

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 September 30, 1995

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 October 31, 1995 - 8,947,192

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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1994	1995	1994
REVENUES (NOTE 2):				
Base rental - UHS facilities	\$3,426	\$3,317	\$10,059	\$9,950
Base rental - Non-related part	802	505	2,311	1,516
Bonus rental	733	626	2,161	2,015
Interest	254	213	727	653
	-----	-----	-----	-----
	5,215	4,661	15,258	14,134
	-----	-----	-----	-----
EXPENSES:				
Depreciation & amortization	860	795	2,510	2,477
Interest expense	491	323	1,334	816
Advisory fees to UHS	243	222	708	672
Other operating expenses	170	89	500	263
Recovery of investment losses	-	-	-	(1,157)
	-----	-----	-----	-----
	1,764	1,429	5,052	3,071
	-----	-----	-----	-----
	-----	-----	-----	-----
NET INCOME	\$3,451	\$3,232	\$10,206	\$11,063
	=====	=====	=====	=====
NET INCOME PER SHARE	\$0.38	\$0.36	\$1.14	\$1.24
	=====	=====	=====	=====
Average Shares Outstanding	8,947	8,948	8,947	8,948
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Condensed Balance Sheets
(amounts in thousands)

	SEPTEMBER 30, ----- 1995 ----- (unaudited)	DECEMBER 31, ----- 1994 -----
ASSETS:		
REAL ESTATE INVESTMENTS:		
Buildings & improvements	\$126,560	\$119,587
Accumulated depreciation	(22,131)	(22,646)
	-----	-----
	104,429	96,941
Land	16,995	23,482
Mortgage loans receivable, net	6,443	6,440
Construction loan note receivable, net	3,597	1,143
Reserve for investment losses	(313)	(490)
	-----	-----
NET REAL ESTATE INVESTMENTS	131,151	127,516
OTHER ASSETS:		
Cash	108	2
Bonus rent receivable -UHS	603	621
Rent receivable - non-related parties	129	68
Construction and mortgage loan interest receivable	--	3
Deferred charges	564	697
	-----	-----
	\$132,555	\$128,907
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Bank borrowings	\$24,950	\$20,320
Deferred purchase price payable-UHS	1,006	963
Accrued interest	167	117
Accrued expenses & other liabilities	690	698
Tenant reserves, escrows, deposits and prepaid rental	365	364
SHAREHOLDERS' EQUITY:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none outstanding	--	--
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 1995 - 8,947,192 1994 - 8,947,192	89	89
Capital in excess of par value.....	128,643	128,643
Cumulative net income.....	80,618	70,412
Cumulative dividends.....	(103,973)	(92,699)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	105,377	106,445
	-----	-----
	\$132,555	\$128,907
	=====	=====

The accompanying notes are an integral part of these financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Condensed Statements of Cash Flows
(amounts in thousands, unaudited)

	Nine months ended September 30,	
	1995	1994
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$10,206	\$11,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	2,510	2,477
Provision for investment losses	-	450
Amortization of interest rate cap	93	31
Gain on investment in marketable securities	-	(107)
Changes in assets and liabilities:		
Rent receivable	(43)	188
Accrued expenses & other liabilities	(8)	63
Tenant escrows, deposits & prepaid rents	1	-
Construction & mortgage loan interest receivable	3	14
Accrued interest	50	80
Reserve for investment losses	(177)	(32)
Deferred charges & other	(87)	(224)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,548	14,003
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of real property	(3,461)	-
Advances under construction note receivable	(2,337)	(584)
Repayments under construction note receivable	-	2,762
Proceeds from investment in marketable securities	-	107
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,798)	2,285
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	-	(4,565)
Purchase of interest rate cap	-	(623)
Additional borrowings	4,630	-
Dividends paid	(11,274)	(11,139)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(6,644)	(16,327)
	-----	-----
Increase (decrease) in cash	106	(39)
Cash, beginning of period	2	44
	-----	-----
CASH, END OF PERIOD	\$108	\$5
	=====	=====
=====		
Supplemental disclosures of cash flow information:		
Interest paid	\$1,148	\$663
	=====	=====

The accompanying notes are an integral part of these statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 1995
(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, 1994.

(2) RELATIONSHIP WITH UNIVERSAL HEALTH SERVICES, INC.

Approximately 78% and 84% for the three months ended September 30, 1995 and 1994 and 79% and 83% for the nine months ended September 30, 1995 and 1994, respectively, 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 nine months ended September 30, 1995 and 1994:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1994	1995	1994
Base rental - UHS facilities	\$ 3,426,000	\$ 3,317,000	\$ 10,059,000	\$ 9,950,000
Base rental - Non-related parties	802,000	505,000	2,311,000	1,516,000
Total base rental	4,228,000	3,822,000	12,370,000	11,466,000
Bonus rental - UHS facilities	623,000	593,000	1,940,000	1,800,000
Bonus rental - Non-related parties	110,000	33,000	221,000	215,000
Total bonus rental	733,000	626,000	2,161,000	2,015,000
Interest - Non-related parties	254,000	213,000	727,000	653,000
Total revenues	\$ 5,215,000	\$ 4,661,000	\$ 15,258,000	\$ 14,134,000

UHS owned approximately 7.8% percent of the Trust's outstanding common shares as of September 30, 1995. 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.

(3) DIVIDENDS

A dividend of \$.42 per share or \$3,758,000 in the aggregate was declared by the Board of Trustees on September 6, 1995 and was paid on September 29, 1995 to shareholders of record as of September 15, 1995.

(4) FINANCING

During 1993, the Trust funded \$6.5 million for the purchase of the real assets of the Madison Irving Medical Center, by Crouse Irving Memorial Properties, located in Syracuse, New York. The loan, which can be prepaid without penalty at any time, has a fifteen-year repayment term. The Trust has received prepaid commitment fees related to this mortgage note receivable totaling \$65,000. The unearned portion (\$57,000 as of September 30, 1995) is being recognized as income over the fifteen-year repayment term. The loan accrues interest monthly at a margin over the one month LIBOR or at a margin over the five-year Treasury rate. The interest rate is selected at the borrower's option. Interest on the mortgage loan, including amortization of prepaid commitment fees, accrued at an average rate of 11.8% and 10.2% for the three months ended September 30, 1995 and 1994, and 11.8% and 9.4% for the nine months ended September 30, 1995 and 1994, respectively.

In December of 1994, the Trust agreed to provide up to \$4.1 million of construction financing for the Professional Center at Kings Crossing, and intends to purchase, subject to certain contingencies, the property upon its completion and occupancy. The construction loan accrues interest monthly at a margin over the one month LIBOR. Disbursement of funds related to the construction financing (\$1.1 million advanced in December, 1994, \$500,000 during the first quarter of 1995, \$1.2 million during the second quarter of 1995 and \$700,000 during the third quarter of 1995) will be completed during the fourth quarter of 1995 at which time the Trust anticipates purchasing the property.

(5) ACQUISITIONS AND DIVESTITURES

During the third quarter of 1995, UHS purchased the assets of Westlake Medical Center, ("Westlake") a 126-bed hospital of which the majority of real estate assets were owned by the Trust and leased to UHS. 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 represent 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 these hospitals for approximately \$1.9 million in cash. Total annual base rental payments from UHS to the Trust on substituted properties will be \$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). Total annual base rental payments on the additional real estate assets purchased will be approximately \$200,000. Bonus rental on the substituted and purchased real estate assets will be equal to 1% of the growth in revenues generated by these additional assets. The guarantee by UHS under the existing leases will continue.

Also during the third quarter of 1995, the Trust purchased for \$1.6 million in cash, a medical office building on the campus of a hospital owned by Columbia/HCA Healthcare Corporation located in Shreveport, Louisiana. The medical office building is currently being leased under the terms of a master lease agreement with Columbia/HCA Healthcare Corporation.

RESULTS OF OPERATIONS

As of September 30, 1995, the Trust had investments in fourteen facilities located in nine 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) a loan made to a company for the construction and potential purchase of one single tenant and two multi-tenant medical office buildings; (vii) a mortgage loan made to Crouse Irving Memorial Properties for the purchase of the property of the Madison Irving Medical Center, an ambulatory treatment center and; (viii) ownership of the real estate assets of Lake Shore Hospital, to which the Trust received free and clear title during the second quarter of 1995. The Trust will continue to market the property of Lake Shore Hospital in an effort to sell or lease the facility to a qualified operator. In addition, the Trust agreed to provide up to \$4.1 million of construction financing for the construction of a medical office building which it intends to purchase, subject to certain contingencies, during the fourth quarter of 1995. 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 second quarter dividend of \$.42 per share of \$3,758,000 in the aggregate was paid on September 29, 1995.

For the quarters ended September 30, 1995 and 1994, net income totaled \$3,451,000 and \$3,232,000 or \$.38 and \$.36 per share on net revenues of \$5,215,000 and \$4,661,000, respectively. For the nine months ended September 30, 1995 and 1994, net income totaled \$10,206,000 and \$11,063,000 or \$1.14 and \$1.24 per share on net revenues of \$15,258,000 and \$14,134,000, respectively.

The \$554,000 increase in net revenue in the third quarter of 1995 as compared to the comparable 1994 period was primarily attributable to: (i) a \$109,000 increase in base rental from UHS facilities resulting from the purchase by the Trust of additional real estate assets and the additional base rental generated from the Westlake Medical Center swap transaction (see Note 5); (ii) a \$297,000 increase in the base rental from non-related parties resulting primarily from the rental earned on the Fresno-Herndon Medical Plaza, which the Trust purchased in November, 1994 and the medical office building purchased by the Trust during the third quarter of 1995; (iii) a \$107,000 increase in bonus rentals, which are computed as a percentage of certain facilities' revenue in excess of base year amounts, and; (iv) a \$41,000 increase in interest income.

The \$1,124,000 increase in net revenue for the nine months ended September 30, 1995 as compared to the comparable 1994 period was attributable to: (i) a \$109,000 increase in base rental from UHS facilities, as described above; (ii) a \$795,000 increase in base rental from non-related parties resulting from the acquisitions of office buildings in November of 1994 and the third quarter of 1995; (iii) a \$146,000 increase in bonus rentals, and; (iv) a \$74,000 increase in interest income.

Approximately \$26,000 and \$31,000 of the Trust's bonus rentals for the three months ended September 30, 1995 and 1994, and \$91,000 and for each of the nine month periods ended September 30, 1995 and 1994, respectively, were attributable to special Medicaid reimbursement programs which relate to an acute care hospital, the real estate of which is owned by the Trust and which is operated by UHS. 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. As a result of recent changes to the program which will reduce the revenues received by the hospital under the program, it is expected that the annual bonus rental payment to the Trust related to such revenues will be reduced to approximately \$50,000 per year. This program is scheduled to terminate in August, 1996 and the Trust can not predict whether this program will continue beyond the scheduled termination date.

Included in the financial results, as recovery of investment losses, for the nine months ended September 30, 1994 was \$1,050,000 related to the Lake Shore Hospital settlement agreement (\$1.5 million of cash received less \$450,000 reserved for future expenses related to the facility) and \$107,000 of cash received related to a stock investment written down to zero in a prior year.

Operating expenses increased \$81,000 for the three months ended September 30, 1995 and \$237,000 for the nine months ended September 30, 1995 as compared to the comparable 1994 periods, primarily due to the expenses related to the Fresno-Herndon Medical Plaza which was acquired by the Trust in November of 1994. These expenses are passed on directly to the tenants of the Medical Plaza and are included as revenue in the Trust's statements of income.

Interest expense increased \$168,000 for the three months ended September 30, 1995 and \$518,000 for the nine months ended September 30, 1995 as compared to the comparable prior year periods due primarily to higher average outstanding borrowings and higher effective interest rates on the Trust's revolving credit facility. Also included in interest expense is \$31,000 for each of the three month periods ended September 30, 1995 and 1994 and \$93,000 and \$31,000 for the nine month periods ended September 30, 1995 and 1994, respectively, recorded in connection with the amortization of the interest rate cap agreement which commenced on June 30, 1994. This agreement matures in June, 1999 and fixes the maximum rate on \$15 million of variable rate revolving credit notes at 7.75%. The unamortized premium (\$467,000 at September 30, 1995) is being amortized over the life of the cap.

Depreciation and amortization expense increased \$65,000 for the three months ended September 30, 1995 compared to the comparable prior year quarter due primarily to the expense recorded on the medical office buildings purchased in November of 1994 and the third quarter of 1995. The 1994 period included accelerated amortization of financing fees related to the old revolving credit agreement which was terminated and replaced with a new agreement in March, 1994.

During the first nine months of 1995, net cash provided by operating activities was \$12.5 million as compared to \$14.0 million in the 1994 period. The \$1.5 million decrease in net cash provided by operating activities was primarily due to the \$1.5 million of cash received during 1994 related to the settlement agreement on Lake Shore Hospital.

During the first nine months of 1995, the Company used the net cash provided by operating activities (\$12.5 million) and additional funds borrowed under the terms of its revolving credit facility (\$4.6 million) to advance funds pursuant to the terms of the \$4.1 million construction note receivable (\$2.4 million), to acquire real property (\$3.5 million) and to pay dividends (\$11.3 million).

As of September 30, 1995, the Trust had approximately \$20 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.

Cash available for distribution or reinvestment, which is the sum of net income plus depreciation and amortization and amortization of interest rate cap, totaled \$4.3 million and \$4.1 million for the quarters ended September 30, 1995 and 1994, and \$12.8 million and \$13.6 million for the nine months ended September 30, 1995 and 1994, respectively. Cash available for distribution or reinvestment 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.

PART II. OTHER INFORMATION
UNIVERSAL HEALTH REALTY INCOME TRUST

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 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: November 10, 1995

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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