains recorded during 2015 and 2014, are the primary differences between our net income and net cash provided by operating activities for each year. In addition, as reflected in the cash flows from investing activities section, we received $224,000 during 2015, $1.0 million during 2014 and $2.3 million during 2013, of cash distributions in excess of income from various unconsolidated LLCs which represents our share of the net cash flow distributions from these entities. These cash distributions in excess of income represent operating cash flows net of capital expenditures and debt repayments made by the LLCs.

We therefore generated $38.4 million during 2015, $33.8 million during 2014 and $33.6 million during 2013, related to the operating activities of our properties recorded on a consolidated and an unconsolidated basis. We paid dividends of $34.1 million during 2015, $32.7 million during 2014 and $31.8 million during 2013. During 2015, the $38.4 million of cash generated related to the operating activities of our properties exceeded the $34.1 million of dividends paid by approximately $4.3 million. During 2014, the $33.8 million of net cash generated related to the operating activities of our properties exceeded the $32.7 million of dividends paid by approximately $1.1 million. During 2013, the $33.6 million of net cash generated related to the operating activities of our properties exceeded the $31.8 million of dividends paid by approximately $1.9 million.

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 each of the last three years. 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 jointly-owned in LLCs, and; (iii) our future capital commitments and debt repayments, including those of our jointly-owned 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.

Included in the various sources of cash were: (i) funds generated from the repayments of advances made from us to LLCs ($306,000 in 2015 and $114,000 in 2013); (ii) $2.0 million in 2015 of cash received in connection with the property exchange transaction, as discussed above; (iii) cash distributions of refinancing proceeds from LLCs ($1.1 million in 2015 and $2.3 million in 2014); (iv) $17.3 million in 2014 of funds generated from the divestiture of real property; (v) net borrowings on our revolving credit agreement ($52.4 million during 2015 and $12.0 million during 2013), and; (vi) issuance of shares of beneficial interest ($1.7 million during 2015, $19.3 million during 2014 and $5.8 million during 2013).

In addition to the dividends paid, the following were also included in the various uses of cash: (i) investments in LLCs ($667,000 during 2015, $1.3 million during 2014 and $3.0 million during 2013); (ii) advances made to

LLCs/third-party partners ($22.8 million during 2015 and $4.6 million during 2013); (iii) additions to real estate investments and acquisitions of real property ($5.3 million during 2015, $2.9 million in 2014 and $3.4 million in 2013); (iv) acquisitions of medical office buildings ($16.8 million in 2015, $15.6 million in 2014 and $4.7 million in 2013); (v) acquisition of minority interests in majority-owned LLCs ($2.3 million during 2015 and $4.7 million in 2014); (vi) net repayments on our revolving credit agreement ($4.0 million during 2014); (vii) net repayments of mortgage, construction, third-party partners and other loans payable of consolidated MOBs and LLCs, net of financing costs ($12.6 million during 2015, $12.3 million during 2014 and $3.3 million during 2013); (viii) partial settlement of dividend equivalent rights ($75,000 during 2015 and approximately $100,000 during each of 2014 and 2013); (ix) deposits on real estate assets ($150,000 during 2015, $100,000 during 2014 and $150,000 during 2013), and; (x) financing costs paid ($1.1 million during 2015 and $95,000 during 2013).

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) the issuance of equity pursuant to our at-the-market (“ATM”) equity issuance program; (ii) borrowings under our $185 million revolving credit facility (which has $39.3 million of available borrowing capacity, net of outstanding borrowings and letters of credit, as of December 31, 2015); (iii) borrowings under or refinancing of existing third-party debt pursuant to mortgage 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, equity issuance capacity pursuant to the terms of the ATM program, 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

Management routinely monitors and analyzes the Trust's capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our $185 million revolving credit facility, the level of borrowings pursuant to non-course mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances pursuant to our at-the-market equity issuance program. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust's current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust's current balance of revolving credit facility borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2015, we entered into a new $185 million revolving credit agreement ("Credit Agreement"). The Credit Agreement, which will mature in March, 2019, replaced our previous revolving credit facility which was scheduled to mature in July, 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 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 December 31, 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 December 31, 2015, we had $142.2 million of outstanding borrowings and $3.5 million of letters of credit outstanding against our revolving credit agreement. The carrying amount and fair value of borrowings outstanding pursuant to the Credit Agreement was $142.2 million at December 31, 2015. We had $39.3 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of December 31, 2015. There are no compensating balance requirements. The average amount outstanding under our revolving credit agreement was $114.3 million in 2015 with a corresponding effective interest rate, including commitment fees, of 2.1%. The average amounts outstanding under our previous revolving credit agreement (which was replaced in March, 2015, as discussed above), were $104.6 million in 2014 and $86.3 million in 2013 with corresponding effective interest rates, including commitment fees, of 2.4% in 2014 and 2.2% in 2013.

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 December 31, 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		December 31, 2015	
Tangible net worth	$125,000		$175,285	
Total leverage	< 60	%	45.0	%
Secured leverage	< 30	%	19.8	%
Unencumbered leverage	< 60	%	42.2	%
Fixed charge coverage	> 1.50x		3.3x	

We have fourteen mortgages, all of which are non-recourse to us, included on our consolidated balance sheet as of December 31, 2015, with a combined outstanding balance of $110.3 million (excluding net debt premium of $298,000 at December 31, 2015). The following table summarizes our outstanding mortgages, excluding net debt premium, at December 31, 2015 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands)(a.)	Interest Rate	Maturity Date
Summerlin Hospital Medical Office Building III floating rate mortgage loan (b.)	$ 10,695	3.49 %	December, 2016
Peace Health fixed rate mortgage loan	20,790	5.64 %	April, 2017
Auburn Medical II floating rate mortgage loan	6,954	2.99 %	April, 2017
Medical Center of Western Connecticut fixed rate mortgage loan	4,663	6.00 %	June, 2017
Summerlin Hospital Medical Office Building II fixed rate mortgage loan	11,419	5.50 %	October, 2017
Phoenix Children’s East Valley Care Center fixed rate mortgage loan	6,348	5.88 %	December, 2017
Centennial Hills Medical Office Building floating rate mortgage loan	10,339	3.49 %	January, 2018
Sparks Medical Building/Vista Medical Terrace floating rate mortgage loan	4,351	3.49 %	February, 2018

Rosenberg Children's Medical Plaza fixed rate mortgage loan	8,317	4.85 %	May, 2018
Vibra Hospital-Corpus Christi fixed rate mortgage loan	2,815	6.50 %	July, 2019
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	6,428	4.54 %	June, 2022
BRB Medical Office Building fixed rate mortgage loan	6,498	4.27 %	December, 2022
Desert Valley Medical Center fixed rate mortgage loan	5,200	3.62 %	January, 2023
Tuscan Professional Building fixed rate mortgage loan	5,439	5.56 %	June, 2025
Total	$ 110,256		

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

(b.) This loan is scheduled to mature during December, 2016, at which time we will decide whether to refinance pursuant to a new mortgage loan or by utilizing borrowings 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 $112.4 million as of December 31, 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.

Contractual Obligations:

The following table summarizes the schedule of maturities of our outstanding borrowing under our revolving credit facility ("Credit Agreement"), the outstanding mortgages applicable to our properties recorded on a consolidated basis and our other contractual obligations as of December 31, 2015 (amounts in thousands):

	Payments Due by Period (dollars in thousands)				
Debt and Contractual Obligation	Total	Less than 1 Year	2-3 years	4-5 years	More than 5 years
Long-term non-recourse debt-fixed(a)(b)	$77,917	$2,273	$52,511	$4,748	$18,385
Long-term non-recourse debt-variable(a)(b)	32,339	11,441	20,898	—	—
Long-term debt-variable(c)	142,150	—	—	142,150	—
Estimated future interest payments on debt outstanding as of December 31, 2015(d)	22,518	8,016	10,490	2,497	1,515
Equity and debt financing commitments(e)	2,234	2,234	—	—	—
Total contractual obligations	$277,158	$23,964	$83,899	$149,395	$19,900

(a) The mortgages are secured by the real property of the buildings as well as property leases and rents. Property-specific debt is detailed above.

(b) Consists of non-recourse debt with a fair value of approximately $112.4 million as of December 31, 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. Excludes $28.9 million of combined third-party debt outstanding as of December 31, 2015, that is non-recourse to us, at the unconsolidated LLCs in which we hold various non-controlling ownership interests (see Note 8 to the consolidated financial statements).

(c) Consists of $142.2 million of borrowings outstanding as of December 31, 2015 under the terms of our $185 million Credit Agreement which matures on March 27, 2019. The amount outstanding approximates fair value as of December 31, 2015.

(d) Assumes that all debt outstanding as of December 31, 2015, including borrowings under the Credit Agreement, and the fourteen loans, which are non-recourse to us, remain outstanding until the stated maturity date of the debt agreements at the same interest rates which were in effect as of December 31, 2015. We have the right to repay borrowings under the Credit Agreement at any time during the terms of the agreement, without penalty. Interest payments are expected to be paid utilizing cash flows from operating activities or borrowings under our revolving Credit Agreement.

(e) As of December 31, 2015, we have equity investment and debt financing commitments remaining in connection with our investments in various unconsolidated LLCs. As of December 31, 2015, we had outstanding letters of credit which secured the majority of these equity and debt financing commitments. The $39.3 million of available borrowing capacity as of December 31, 2015, pursuant to the terms of our Credit Agreement, is net of the standby letters of credit outstanding at that time. Our remaining financing commitments related to our investments in unconsolidated LLCs are as follows (in thousands):

	Amount
Grayson Properties	$ 149

FTX MOB Phase II	928
Arlington Medical Properties	1,157
Total	$ 2,234

Off Balance Sheet Arrangements

As of December 31, 2015, we are party to certain off balance sheet arrangements consisting of standby letters of credit and equity and debt financing commitments as detailed on the above “Contractual Obligations” table. Our outstanding letters of credit at December 31, 2015 totaled $3.5 million consisting of: (i) $1.9 million related to Centennial Hills Medical Properties; (ii) $646,000 related to Banburry Medical Properties, and; (iii) $966,000 related to FTX MOB Phase II.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk
Market Risks Associated with Financial Instruments

As of December 31, 2015, 2014, and 2013, we had no material outstanding interest rate swap agreements.

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 December 31, 2014, no payments have been made to us by the counterparties pursuant to the terms of these caps which expire on January 13, 2017.

The sensitivity analysis related to our fixed and variable rate debt assumes current market rates with all other variables held constant. The fair value of our debt is approximately $255 million. The difference between actual amounts outstanding and fair value is approximately $2.1 million.

The table below presents information about our financial instruments that are sensitive to changes in interest rates, including debt obligations as of December 31, 2015. For debt obligations, the table presents principal cash flows and related weighted average interest rates by contractual maturity dates.

	Maturity Date, Year Ending December 31						
(Dollars in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt:							
Fixed rate:							
Debt(a)	$2,273	$43,402	$9,109	$3,607	$1,141	$ 18,385	$77,917
Average interest rates	5.3 %	5.1 %	4.8 %	4.6 %	4.4 %	4.6 %	4.8 %
Variable rate:							
Debt(b)	$11,441	$7,170	$13,728	$142,150	$—	$ —	$174,489
Average interest rates	2.3 %	2.2 %	2.0 %	2.0 %	—	—	2.1 %
Interest rate caps:							
Notional amount	$—	$30,000	$—	$—	$—	$ —	$30,000
Interest rates	—	1.5 %	—	—	—	—	1.5 %

(a) Consists of non-recourse mortgage notes payable.
(b) Includes $32.3 million of non-recourse mortgage notes payable and of $142.2 million of outstanding borrowings under the terms of our $185 million revolving credit agreement.

As calculated based upon our variable rate debt outstanding as of December 31, 2015 that is subject to interest rate fluctuations, each 1% change in interest rates would impact our net income by approximately $1.7 million.

ITEM 8. Financial Statements and Supplementary Data

Our Consolidated Balance Sheets, Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows, together with the report of KPMG LLP, an independent registered public accounting firm, are included elsewhere herein. Reference is made to the “Index to Financial Statements and Schedule.”

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2015, under the supervision and with the participation of our management, including our 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 and 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 Securities and Exchange Act of 1934 and the SEC rules thereunder.

Changes in Internal Control Over Financial Reporting

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

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2015, based on criteria in Internal Control—Integrated Framework (2013), issued by the COSO. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees

Universal Health Realty Income Trust:

We have audited Universal Health Realty Income Trust's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Universal Health Realty Income Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Universal Health Realty Income Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Health Realty Income Trust and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the financial statement schedule III, real estate and accumulated depreciation, and our report dated March 4, 2016 expressed an unqualified

opinion on those consolidated financial statements and financial statement schedule.

(signed) KPMG LLP

Philadelphia, Pennsylvania

March 4, 2016

ITEM 9B. Other Information
None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance
There is hereby incorporated by reference the information to appear under the captions “Proposal No. 1” (Election of Trustees), “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” in our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015. See also “Executive Officers of the Registrant” appearing in Item 1 hereof.

ITEM 11. Executive Compensation
There is hereby incorporated by reference information to appear under the caption “Executive Compensation” in our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
There is hereby incorporated by reference the information to appear under the caption “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence
There is hereby incorporated by reference the information to appear under the captions “Certain Relationships and Related Transactions” and “Corporate Governance” in our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

ITEM 14. Principal Accounting Fees and Services
There is hereby incorporated herein by reference the information to appear under the caption “Relationship with Independent Registered Public Accounting Firm” in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Financial Statements: See “Index to Financial Statements and Schedule”

(2) Financial Statement Schedules: See “Index to Financial Statements and Schedule”

(3) Exhibits:

3.1 Declaration of Trust, dated as of August 1986, previously filed as Exhibit 4.1 to the Trust’s Registration Statement on Form S-3 (File No. 333-60638) is incorporated herein by reference.

3.2 Amendment to Declaration of Trust, dated as of June 15, 1993, previously filed as Exhibit 4.2 to the Trust’s Registration Statement on Form S-3 (File No. 333-60638) is incorporated herein by reference.

3.3 Amended and restated bylaws previously filed as Exhibit 4.3 to the Trust’s registration statement on Form S-3 (File No. 333-60638) is incorporated herein by reference.

3.4 Amendment to the bylaws, effective as of September 6, 2013, previously filed as Exhibit 3.2 to the Trust’s Current Report on Form 8-K dated September 6, 2013, is incorporated herein by reference.

10.1 Advisory Agreement, dated as of December 24, 1986, between UHS of Delaware, Inc. and the Trust, previously filed as Exhibit 10.2 to the Trust’s Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.2 Agreement dated December 10, 2015, to renew Advisory Agreement dated as of December 24, 1986 between Universal Health Realty Income Trust and UHS of Delaware, Inc. is filed herewith.

10.3 Contract of Acquisition, dated as of August 1986, between the Trust and certain subsidiaries of Universal Health Services, Inc., previously filed as Exhibit 10.2 to Amendment No. 3 of the Registration Statement on Form S-11 and S-2 of Universal Health Services, Inc. and the Trust (File No. 33-7872), is incorporated herein by reference.

10.4 Form of Leases, including Form of Master Lease Document Leases, between certain subsidiaries of Universal Health Services, Inc. and the Trust, previously filed as Exhibit 10.3 to Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Universal Health Services, Inc. and the Trust (File No. 33-7872), is incorporated herein by reference.

10.5 Corporate Guaranty of Obligations of Subsidiaries Pursuant to Leases and Contract of Acquisition, dated December 1986, issued by Universal Health Services, Inc. in favor of the Trust, previously filed as Exhibit 10.5 to the Trust’s Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.6 Lease, dated December 22, 1993, between the Trust and THC-Chicago, Inc., as lessee, previously filed as Exhibit 10.14 to the Trust’s Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.7* Universal Health Realty Income Trust 1997 Incentive Plan, previously filed as Exhibit 10.1 to the Trust’s Form 10-Q for the quarter ended September 30, 1997, is incorporated herein by reference.

10.8 Credit Agreement, dated as of March 27, 2015, by and among the Trust, a syndicate of lenders and Wells Fargo Bank, National Association, as Administrative Agent, Bank of America, N.A., as Syndication Agent and Fifth Third Bank, N.A., JPMorgan Chase Bank, N.A. and SunTrust Bank as Co-Documentation Agents, previously filed as

Exhibit 10.1 to the Trust's Current Report on Frm 8-K dated March 27, 2015, is incorporated herein by reference.

10.9 Dividend Reinvestment and Share Purchase Plan included in the Trust's Registration Statement on Form S-3 (Registration No. 333-81763) filed on June 28, 1999, is incorporated herein by reference.

10.10 Asset Exchange and Substitution Agreement, dated as of April 24, 2006, by and among the Trust and Universal Health Services, Inc. and certain of its subsidiaries, previously filed as Exhibit 10.1 to the Trust's Current Report on Form 8-K dated April 25, 2006, is incorporated herein by reference.

10.11 Amendment No. 1 to the Master Lease Document, between certain subsidiaries of Universal Health Services, Inc. and the Trust, previously filed as Exhibit 10.2 to the Trust's Current Report on Form 8-K dated April 25, 2006, is incorporated herein by reference.

10.12* Universal Health Realty Income Trust 2007 Restricted Stock Plan, previously filed as Exhibit 10.1 to the Trust's Current Report on Form 8-K, dated April 27, 2007, is incorporated herein by reference.

10.13* Form of Restricted Stock Agreement, previously filed as Exhibit 10.2 to the Trust's Current Report on Form 8-K dated April 27, 2007, is incorporated herein by reference.

11 Statement re computation of per share earnings is set forth on the Consolidated Statements of Income.

21 Subsidiaries of Registrant, filed herewith.

23.1 Consent of Independent Registered Public Accounting Firm, filed herewith.

31.1 Certification from the Trust's Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, filed herewith.

31.2 Certification from the Trust's Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, filed herewith.

32.1 Certification from the Trust's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2 Certification from the Trust's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

101.INS XBRL Instance Document, filed herewith.

101.SCH XBRL Taxonomy Extension Schema Document, filed herewith.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document, filed herewith.

101.LAB XBRL Taxonomy Extension Label Linkbase Document, filed herewith.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith.

*Management contract or compensatory plan or arrangement.
Exhibits, other than those incorporated by reference, have been included in copies of this Annual Report filed with the Securities and Exchange Commission. Shareholders of the Trust will be provided with copies of those exhibits upon written request to the Trust.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

UNIVERSAL HEALTH REALTY
INCOME TRUST

By: /S/ ALAN B. MILLER
Alan B. Miller,

Chairman of the Board,

Chief Executive Officer and President

Date: March 4, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/S/ ALAN B. MILLER	Chairman of the Board, Chief Executive Officer and President	March 4, 2016
Alan B. Miller	(Principal Executive Officer)	
/S/ JAMES E. DALTON, JR.	Trustee	March 4, 2016
James E. Dalton, Jr.		
/S/ MILES L. BERGER	Trustee	March 4, 2016
Miles L. Berger		
/S/ ELLIOT J. SUSSMAN	Trustee	March 4, 2016

Elliot J. Sussman, M.D., M.B.A.		
/S/ ROBERT F. MCCADDEN	Trustee	March 4, 2016
Robert F. McCadden		
/S/ MARC D. MILLER	Trustee	March 4, 2016
Marc D. Miller		
/S/ CHARLES F. BOYLE	Vice President and Chief Financial Officer	March 4, 2016
	(Principal Financial and Accounting	
Charles F. Boyle	Officer)	

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees

Universal Health Realty Income Trust:

We have audited the accompanying consolidated balance sheets of Universal Health Realty Income Trust and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III, real estate and accumulated depreciation. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Health Realty Income Trust and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule III, real estate and accumulated depreciation, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Universal Health Realty Income Trust's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

Philadelphia, Pennsylvania

March 4, 2016

UNIVERSAL HEALTH REALTY INCOME TRUST

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands)

	December 31, 2015	December 31, 2014
Assets:		
Real Estate Investments:		
Buildings and improvements	$469,933	$451,005
Accumulated depreciation	(121,161)	(106,480)
	348,772	344,525
Land	41,724	35,584
Net real estate investments	390,496	380,109
Investments in and advances to limited liability companies ("LLCs")	31,597	8,605
Other Assets:		
Cash and cash equivalents	3,894	3,861
Base and bonus rent receivable from UHS	2,116	2,086
Rent receivable - other	4,292	4,219
Intangible assets (net of accumulated amortization of $25.1 million and $19.7 million at December 31, 2015 and December 31, 2014, respectively)	19,757	23,123
Deferred charges, goodwill and other assets, net	6,749	6,863
Total Assets	$458,901	$428,866
Liabilities:		
Line of credit borrowings	$142,150	$89,750
Mortgage and other notes payable, non-recourse to us (including net debt premium of $298 and $523 at December 31, 2015 and December 31, 2014, respectively)	110,554	123,405
Accrued interest	504	545
Accrued expenses and other liabilities	6,807	8,522
Tenant reserves, escrows, deposits and prepaid rents	3,844	2,063
Total Liabilities	263,859	224,285
Equity:		
Preferred shares of beneficial interest, $.01 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common shares, $.01 par value; 95,000,000 shares authorized; issued and outstanding: 2015 - 13,327,020; 2014 -13,301,204	133	133
Capital in excess of par value	241,700	240,835
Cumulative net income	555,286	531,595
Cumulative dividends	(601,983)	(567,894)

Accumulated other comprehensive loss	(94)	(88)
Total Equity	195,042	204,581
Total Liabilities and Equity	$458,901	$428,866

See the accompanying notes to these consolidated financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share amounts)

	Year ended December 31,		
	2015	2014	2013
Revenues:			
Base rental - UHS facilities	$15,955	$15,601	$14,773
Base rental - Non-related parties	35,157	31,386	27,955
Bonus rental - UHS facilities	4,565	4,607	4,260
Tenant reimbursements and other - Non-related parties	7,490	7,490	6,812
Tenant reimbursements and other - UHS facilities	783	702	480
	63,950	59,786	54,280
Expenses:			
Depreciation and amortization	22,108	20,885	18,753
Advisory fees to UHS	2,810	2,545	2,369
Other operating expenses	18,152	16,882	14,409
Transaction costs	243	427	203
	43,313	40,739	35,734
Income before equity in income of unconsolidated limited liability companies ("LLCs"), interest expense and gains	20,637	19,047	18,546
Equity in income of unconsolidated LLCs	2,536	2,428	2,095
Gain on property exchange	8,742	—	—
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs	—	25,409	—
Gain on divestiture of real property	—	13,043	—
Interest expense, net	(8,224)	(8,376)	(7,472)
Net income	$23,691	$51,551	$13,169
Basic earnings per share	$1.78	$3.99	$1.04
Diluted earnings per share	$1.78	$3.99	$1.04
Weighted average number of shares outstanding - Basic	13,293	12,927	12,689
Weighted average number of share equivalents	8	7	12
Weighted average number of shares and equivalents outstanding - Diluted	13,301	12,934	12,701

See the accompanying notes to these consolidated financial statements.

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UNIVERSAL HEALTH REALTY INCOME TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollar amounts in thousands)

	Year ended December 31,		
	2015	2014	2013
Net Income	$23,691	$51,551	$13,169
Other comprehensive income/(loss):			
Unrealized derivative (losses)/gains on interest rate caps	(97)	(115)	(57)
Amortization of interest rate cap fees	91	84	—
Total other comprehensive income/(loss):	(6)	(31)	(57)
Total comprehensive income	$23,685	$51,520	$13,112

See the accompanying notes to these consolidated financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends	Accumulated other comprehensive loss	UHT Shareholders' Equity	Non-controlling Interests	Total Equity
January 1, 2013	12,689	$ 127	$ 214,094	$ 466,875	$ (503,425)	—	$ 177,671	$ 74	$ 177,745
Shares of Beneficial Interest:									
Issued	170	1	6,323	—	—	—	6,324	—	6,324
Partial settlement of dividend equivalent rights	—	—	(101)	—	—	—	(101)	—	(101)
Restricted stock-based compensation expense	—	—	375	—	—	—	375	—	375
Dividends ($2.495/share)	—	—	—	—	(31,751)	—	(31,751)	—	(31,751)
Deconsolidation of LLC	—	—	—	—	—	—	—	(74)	(74)
Comprehensive income:									
Net income	—	—	—	13,169	—	—	13,169	—	13,169
Unrealized loss on interest rate cap	—	—	—	—	—	(57)	(57)	—	(57)
Subtotal - comprehensive income	—	—	—	13,169	—	(57)	13,112	—	13,112
January 1, 2014	12,859	128	220,691	480,044	(535,176)	(57)	165,630	—	165,630
Shares of Beneficial Interest:									