

UNIVERSAL HEALTH REALTY INCOME TRUST  
Form 10-Q  
August 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-9321**

**UNIVERSAL HEALTH REALTY INCOME TRUST**

**(Exact name of registrant as specified in its charter)**

**MARYLAND**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**23-6858580**  
**(I. R. S. Employer**  
**Identification No.)**

**UNIVERSAL CORPORATE CENTER**

**367 SOUTH GULPH ROAD**

**KING OF PRUSSIA, PENNSYLVANIA**  
**(Address of principal executive offices)**

**19406**  
**(Zip Code)**

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

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

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

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

Large accelerated filer  Accelerated Filer

Non-accelerated filer  Smaller reporting company

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

Number of common shares of beneficial interest outstanding at July 31, 2014 12,929,668

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This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2014. In this Quarterly Report, we, us, our and the Trust refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Quarterly Report, including in *Part I, Item 1. Relationship with Universal Health Services, Inc. ( UHS ) and Related Party Transactions*, a wholly-owned subsidiary of UHS (UHS of Delaware, Inc.) serves as our Advisor pursuant to the terms of an annually renewable Advisory Agreement dated December 24, 1986. Our officers are all employees of UHS through UHS of Delaware, Inc. In addition, four of our hospital facilities are leased to subsidiaries of UHS and twelve medical office buildings, including certain properties owned by limited liability companies in which we either hold 100% of the ownership interest or various non-controlling, majority ownership interests, include or will include tenants which are subsidiaries of UHS. Any reference to UHS or UHS facilities in this report is referring to Universal Health Services, Inc.'s subsidiaries, including UHS of Delaware, Inc.

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

Table of Contents**Part I. Financial Information****Item I. Financial Statements****Universal Health Realty Income Trust**

## Condensed Consolidated Statements of Income

For the Three and Six Months Ended June 30, 2014 and 2013

(dollar amounts in thousands, except per share amounts)

(unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>				
Base rental - UHS facilities	\$ 3,916	\$ 3,804	\$ 7,830	\$ 7,594
Base rental - Non-related parties	7,045	7,028	14,271	14,074
Bonus rental - UHS facilities	1,222	1,041	2,372	2,139
Tenant reimbursements and other - Non-related parties	1,948	1,521	3,781	3,309
Tenant reimbursements and other - UHS facilities	186	108	351	271
	14,317	13,502	28,605	27,387
<b>Expenses:</b>				
Depreciation and amortization	4,782	4,722	9,608	9,536
Advisory fees to UHS	620	585	1,230	1,156
Other operating expenses	4,134	3,744	8,067	7,409
Transaction costs	41	49	103	131
	9,577	9,100	19,008	18,232
Income before equity in income of unconsolidated limited liability companies ( LLCs ), interest expense and gains	4,740	4,402	9,597	9,155
Equity in income of unconsolidated LLCs	679	461	1,272	1,030
Gains on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs			316	
Interest expense, net	(2,011)	(1,922)	(4,003)	(3,817)
Net income	\$ 3,408	\$ 2,941	\$ 7,182	\$ 6,368

Basic earnings per share	\$ 0.26	\$ 0.23	\$ 0.56	\$ 0.50
Diluted earnings per share	\$ 0.26	\$ 0.23	\$ 0.56	\$ 0.50
Weighted average number of shares outstanding - Basic	12,902	12,675	12,875	12,673
Weighted average number of share equivalents	6	13	6	14
Weighted average number of shares and equivalents outstanding - Diluted	12,908	12,688	12,881	12,687

See the accompanying notes to these condensed consolidated financial statements.

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## Condensed Consolidated Statements of Comprehensive Income

For the Three and Six Months Ended June 30, 2014 and 2013

(dollar amounts in thousands)

(unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net Income	\$ 3,408	\$ 2,941	\$ 7,182	\$ 6,368
Other comprehensive loss:				
Unrealized derivative losses on interest rate caps	(95)	0	(92)	0
Amortization of interest rate cap fees	23	0	38	0
Total other comprehensive loss:	(72)	0	(54)	0
Total comprehensive income	\$ 3,336	\$ 2,941	\$ 7,128	\$ 6,368

See the accompanying notes to these condensed consolidated financial statements.

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## Condensed Consolidated Balance Sheets

(dollar amounts in thousands)

(unaudited)

	June 30, 2014	December 31, 2013
<b><u>Assets:</u></b>		
<b>Real Estate Investments:</b>		
Buildings and improvements	\$ 393,804	\$ 368,295
Accumulated depreciation	(104,655)	(97,921)
	289,149	270,374
Land	29,084	27,374
Net Real Estate Investments	318,233	297,748
Investments in and advances to limited liability companies ( LLCs )	27,952	39,201
<b><u>Other Assets:</u></b>		
Cash and cash equivalents	3,860	3,337
Base and bonus rent receivable from UHS	2,230	2,053
Rent receivable - other	3,894	3,310
Intangible assets (net of accumulated amortization of \$16.4 million and \$13.7 million at June 30, 2014 and December 31, 2013, respectively)	21,855	20,782
Deferred charges, goodwill and other assets, net	5,688	6,714
Total Assets	\$ 383,712	\$ 373,145
<b><u>Liabilities:</u></b>		
Line of credit borrowings	\$ 102,350	\$ 93,700
Mortgage and other notes payable, non-recourse to us (including net debt premium of \$604,000 and \$834,000 at June 30, 2014 and December 31, 2013, respectively)	115,239	106,287
Accrued interest	511	491
Accrued expenses and other liabilities	4,141	5,156
Tenant reserves, escrows, deposits and prepaid rents	2,242	1,881
Total Liabilities	224,483	207,515

**Equity:**

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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: 2014 - 12,929,400 2013 -12,858,643	129	128
Capital in excess of par value	223,356	220,691
Cumulative net income	487,226	480,044
Cumulative dividends	(551,371)	(535,176)
Accumulated other comprehensive loss	(111)	(57)
 Total Equity	 159,229	 165,630
 Total Liabilities and Equity	 \$ 383,712	 \$ 373,145

See the accompanying notes to these condensed consolidated financial statements.



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## Condensed Consolidated Statement of Cash Flows

(dollar amounts in thousands)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,182	\$ 6,368
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	9,653	9,581
Amortization on debt premium	(191)	(218)
Restricted/stock-based compensation expense	197	185
Gains on purchase of minority interests in majority-owned LLCs before transaction costs	(316)	0
<i>Changes in assets and liabilities:</i>		
Rent receivable	(431)	(332)
Accrued expenses and other liabilities	(1,209)	(48)
Tenant reserves, escrows, deposits and prepaid rents	304	64
Accrued interest	(13)	(23)
Other, net	119	76
<b>Net cash provided by operating activities</b>	<b>15,295</b>	<b>15,653</b>
<b>Cash flows from investing activities:</b>		
Investments in LLCs	(887)	(1,816)
Repayments of advances made to LLCs	0	67
Advances made to LLCs	0	(4,082)
Cash distributions in excess of income from LLCs	741	1,282
Additions to real estate investments, net	(1,548)	(1,393)
Net cash paid for acquisition of medical office buildings	(7,050)	(625)
Cash paid to acquire minority interests in majority-owned LLCs	(170)	0
<b>Net cash used in investing activities</b>	<b>(8,914)</b>	<b>(6,567)</b>
<b>Cash flows from financing activities:</b>		
Net borrowings on line of credit	8,650	8,600
Proceeds from mortgages and other notes payable	0	11,150
Repayments of mortgages and other notes payable	(1,583)	(13,016)
Financing costs paid on mortgage and other notes payable	0	(95)
Dividends paid	(16,195)	(15,804)
Issuance of shares of beneficial interest, net	3,013	128

<b>Net cash used in financing activities</b>	(6,115)	(9,037)
Increase in cash and cash equivalents	266	49
Increase in cash due to recording of LLC on a consolidated basis	257	0
Cash and cash equivalents, beginning of period	3,337	3,048
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,860</b>	<b>\$ 3,097</b>

**Supplemental disclosures of cash flow information:**

Interest paid	\$ 3,971	\$ 3,847
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**Supplemental disclosures of non-cash transactions:**

Consolidation of LLC:		
Net real estate investments	\$ 19,489	\$ 0
Cash and cash equivalents	257	0
Intangible assets	2,820	0
Rent receivable - other	330	0
Deferred charges, goodwill and other assets, net	46	0
Investment in LLCs	(11,392)	0
Mortgage and other notes payable, non-recourse to us	(10,726)	0
Accrued interest		