

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(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, 1996

OR

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

For the transition period from to
Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST
(Exact name of registrant as specified in its charter)

MARYLAND	23-6858580
(State or other jurisdiction of Incorporation or Organization)	(I. R. S. Employer Identification No.)

UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
(Address of principal executive offices) (Zip Code)

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

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

Number of shares of common stock outstanding at July 31, 1996 - 8,952,340

UNIVERSAL HEALTH REALTY INCOME TRUST

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PART I. FINANCIAL INFORMATION
 UNIVERSAL HEALTH REALTY INCOME TRUST
 CONDENSED STATEMENTS OF INCOME
 (amounts in thousands, except per share amounts)
 (unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1996	1995	1996	1995
REVENUES (Note 2):				
Base rental - UHS facilities	\$3,432	\$3,317	\$6,865	\$6,633
Base rental - Non-related parties	1,018	782	1,984	1,509
Bonus rental	745	771	1,504	1,428
Interest	184	259	369	473
	5,379	5,129	10,722	10,043
EXPENSES:				
Depreciation & amortization	894	825	1,774	1,650
Interest expense	575	428	1,123	843
Advisory fees to UHS	250	237	501	465
Other operating expenses	229	187	423	330
	1,948	1,677	3,821	3,288
Income before equity in limited liability corporations	3,431	3,452	6,901	6,755
Equity in income of limited liability corporations	159	----	272	----
NET INCOME	\$3,590	\$3,452	\$7,173	\$6,755
NET INCOME PER SHARE	\$0.40	\$0.39	\$0.80	\$0.76
Weighted average number of shares and equivalents	8,959	8,947	8,958	8,947

See accompanying notes to these condensed financial statements.

See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
CONDENSED STATEMENTS OF CASH FLOWS
(amounts in thousands, unaudited)

	SIX MONTHS ENDED JUNE 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,173	\$6,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	1,774	1,650
Amortization of interest rate cap	62	62
Changes in assets and liabilities:		
Rent receivable	(159)	7
Accrued expenses & other liabilities	(14)	4
Tenant escrows, deposits & prepaid rents	111	15
Construction & mortgage loan interest receivable	(60)	(62)
Accrued interest	30	(6)
Reserve for investment losses	(86)	(147)
Deferred charges & other	19	(37)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,850	8,241
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in limited liability corporations	(6,069)	---
Acquisition of real property	(10,194)	(23)
Advances under construction note receivable	---	(1,642)
NET CASH USED IN INVESTING ACTIVITIES	(16,263)	(1,665)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings	14,965	940
Dividends paid	(7,564)	(7,516)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	7,401	(6,576)
Decrease in cash	(12)	---
Cash, beginning of period	139	2
CASH, END OF PERIOD	\$127	\$2
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,001	\$ 756

See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 1996
(unaudited)

(1) GENERAL

The financial statements included herein have been prepared by the Trust, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Trust, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Trust believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 1995.

(2) RELATIONSHIP WITH UNIVERSAL HEALTH SERVICES, INC.

Approximately 75% and 78% for the three month periods ended June 30, 1996 and 1995 and 76% and 79% for the six month periods ended June 30, 1996 and 1995, of the Trust's gross revenues were earned under the terms of the leases with wholly-owned subsidiaries of Universal Health Services, Inc. ("UHS"). UHS has unconditionally guaranteed the obligations of its subsidiaries under the leases. Below is the detailed listing of the revenues received from UHS and other non-related parties for the three and six months ended June 30, 1996 and 1995:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1996	1995	1996	1995
Base rental - UHS facilities	\$ 3,432,000	\$ 3,317,000	\$ 6,865,000	\$ 6,633,000
Base rental - Non-related parties	1,018,000	782,000	1,984,000	1,509,000
Total base rental	4,450,000	4,099,000	8,849,000	8,142,000
Bonus rental - UHS facilities	627,000	660,000	1,275,000	1,317,000
Bonus rental - Non-related parties	118,000	111,000	229,000	111,000
Total bonus rental	745,000	771,000	1,504,000	1,428,000
Interest - Non-related parties	184,000	259,000	369,000	473,000
Total revenues	\$ 5,379,000	\$ 5,129,000	\$ 10,722,000	\$ 10,043,000

UHS owned approximately 8% percent of the Trust's outstanding common shares as of June 30, 1996. The Trust has granted UHS an option to purchase Trust shares in the future at fair market value to enable UHS to maintain a 5% interest in the Trust. The Trust has no salaried employees and the Trust's officers are all employees of UHS and receive no cash compensation from the Trust.

(3) DIVIDENDS

A dividend of \$.425 per share or \$3,805,000 in the aggregate was declared by the Board of Trustees on May 31, 1996 and was paid on June 28, 1996 to shareholders of record as of June 14, 1996.

(4) ACQUISITIONS

During the second quarter of 1996 the Trust added seven new investments to its portfolio consisting of the following: (i) the purchase of four preschool and child-care centers located in southeastern, Pennsylvania for \$3.9 million; (ii) the acquisition of a 33% equity interest in a limited liability corporation ("LLC") which owns a 94,000 square foot medical office building located on the campus of Columbia/HCA Healthcare Corporation's 260-bed Suburban Medical Center in Louisville, Kentucky; (iii) the purchase of a 41,400 square foot, multi-tenant medical office building located adjacent to the Southern Regional Medical Center in Riverdale, Georgia for \$6.2 million, and; (iv) the purchase of a 50% equity interest in a LLC which owns two medical office buildings on the campus of Maryvale Samaritan Hospital located in Phoenix, Arizona for \$1.4 million. In connection with the Trust's acquisition of the 33% equity interest in the LLC which owns the medical office building on the campus of Suburban Medical Center, the Trust posted a \$3.5 million standby letter of credit for the benefit of the lender providing the construction financing. The construction loan matures in November, 1997 and the Trust expects the LLC, which owns the medical office building, to arrange for permanent financing prior to that date.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

GENERAL

The matters discussed in this report as well as the news releases issued from time to time by the Trust contain certain forward-looking statements that involve risks and uncertainties, including the fact that a substantial portion of the Trust's revenues are dependent on one operator, Universal Health Services, Inc., a substantial portion of the Trust's leases and mortgagors are involved in the health industry which is undergoing substantial changes and is subject to pressure from government reimbursement programs and other third party payors, certain of the Trust's facilities have had cash flow less than 1.5 times lease payments, leases may not be renewed at the end of their terms which could require the Trust to find other operators for those facilities and enter into leases on terms potentially less favorable to the Trust than current leases.

RESULTS OF OPERATIONS

The Trust currently has investments in twenty-two facilities located in twelve states. These investments include: (i) ownership of four acute care, one comprehensive rehabilitation and two psychiatric hospitals leased to subsidiaries of Universal Health Services, Inc. ("UHS"); (ii) ownership of one comprehensive rehabilitation hospital leased to a subsidiary of HEALTHSOUTH Corporation; (iii) ownership of one sub-acute care facility leased to THC-Chicago, Inc. ("THC"), an indirect wholly-owned subsidiary of Community Psychiatric Centers ("CPC"); (iv) ownership of one medical office building leased to several tenants including an outpatient surgery center operated by Columbia/HCA Healthcare, Corporation ("Columbia"); (v) ownership of a medical office building on the campus of a hospital owned by Columbia; (vi) ownership of one single tenant and two multi-tenant medical office buildings located in Kingwood, Texas; (vii) a mortgage loan made to Crouse Irving Memorial Properties for the purchase of the real assets of the Madison Irving Medical Center, an ambulatory treatment center; (viii) a 50% interest in a limited liability corporation which owns three medical office buildings located on the campus of Desert Samaritan Hospital in Phoenix, Arizona; (ix) ownership of four preschool and child-care centers located in southeastern Pennsylvania; (x) a 33% equity interest in a limited liability corporation which owns a medical office building on the campus of Columbia's 260 bed Suburban Medical Center located in Louisville, Kentucky; (xi) ownership of a multi-tenant medical office building located adjacent to the Southern Regional Medical Center in Riverdale, Georgia; (xii) a 50% equity interest in a limited liability corporation which owns two medical office buildings on the campus of Maryvale Samaritan Hospital located in Phoenix, Arizona, and; (xiii) ownership of the real estate assets of Lake Shore Hospital, to which the Trust received free and clear title during 1995. The Trust has been, and will continue to, actively market the property of Lake Shore Hospital in an effort to sell or lease the facility to a qualified operator. The leases to the subsidiaries of UHS are guaranteed by UHS and are cross-defaulted with one another. The lease to the subsidiary of HEALTHSOUTH Corporation is guaranteed by HEALTHSOUTH Corporation, the lease on the sub-acute care facility to THC is guaranteed by CPC and the leases to the outpatient surgery center and the medical office building on the campus of a Columbia hospital, are guaranteed by Columbia. The lease on the single tenant medical office building located in Kingwood, Texas is guaranteed by Columbia.

The second quarter dividend of \$.425 per share or \$3,805,000 in the aggregate was paid on June 28, 1996.

For the quarters ended June 30, 1996 and 1995 net income totaled \$3,590,000 and \$3,452,000 or \$.40 and \$.39 per share on net revenues of \$5,379,000 and \$5,129,000, respectively. For the six months ended June 30, 1996 and 1995 net income totaled \$7,173,000 and \$6,755,000 or \$.80 and \$.76 per share on net revenues of \$10,722,000 and \$10,043,000, respectively.

The \$250,000 increase in net revenue during the 1996 second quarter as compared to the comparable prior year quarter was primarily attributable to a \$236,000 increase in base rental from non-related parties and a \$115,000 increase in base rental from UHS facilities, partially offset by a \$75,000 decrease in interest income due to the 1995 period including interest earned on the construction financing loan for medical office buildings located in Texas which were purchased by the Trust upon their completion and occupancy during the fourth quarter of 1995. The increase in base rentals from non-related parties resulted primarily from the acquisitions of the four preschool and child-care centers during the second quarter of 1996 and the medical office buildings during the third and fourth quarters of 1995. The increase in the base rental from UHS facilities was attributable to the purchase by the Trust of additional real estate assets related to McAllen Medical Center and additional base rental generated from the Westlake Medical Center ("Westlake") swap transaction which occurred during the third quarter of 1995. In exchange for the real estate assets of Westlake and the termination of the lease, the Trust received substitution properties valued at approximately \$19 million (the Trust's original purchase price of Westlake) consisting of additional real estate assets which were owned by UHS but related to three acute care facilities, of which the Trust owns the real estate and which are operated by UHS (McAllen Medical Center, Inland Valley Regional Medical Center and Wellington Regional Medical Center).

These additional real estate assets represented major additions and expansions made to these facilities by UHS since the purchase of the facilities by the Trust from UHS in 1986. The Trust also purchased from UHS, additional real estate assets related to McAllen Medical Center for approximately \$1.9 million in cash. Total annual base rental payments from UHS to the Trust on the substituted properties is \$2.4 million which equals the total base and bonus rental earned by the Trust on the Westlake facility during 1994 (\$2.1 million base and \$300,000 bonus).

The \$679,000 increase in net revenue for the six months ended June 30, 1996 over the comparable prior year period was due primarily to a \$475,000 increase in base rentals from non-related parties due to the acquisitions of the preschool and child-care centers during the second quarter of 1996 and the medical office buildings during the third and fourth quarters of 1995, and a \$232,000 increase in base rental from UHS facilities due to the Westlake Medical Center swap transaction, mentioned above.

Approximately \$9,000 and \$33,000 for the three months periods ended June 30, 1996 and 1995 and \$20,000 and \$65,000 for the six month periods ended June 30, 1996 and 1995, respectively, of the Trust's bonus rental were attributable to special Medicaid reimbursement programs which relate to an acute care hospital owned by the Trust. The facility, which participates in the Texas Medical Assistance Program, became eligible and received additional reimbursements from the state's disproportionate share hospital fund since the facility met certain conditions of participation and served a disproportionately high share of the state's low income patients. This program is scheduled to terminate in August, 1996 and the Trust cannot predict whether this program will continue beyond the scheduled termination date.

Interest expense increased \$147,000 or 34% for the three months ended June 30, 1996 and \$280,000 or 33% for the six months ended June 30, 1996 as compared to the comparable prior year periods due to the additional borrowings used to finance the purchase of limited liability corporation interests during the first and second quarters of 1996, the purchase of the preschool and child-care centers during the second quarter of 1996, and the medical office buildings acquired by the Trust during the third and fourth quarters of 1995. Partially offsetting the additional interest expense generated by the increased borrowings used to finance these acquisitions was a .7% and .6% decrease in the Trust's effective borrowing rate during the three and six month periods ended June 30, 1996, respectively, as compared to the 1995 comparable periods.

Depreciation and amortization expense increased \$69,000 or 8% for the three months ended June 30, 1996 and \$124,000 or 8% for the six months ended June 30, 1996 over the comparable prior year periods due primarily to the depreciation expense on the preschool and child-care centers acquired during the second quarter of 1996 and the medical office buildings acquired by the Trust during the third and fourth quarters of 1995.

Other operating expenses increased \$42,000 or 22% during the second quarter of 1996 and \$93,000 or 28% during the 1996 six month period as compared to the comparable prior year periods due primarily to the expenses related to the medical office buildings acquired by the Trust during the third and fourth quarters of 1995. These expenses, which are passed on directly to the tenants of the medical office buildings, are included as revenue in the Trust's statements of income.

Included in the Trust's financial results for the three and six months ended June 30, 1996 was \$159,000 and \$272,000, respectively, of income generated from the Trust's 50% ownership in a limited liability corporation which owns three medical office buildings located on the campus of Desert Samaritan Hospital in Phoenix, Arizona, purchased during the first quarter of 1996.

Funds from operations ("FFO"), which is the sum of net income plus depreciation expense and amortization of interest rate cap expense totaled \$4.5 million and \$4.3 million for the three months ended June 30, 1996 and 1995 and \$9.0 million and \$8.4 million for the six months ended June 30, 1996 and 1995, respectively. FFO does not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Trust's operating performance or to cash flows as a measure of liquidity.

LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 1996, net cash provided by operating activities was \$8.9 million as compared to \$8.2 million in the 1995 six month period. The \$609,000 increase in net cash provided by operating activities was due primarily to a \$542,000 increase in net income plus the addback of the non-cash depreciation and amortization expense.

During the first six months of 1996, the \$8.9 million of net cash provided by operating activities and the \$15.0 million of additional borrowings were used primarily to: (i) acquire a 50% interest in a limited liability corporation which owns three medical office buildings located on the campus of Desert Samaritan Hospital in Phoenix, Arizona (\$4.7 million); (ii) the purchase of four preschool and child-care centers located in Pennsylvania (\$3.9 million); the purchase of a multi-tenant medical office building located in Riverdale, Georgia (\$6.2 million); (iii) the purchase of a 50% equity interest in a limited liability corporation which owns two medical office buildings in Phoenix, Arizona (\$1.4 million), and; (iv) the payment of dividends (\$7.6 million).

As of June 30, 1996 the Trust had approximately \$4.7 million of unused borrowing capacity under the terms of its \$45 million non-amortizing revolving credit agreement. This agreement matures on February 28, 1997 at which time all amounts then outstanding are required to be repaid. The Trust is currently negotiating with the participating banks in its revolving credit facility to extend the term of the revolving credit agreement under terms similar to its current agreement. No assurance can be given as to the ultimate outcome of these negotiations.

PART II. OTHER INFORMATION
UNIVERSAL HEALTH REALTY INCOME TRUST

Item 4. Submission of Matters to a Vote of Security Holders

(a) The following information relates to matters submitted to the shareholders of Universal Health Realty Income Trust. (the "Trust") at the Annual Meeting of Shareholders on May 31, 1996.

(b) Not applicable.

(c) Election by holders of Trust share of three Class I Trustees

	Alan B. Miller -----	Peter Linneman -----	Myles H. Tanenbaum -----
Votes cast in favor	8,198,172	8,189,974	8,197,281
Votes withheld	34,239	42,437	35,130

(d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

27. Financial Data Schedule

All other items of this report are inapplicable.

Signatures

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

Date: August 9, 1996

UNIVERSAL HEALTH REALTY INCOME TRUST

(Registrant)

/s/ Kirk E. Gorman
Kirk E. Gorman, President,
Chief Financial Officer, Secretary and Trustee

(Principal Financial Officer and Duly
Authorized Officer.)

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6-MOS

DEC-31-1996

JAN-01-1996

JUN-30-1996

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5,072

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158,082

24,722

147,502

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41,391

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90

104,517

147,502

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924

1,774

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1,123

7,173

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