UNIVERSAL HEALTH REALTY INCOME TRUST
Form 10-K
March 07, 2014
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# 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, 2013**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **23-6858580**<br>**(I.R.S. Employer Identification Number)** |
| **Universal Corporate Center**<br>**367 South Gulph Road**<br>**P.O. Box 61558**<br>**King of Prussia, Pennsylvania**<br>**(Address of principal executive offices)** | **19406-0958**<br>**(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** ¨ **(Do not check if a smaller reporting company)** | **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 28, 2013: $540,970,533 (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, 2014: 12,858,667

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s definitive proxy statement for our 2014 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2013 (incorporated by reference under Part III).

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**UNIVERSAL HEALTH REALTY INCOME TRUST**

**2013 FORM 10-K ANNUAL REPORT**

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This Annual Report on Form 10-K is for the year ended December 31, 2013. 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, 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 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).

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**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 including acute care hospitals, behavioral healthcare facilities, rehabilitation hospitals, sub-acute facilities, surgery centers, childcare centers and medical office buildings ( MOBs ). As of February 28, 2014 we have fifty-eight real estate investments or commitments located in sixteen states in the United States consisting of: (i) seven hospital facilities including three acute care, one behavioral healthcare, one rehabilitation and two sub-acute; (ii) forty-seven MOBs, and; (iii) 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 2013. 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 28, 2014, we have investments in fifty-eight facilities, located in sixteen 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. |
| The Bridgeway(A) | N.Little Rock, AR | Behavioral Health | 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 Louisiana |
| Kelsey-Seybold Clinic at Kings Crossing(B) | Kingwood, TX | MOB | 100% | Kelsey-Seybold Medical Group, PLLC |
| Professional Bldgs. at Kings Crossing | | | | |
| 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. |

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| Facility Name | Location | Type of Facility | Ownership | Guarantor |
|---|---|---|---|---|
| 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(C) | Phoenix, AZ | MOB | 90% | |
| 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(C) | Scottsdale, AZ | MOB | 90% | |
| Sheffield Medical Building(B) | Atlanta, GA | 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(C) | Phoenix, AZ | MOB | 85% | |
| 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 | 75% | |
| Apache Junction Medical Plaza(E) | Apache Junction, AZ | MOB | 100% | |
| Spring Valley Medical Office Building(E) | Las Vegas, NV | MOB | 100% | |
| Spring Valley Hospital Medical Office Building II(E) | Las Vegas, NV | MOB | 100% | |
| Sierra San Antonio Medical Plaza(C) | Fontana, CA | MOB | 95% | |
| Phoenix Children s East Valley Care Center(C) | Phoenix, AZ | MOB | 95% | |
| Centennial Hills Medical Office Building(D) | Las Vegas, NV | MOB | 100% | |
| Palmdale Medical Plaza(D)(L)(P) | Palmdale, CA | MOB | 100% | |
| Summerlin Hospital Medical Office Building III(D) | Las Vegas, NV | MOB | 100% | |
| Vista Medical Terrace(D)(P) | Sparks, NV | MOB | 100% | |
| The Sparks Medical Building(D)(P) | 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% | |
| North Valley Medical Plaza(C) | Phoenix, AZ | MOB | 95% | |
| 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(I)(J) | Forney, TX | MOB | 95% | |
| Northwest Texas Professional Office Tower(E)(K) | Amarillo, TX | MOB | 100% | |
| 5004 Poole Road MOB(E)(M) | Denison, TX | MOB | 100% | |
| Ward Eagle Office Village(E)(N) | Farmington Hills, MI | MOB | 100% | |
| The Children s Clinic at Springdale(E)(O) | Springdale, AR | MOB | 100% | |
| The Northwest Medical Center at Sugar Creek(E)(O) | Bentonville, AR | 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 interest as indicated above 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.

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(G) Real estate assets owned by an LLC in which we have a noncontrolling ownership interest as indicated above. 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) Construction on this MOB began during the third quarter of 2012 and the MOB was completed and opened during April, 2013.
(J) Real estate assets owned by a limited partnership ( LP ) in which we have a noncontrolling ownership interest as indicated above and include tenants who are unaffiliated third-parties.
(K) This MOB was acquired during the fourth quarter of 2012.
(L) This MOB had a master lease with a subsidiary of UHS through June 30, 2013. As of July 1, 2013, the master lease expired and we therefore began to account for this LLC on an unconsolidated basis pursuant to the equity method as of July 1, 2013.
(M) This MOB was acquired during the second quarter of 2013.
(N) This MOB was acquired during the third quarter of 2013.
(O) This MOB was acquired during the first quarter of 2014.
(P) Effective January 1, 2014, we purchased the third-party minority ownership interest in the LLC which owns this MOB, in which we formerly held a noncontrolling majority ownership interest. We now hold 100% of the ownership interest in the LLC that owns this MOB.

**Other Information**

Included in our portfolio at December 31, 2013 are seven hospital facilities with an aggregate investment of $142.0 million. The leases with respect to these hospital facilities comprised approximately 36% of our consolidated revenues in each of 2013 and 2012, and 65% in 2011. The decrease during 2013 and 2012, as compared to 2011, is due primarily to the December, 2011 purchase of the third-party minority ownership interests in eleven LLCs in which we previously held noncontrolling majority ownership interests (we began recording the financial results of the entities in our financial statements on a consolidated basis at that time) and various acquisitions of medical office buildings ( MOBs ) and clinics completed during 2011 and the first quarter of 2012. As of December 31, 2013, these leases have fixed terms with an average of 3.4 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, the combined weighted average Coverage Ratio was approximately 6.3 (ranging from 2.5 to 18.5) during 2013, 5.9 (ranging from 2.1 to 14.4) during 2012 and 5.5 (ranging from 1.9 to 13.3) during 2011. The Coverage Ratio for individual facilities varies. See Relationship with Universal Health Services, Inc. below for Coverage Ratio information related to the four hospital facilities leased to subsidiaries of UHS.

Pursuant to the terms of the leases for our hospital facilities 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.

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**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 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 41% of our total revenue for the five years ended December 31, 2013 (approximately 30% for each of the years ended December 31, 2013 and 2012, and 55% for the year ended December 31, 2011). The decrease during 2013 and 2012, as compared to 2011, is due primarily to the December, 2011 purchase of the third-party minority ownership interests in eleven LLCs in which we previously held noncontrolling majority ownership interests and the various acquisitions of MOBs and clinics completed during 2011 and the first quarter of 2012, as mentioned above. 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, 2013 (approximately 22% for the year ended December 31, 2013, 21% for the year ended December 31, 2012 and 19% for the year ended December 31, 2011). In addition, twelve MOBs, that are either wholly or jointly-owned, include or will 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. In addition, 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. 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 four leased hospital properties listed below at their appraised fair market value.

The table below details the existing lease terms and renewal options for each of the UHS hospital facilities, giving effect to the above-mentioned renewals:

| 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) |
| The Bridgeway | Behavioral Health | $ 930,000 | December, 2014 | 10(c) |

(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).
(c) UHS has two 5-year renewal options at fair market value lease rates (2015 through 2024).

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

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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. The Bridgeway s lease term is scheduled to expire in December, 2014 and we can provide no assurance that this lease will be renewed at the fair market value lease rate.

*Advisory Agreement:* UHS of Delaware, Inc. (the Advisor ), a wholly-owned subsidiary of UHS, serves as Advisor to us under an Advisory Agreement (the Advisory Agreement ) dated December 24, 1986. Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the Independent Trustees ). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor s performance has been satisfactory. In December of 2013, 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 2014 pursuant to the same terms as the Advisory Agreement in place during 2013. In December of 2012, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the 2013 advisory fee, as compared to the 2012 advisory fee, was increased to 0.70% (from 0.65%) of our average invested real estate assets, as derived from our consolidated balance sheet.

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 2013, 2012 or 2011 since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to $2.4 million during 2013, $2.1 million during 2012 and $2.0 million during 2011 and were based upon average invested real estate assets of $338 million, $326 million and $309 million during 2013, 2012 and 2011, respectively.

*Officers and Employees:* Our officers are all employees of a wholly-owned subsidiary of UHS and although as of December 31, 2013 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock. In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

*Share Ownership:* As of December 31, 2013 and 2012, UHS owned 6.1% and 6.2%, respectively, of our outstanding shares of beneficial interest.

*SEC reporting requirements of UHS:* UHS is subject to the reporting requirements of the SEC and is required to file annual reports containing audited financial information and quarterly reports containing unaudited financial information. Since the leases on the hospital facilities leased to wholly-owned subsidiaries of UHS comprised approximately 30% of our consolidated revenues for each of the years ended December 31, 2013 and 2012, and 55% of our consolidated revenues for the year ended December 31, 2011, and since a subsidiary of

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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, outpatient surgical centers and freestanding ambulatory surgical centers 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 and behavioral health care facilities 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 each of 2013 and 2012, 28% of our revenues were earned pursuant to leases with operators of acute care services hospitals, all of which are subsidiaries of UHS, and during 2011, 51% of our revenues were earned

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pursuant to leases with operators of acute care services hospitals, all of which are subsidiaries of UHS. The decrease during 2013 and 2012, as compared to 2011, is due primarily to the above-mentioned, December, 2011 purchase of the third-party minority ownership interests in eleven LLCs in which we previously held noncontrolling majority ownership interests and the various acquisitions MOBs and clinics completed during 2011 and the first quarter of 2012. 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 substantial deterioration in general economic conditions and the funding requirements from the federal healthcare reform legislation, 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 effected.

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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 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, both general acute and behavioral health 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 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 | 76 | Chairman of the Board, Chief Executive Officer and President |
| Charles F. Boyle | 54 | Vice President and Chief Financial Officer |
| Cheryl K. Ramagano | 51 | Vice President, Treasurer and Secretary |
| Timothy J. Fowler | 58 | 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.

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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 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 substantial deterioration in general economic conditions and the funding requirements related to various governmental programs, 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 our tenants business, financial position and results of operations, 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

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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. The 2012 Act provides a one-year fix to statutory reductions in physician reimbursement and extends other Medicare provisions. In order to offset the cost of these extensions, 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.***

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.

***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.

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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. The operators of our facilities also compete with other health care providers in recruiting and retaining qualified hospital management, nurses and other medical personnel. The operators of our acute care and behavioral health care facilities are experiencing 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.

***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 an electronic health records application by 2015; 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.

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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 continued 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 continuation or worsening of economic conditions may result in a continued high 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. Additionally, the general real estate market has been unfavorably impacted by the deterioration in economic and credit market conditions which may adversely impact the underlying value of our 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. Although the tightening in the credit markets has not had a material impact on us, 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.

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In addition, global capital markets have experienced volatility that has tightened access to capital markets and other sources of funding. 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, our revenues will significantly decline.***

For the year ended December 31, 2013, UHS accounted for 36% of our consolidated revenues. In addition, as of December 31, 2013, subsidiaries of UHS leased four of the seven hospital facilities owned by us with terms expiring in 2014 or 2016. We cannot assure you that UHS will renew the leases at existing lease rates or fair market value lease rates, or continue to satisfy its obligations to us. The failure or inability of UHS to satisfy its obligations to us could materially reduce our revenues and net income, 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, 2013 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 special 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 significant, non-controlling equity ownership interests in various LLCs.***

For the year ended December 31, 2013, 28% of our consolidated and unconsolidated revenues were generated by LLCs in which we hold, or held, a majority, non-controlling equity ownership interest.

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

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Member has 60 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 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

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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 2014 or 2016. The Bridgeway s lease term is scheduled to expire in December, 2014 and we can provide no assurance that this lease will be renewed at the fair market value lease rate. 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. Two LLCs that own properties in California, in which we have various non-controlling equity interests, could not obtain earthquake insurance at rates which are economically beneficial in relation to the risks covered. 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.

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

In general, dividends 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 or the financial markets, 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.

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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 Document by and among us and certain subsidiaries of UHS, which governs the leases of all hospital properties with 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 four leased hospital properties at their appraised fair market values. The exercise of this purchase option may result in a less favorable rate of return 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.

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***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.

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**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 @ 12/31/13 | Average Occupancy(1) 2013 | 2012 | 2011 | 2010 | 2009 | Minimum rent(5) | Lease Term 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) | Acute Care | 132 | 58% | 62% | 70% | 78% | 77% | $ 2,648,000 | 2016 | 15 | 0% | |
| Wildomar, California | | | | | | | | | | | | |
| McAllen Medical Center(3)(7) | Acute Care | 430 | 43% | 43% | 45% | 47% | 50% | 5,485,000 | 2016 | 15 | 0% | |
| McAllen, Texas | | | | | | | | | | | | |
| Wellington Regional Medical Center(7) | Acute Care | 158 | 58% | 69% | 73% | 70% | 71% | 3,030,000 | 2016 | 15 | 0% | |
| West Palm Beach, Florida | | | | | | | | | | | | |
| The Bridgeway(7) | Behavioral Health | 103 | 83% | 82% | 84% | 77% | 79% | 930,000 | 2014 | 10 | 0% | |
| North Little Rock, Arkansas | | | | | | | | | | | | |
| HealthSouth Deaconess Rehab. Hospital(8) | Rehabilitation | 85 | 79% | 79% | 75% | 71% | 60% | 775,000 | 2019 | 5 | 0% | |
| Evansville, Indiana | | | | | | | | | | | | |
| Vibra Hospital of Corpus Christi | Sub-Acute Care | 74 | 58% | 53% | 54% | 64% | 61% | 738,000 | 2019 | 25 | 100% | 3% |
| Corpus Christi, Texas | | | | | | | | | | | | |
| Kindred Hospital Chicago Central(9) | Sub-Acute Care | 84 | 51% | 51% | 46% | 40% | 45% | 1,458,000 | 2016 | 10 | 0% | |
| Chicago, Illinois | | | | | | | | | | | | |

| Facility Name and Location | Type of facility | Average Occupancy(1) 2013 | 2012 | 2011 | 2010 | 2009 | Minimum rent(5) | Lease Term End of initial or renewed term | Renewal term (years) | % of RSF under lease with guaranteed escalators | Range of guaranteed escalation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Desert Springs Medical Plaza(4) Las Vegas, Nevada | MOB | 56% | 68% | 69% | 65% | 74% | 847,000 | 2015-2025 | Various | 79% | 2%-3% |
| Spring Valley MOB I(4) Las Vegas, Nevada | MOB | 64% | 68% | 75% | 93% | 96% | 652,000 | 2014-2018 | Various | 52% | 2%-3% |
| Spring Valley MOB II(4) Las Vegas, Nevada | MOB | 76% | 76% | 67% | 53% | 51% | 1,024,000 | 2016-2020 | Various | 18% | 1%-2% |
| Summerlin Hospital MOB I(4) Las Vegas, Nevada | MOB | 77% | 81% | 90% | 91% | 95% | 1,304,000 | 2014-2018 | Various | 30% | 2%-3% |
| Summerlin Hospital MOB II(4) Las Vegas, Nevada | MOB | 74% | 82% | 83% | 97% | 100% | 1,542,000 | 2014-2023 | Various | 35% | 2%-3% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Summerlin Hospital MOB III(4)<br>Las Vegas, Nevada | MOB | 81% | 71% | 64% | 63% | 63% | 1,571,000 | 2015-2023 | Various | 60% | 2%-3% |
| St. Mary s Professional Office Building<br>Reno, Nevada | MOB | 98% | 99% | 100% | 99% | 99% | 4,375,000 | 2015-2025 | Various | 29% | 2%-3% |
| Rosenberg Children s Medical Plaza<br>Phoenix, Arizona | MOB | 99% | 100% | 100% | 100% | 100% | 1,916,000 | 2015-2019 | Various | 56% | 2%-3% |
| Gold Shadow 700 Shadow(4)<br>Las Vegas, Nevada | MOB | 84% | 82% | 78% | 86% | 94% | 975,000 | 2014-2020 | Various | 38% | 2% |
| Gold Shadow 2010 & 2020 Goldring MOBs(4)<br>Las Vegas, Nevada | MOB | 92% | 95% | 95% | 91% | 91% | 1,520,000 | 2014-2017 | Various | 9% | 2%-3% |
| Centennial Hills MOB(4)<br>Las Vegas, Nevada | MOB | 62% | 62% | 63% | 58% | 47% | 1,564,000 | 2014-2024 | Various | 28% | 2%-3% |
| Auburn II MOB(4)<br>Auburn, Washington | MOB | 90% | 90% | 84% | 79% | | 1,146,000 | 2017-2022 | Various | 28% | 2%-3% |
| Suburban Medical Plaza II<br>Louisville, Kentucky | MOB | 100% | 100% | 100% | 98% | 98% | 2,273,000 | 2014-2025 | Various | 18% | 3% |
| Forney Medical Plaza(6)<br>Forney, Texas | MOB | 94% | 97% | 92% | | | 1,495,000 | 2018-2023 | Various | 77% | 3% |

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| | | Average Occupancy(1) | | | | | Lease Term | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Facility Name and Location** | **Type of facility** | **2013** | **2012** | **2011** | **2010** | **2009** | **Minimum rent(5)** | **End of initial or renewed term** | **Renewal term (years)** | **% of RSF under lease with guaranteed escalators** | **Range of guaranteed escalation** |
| Lake Pointe Medical Arts Building(6) Rowlett,Texas | MOB | 97% | 96% | 95% | | | 1,511,000 | 2017-2023 | Various | 24% | 3% |
| Tuscan Medical Properties(6) Las Colinas, Texas | MOB | 99% | 98% | 100% | | | 1,047,000 | 2014-2020 | Various | 100% | 2%-3% |
| PeaceHealth Medical Clinic(10) Bellingham, Washington | MOB | 100% | 100% | | | | 2,560,000 | 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, 2013. 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. The revenues of South Texas Behavioral Health Center are 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) These properties were acquired in 2011.

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

**Leasing Trends at Our Significant Medical Office Buildings**

During 2013, we had a total of 106 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 13% of the aggregate rentable square feet of these properties (8% 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 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 $17 per square foot during 2013. The weighted-average leasing commissions on the new and renewed leases commencing during 2013 was approximately 3% 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 2013 was approximately 2% of the future aggregate base rental revenue over the lease terms. Tenant concessions 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 2013, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 6%.

Set forth is information detailing the rentable square feet ( RSF ) associated with each of our investments as of December 31, 2013 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 2014 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, 2014 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 and Later |
| ***Hospital Investments*** | | | | | | | | |
| McAllen Medical Center | 422,276 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| Wellington Regional Medical Center | 196,489 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| Southwest Healthcare System Inland Valley Campus. | 124,644 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| Kindred Hospital Chicago Central | 115,554 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| The Bridgeway(e) | 77,901 | 0% | 100% | 0% | 0% | 0% | 0% | 0% |
| HealthSouth Deaconess Rehab. Hospital | 77,440 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Vibra Hospital of Corpus Christi | 69,700 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Subtotal Hospitals | 1,084,004 | 0% | 7% | 0% | 79% | 0% | 0% | 14% |
| ***Other Investments*** | | | | | | | | |
| **Medical Office Buildings:** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Saint Mary s Professional Office Building | 190,754 | 0% | 2% | 4% | 1% | 11% | 0% | 82% |
| Goldshadow 2010 & 2020 Goldring MOBs(b) | 74,774 | 18% | 52% | 8% | 5% | 17% | 0% | 0% |
| Goldshadow 700 Shadow Lane MOB | 42,060 | 3% | 8% | 37% | 6% | 11% | 0% | 35% |
| Texoma Medical Plaza | 115,284 | 17% | 0% | 10% | 0% | 2% | 6% | 65% |
| Suburban Medical Plaza II(a) | 103,011 | 0% | 21% | 2% | 9% | 1% | 6% | 61% |
| Desert Springs Medical Plaza | 102,580 | 48% | 3% | 16% | 2% | 0% | 6% | 25% |
| Peace Health Medical Clinic | 98,886 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Centennial Hills Medical Office Building | 96,696 | 31% | 4% | 5% | 6% | 0% | 13% | 41% |

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| | | | Percentage of RSF with lease expirations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total RSF | Available for Lease Jan. 1, 2014 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 and Later |
| Summerlin Hospital Medical Office Building II(b) | 92,313 | 21% | 20% | 9% | 7% | 11% | 9% | 23% |
| Summerlin Hospital Medical Office Building I(b) | 89,636 | 29% | 27% | 12% | 27% | 2% | 3% | 0% |
| The Sparks Medical Building | 35,127 | 11% | 4% | 9% | 13% | 0% | 6% | 57% |
| Vista Medical Terrace | 50,921 | 53% | 8% | 1% | 1% | 13% | 9% | 15% |
| North Valley Medical Plaza | 80,379 | 66% | 2% | 14% | 3% | 4% | 9% | 2% |
| Summerlin Hospital Medical Office Building III | 77,713 | 10% | 0% | 2% | 13% | 0% | 6% | 69% |
| Mid Coast Hospital MOB | 74,629 | 0% | 0% | 0% | 77% | 0% | 7% | 16% |
| Sheffield Medical Building | 73,446 | 62% | 5% | 3% | 5% | 7% | 0% | 18% |
| North West Texas Professional Office Tower | 72,351 | 0% | 0% | 3% | 46% | 3% | 0% | 48% |
| Rosenberg Children s Medical Plaza | 66,231 | 1% | 4% | 3% | 14% | 0% | 74% | 4% |
| Sierra San Antonio Medical Plaza | 59,160 | 32% | 0% | 4% | 6% | 9% | 7% | 42% |
| Palmdale Medical Plaza (d.) | 58,150 | 48% | 16% | 0% | 0% | 5% | 9% | 22% |
| Spring Valley Medical Office Building | 57,828 | 40% | 10% | 19% | 6% | 21% | 4% | 0% |
| Spring Valley Medical Office Building II | 57,432 | 24% | 0% | 0% | 13% | 0% | 39% | 24% |
| Southern Crescent Center II | 53,680 | 35% | 8% | 0% | 11% | 0% | 0% | 46% |
| Desert Valley Medical Center | 53,625 | 19% | 12% | 13% | 20% | 4% | 11% | 21% |
| Tuscan Professional Building(c) | 52,868 | 7% | 33% | 33% | 12% | 0% | 0% | 15% |
| Lake Pointe Medical Arts Building | 50,974 | 0% | 0% | 0% | 0% | 33% | 23% | 44% |
| Forney Medical Plaza | 50,947 | 9% | 0% | 0% | 0% | 0% | 80% | 11% |
| Southern Crescent Center I | 41,400 | 46% | 0% | 0% | 0% | 6% | 26% | 22% |
| Auburn Medical Office Building | 41,311 | 10% | 0% | 0% | 0% | 9% | 0% | 81% |
| BRB Medical Office Building | 40,733 | 0% | 0% | 17% | 4% | 0% | 9% | 70% |
| Cypresswood Professional Center 8101 | 10,200 | 0% | 0% | 100% | 0% | 0% | 0% | 0% |
| Cypresswood Professional Center 8111 | 29,882 | 17% | 6% | 51% | 0% | 11% | 0% | 15% |
| Medical Center of Western Connecticut | 36,147 | 0% | 17% | 0% | 4% | 24% | 5% | 50% |
| Phoenix Children s East Valley Care Center | 30,960 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Forney Medical Plaza II | 30,507 | 58% | 0% | 0% | 0% | 0% | 5% | 37% |
| Apache Junction Medical Plaza | 26,901 | 9% | 0% | 31% | 4% | 22% | 0% | 34% |
| Santa Fe Professional Plaza | 24,871 | 41% | 5% | 0% | 23% | 11% | 11% | 9% |
| Professional Bldg at King s Crossing Bldg A | 11,528 | 87% | 0% | 0% | 0% | 0% | 13% | 0% |
| Professional Bldg at King s Crossing Bldg B | 12,790 | 0% | 0% | 48% | 41% | 11% | 0% | 0% |
| Kelsey-Seybold Clinic at King s Crossing | 20,470 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Emory at Dunwoody Building | 20,366 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Ward Eagle Office Village | 16,282 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Family Doctor s MOB | 12,050 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| 701 South Tonopah Building | 10,747 | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| 5004 Poole 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% | 100% | 0% | 0% | 0% |
| Chesterbrook Academy New Britain | 7,998 | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| Sub-total Other Investments | 2,485,561 | 20% | 7% | 8% | 10% | 6% | 9% | 40% |
| Total | 3,569,565 | 14% | 7% | 5% | 31% | 4% | 6% | 33% |

(a) The estimated market rates related to the 2014 expiring RSF are greater than the lease rates on the expiring leases by an average of approximately 2%.
(b) The estimated market rates related to the 2014 expiring RSF are greater than the lease rates on the expiring leases by an average of approximately 3%.
(c) The estimated market rates related to the 2014 expiring RSF are less than the lease rates on the expiring leases by an average of approximately 10%.
(d) The master lease commitment from UHS was effective through June 30, 2013. As of July 1, 2013, that mater lease expired and we began accounting for this LLC under the equity method on an unconsolidated basis.
(e) Pursuant to the terms of this lease, a wholly-owned subsidiary of UHS has two 5-year renewal options at fair market value lease rates (2015 through 2024) as well certain purchase options, as discussed herein. We can provide no assurance that this lease will be renewed at the fair market value lease rate upon the scheduled expiration in December, 2014.

On a combined basis, based upon the aggregate revenues and square footage for the hospital facilities owned as of December 31, 2013 and 2012, the average effective annual rental per square foot was $17.85 and $17.69, 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, 2013 and 2012, the average effective annual rental per square foot was $27.47 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, 2013 and 2012, the average effective annual rental per square foot was $24.13 and $23.87, respectively. The estimated average occupied square footage for 2013 was calculated by averaging the unavailable rentable square footage on January 1, 2013 and January 1, 2014. The estimated average occupied square footage for 2012 was calculated by averaging the unavailable rentable square footage on January 1, 2012 and January 1, 2013.

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During 2013, 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, 2013. 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 2013. 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 2013, based upon average occupied square feet for McAllen Medical Center:

| Property | 2013 Average Occupied Square Feet | 2013 Revenues | 2013 Average Effective Rental Per Square Foot |
|---|---|---|---|
| McAllen Medical Center | 422,276 | $ 7,064,000 | $ 16.73 |

The following table sets forth lease expirations for each of the next ten years:

| | Expiring Square Feet | Number of Tenants | Annual Rentals of Expiring Leases(1) | Percentage of Annual Rentals(2) |
|---|---|---|---|---|
| **Hospital properties** | | | | |
| 2014 | 77,901 | 1 | $ 930,000 | 1% |
| 2015 | 0 | 0 | $ 0 | 0% |
| 2016 | 858,963 | 4 | $ 12,648,000 | 18% |
| 2017 | 0 | 0 | $ 0 | 0% |
| 2018 | 0 | 0 | $ 0 | 0% |
| 2019 | 147,140 | 2 | $ 1,501,000 | 2% |
| 2020 | 0 | 0 | $ 0 | 0% |
| 2021 | 0 | 0 | $ 0 | 0% |
| 2022 | 0 | 0 | $ 0 | 0% |
| 2023 | 0 | 0 | $ 0 | 0% |
| Thereafter | 0 | 0 | $ 0 | 0% |
| Subtotal-hospital facilities | 1,084,004 | 7 | $ 15,079,000 | 21% |
| **Other consolidated properties** | | | | |
| 2014 | 130,954 | 47 | $ 3,785,000 | 5% |
| 2015 | 144,291 | 45 | $ 3,975,000 | 6% |
| 2016 | 153,358 | 39 | $ 3,981,000 | 6% |
| 2017 | 90,512 | 24 | $ 2,623,000 | 4% |
| 2018 | 129,173 | 31 | $ 4,058,000 | 6% |
| 2019 | 89,294 | 19 | $ 2,638,000 | 4% |
| 2020 | 110,555 | 25 | $ 3,497,000 | 5% |
| 2021 | 163,505 | 13 | $ 4,588,000 | 6% |
| 2022 | 85,338 | 5 | $ 2,110,000 | 3% |
| 2023 | 43,797 | 8 | $ 1,209,000 | 1% |
| Thereafter | 59,994 | 7 | $ 1,447,000 | 2% |

| | | | | |
|---|---|---|---|---|
| Subtotal-other consolidated properties | 1,200,771 | 263 | $ 33,911,000 | 48% |

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| | Expiring Square Feet | Number of Tenants | Annual Rentals of Expiring Leases(1) | Percentage of Annual Rentals(2) |
|---|---|---|---|---|
| **Other unconsolidated properties (MOBs)** | | | | |
| 2014 | 51,779 | 21 | $ 1,316,000 | 2% |
| 2015 | 47,193 | 15 | $ 1,215,000 | 1% |
| 2016 | 105,698 | 24 | $ 2,805,000 | 4% |
| 2017 | 47,453 | 18 | $ 1,286,000 | 2% |
| 2018 | 100,061 | 26 | $ 2,836,000 | 4% |
| 2019 | 13,096 | 5 | $ 365,000 | 1% |
| 2020 | 137,299 | 12 | $ 4,046,000 | 6% |
| 2021 | 29,982 | 9 | $ 800,000 | 1% |
| 2022 | 56,818 | 11 | $ 1,410,000 | 2% |
| 2023 | 63,368 | 15 | $ 2,006,000 | 3% |
| Thereafter | 131,513 | 11 | $ 3,765,000 | 5% |
| Subtotal-other unconsolidated properties | 784,260 | 167 | $ 21,850,000 | 31% |
| Total all properties | 3,069,035 | 437 | $ 70,840,000 | 100% |

(1) The annual rentals of expiring leases reflected above were calculated based upon each property s 2013 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 in which we hold various non-controlling ownership interests at December 31, 2013 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).

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**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, 2013 and 2012 are summarized below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | High Price | Low Price | High Price | Low Price |
| First Quarter | $ 58.03 | $ 51.82 | $ 40.94 | $ 36.04 |
| Second Quarter | $ 58.85 | $ 41.47 | $ 41.53 | $ 38.99 |
| Third Quarter | $ 46.53 | $ 38.52 | $ 46.46 | $ 32.92 |
| Fourth Quarter | $ 45.60 | $ 40.06 | $ 50.61 | $ 32.21 |

**Holders**

As of January 31, 2014, there were approximately 400 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:

| | 2013 | 2012 |
|---|---|---|
| First Quarter | $ .620 | $ .610 |
| Second Quarter | .625 | .615 |
| Third Quarter | .625 | .615 |
| Fourth Quarter | .625 | .620 |
| | **$ 2.495** | **$ 2.460** |

**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., Health Care REIT, Inc., Healthcare Realty Trust, Inc., LTC Properties, Inc., and National Health Investors, Inc.

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The Stock Price Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference in this Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

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 2008.

| | Base Period | INDEXED RETURNS Years Ending | | | | |
|---|---|---|---|---|---|---|
| **Company Name / Index** | **Dec 08** | **Dec 09** | **Dec 10** | **Dec 11** | **Dec 12** | **Dec 13** |
| **Universal Health Realty Income Trust** | **$ 100** | $ 104.94 | $ 128.28 | $ 145.89 | $ 200.11 | $ 167.42 |
| **S&P 500 Index** | **$ 100** | $ 126.46 | $ 145.51 | $ 148.59 | $ 172.37 | $ 228.19 |
| **Peer Group** | **$ 100** | $ 120.31 | $ 143.35 | $ 165.72 | $ 196.50 | $ 180.15 |

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**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, 2013. 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) | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| **Operating Results:** | | | | | |
| Total revenues(1) | $ 54,280 | $ 53,950 | $ 29,494 | $ 28,878 | $ 31,914 |
| Net income(2) | $ 13,169 | $ 19,477 | $ 73,794 | $ 16,310 | $ 18,576 |
| **Balance Sheet Data:** | | | | | |
| Real estate investments, net of accumulated depreciation(1)(3) | $ 297,748 | $ 314,386 | $ 288,633 | $ 125,257 | $ 154,540 |
| Investments in LLCs(1)(4) | 39,201 | 28,636 | 33,057 | 80,442 | 61,934 |
| Intangible assets, net of accumulated amortization(3) | 20,782 | 26,293 | 28,081 | 1,080 | 1,214 |
| Total assets(1)(3) | 373,145 | 383,038 | 370,929 | 216,135 | 228,825 |
| Total indebtedness, including debt premium(1)(3)(5) | 199,987 | 197,936 | 174,836 | 67,563 | 84,267 |
| **Other Data:** | | | | | |
| Funds from operations(6) | $ 34,955 | $ 34,280 | $ 32,468 | $ 32,582 | $ 33,325 |
| Cash provided by (used in): | | | | | |
| Operating activities | 31,294 | 30,783 | 21,372 | 23,049 | 24,984 |
| Investing activities | (13,514) | (8,565) | (3,284) | (17,302) | (12,362) |
| Financing activities | (17,491) | (30,819) | (7,426) | (7,798) | (10,202) |
| **Per Share Data:** | | | | | |
| Basic earnings per share: | | | | | |
| Total basic earnings per share(2) | $ 1.04 | $ 1.54 | $ 5.84 | $ 1.33 | $ 1.56 |
| Diluted earnings per share: | | | | | |
| Total diluted earnings per share(2) | $ 1.04 | $ 1.54 | $ 5.83 | $ 1.33 | $ 1.56 |
| Dividends per share | $ 2.495 | $ 2.460 | $ 2.425 | $ 2.415 | $ 2.380 |
| **Other Information** (in thousands) | | | | | |
| Weighted average number of shares outstanding basic | 12,689 | 12,661 | 12,644 | 12,259 | 11,891 |
| Weighted average number of shares and share equivalents outstanding diluted | 12,701 | 12,669 | 12,649 | 12,262 | 11,897 |

(1) As discussed in Note 1 Summary of Significant Accounting Policies Investments in Limited Liability Companies , our consolidated financial statements include the consolidated accounts of our consolidated investments and those investments that meet the criteria of a variable interest entity. Please see Note 1 for further discussions.

(2) 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.

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(3) Amounts include 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, 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, as discussed herein. 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.

(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: $80.1 million as of December 31, 2013, $77.5 million as of December 31, 2012, $101.8 million as of December 31, 2011, $271.7 million as of December 31, 2010 and $251.4 million as of December 31, 2009 (See Note 8 to the consolidated financial statements).

(6) Our funds from operations ( FFO ) during 2013, 2012 and 2011 are net of reductions for transaction costs of $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 2013, 2012 and 2011, as reflected below, since we believe it is helpful to our investors since it adjusts for 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 is shown below:

| | (000s) | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Net income | $ 13,169 | $ 19,477 | $ 73,794 | $ 16,310 | $ 18,576 |
| Depreciation and amortization expense on real property/intangibles: | | | | | |
| Consolidated investments | 18,496 | 20,030 | 7,173 | 6,156 | 6,283 |
| Unconsolidated affiliates | 3,290 | 3,293 | 10,558 | 10,116 | 8,466 |
| Provision for asset impairment | | | 5,354 | | |
| Less gains: | | | | | |
| Gain on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs, net | | | (28,576) | | |
| Gains on divestiture of properties owned by unconsolidated LLCs, net | | (8,520) | (35,835) | | |
| Funds From Operations | 34,955 | 34,280 | 32,468 | 32,582 | 33,325 |
| Transaction costs | 203 | 680 | 518 | | |
| Adjusted Funds From Operations | $ 35,158 | $ 34,960 | $ 32,986 | $ 32,582 | $ 33,325 |

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**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 including acute care hospitals, behavioral healthcare facilities, rehabilitation hospitals, sub-acute facilities, surgery centers, childcare centers and medical office buildings ( MOBs ). As of February 28, 2014, we have fifty-eight real estate investments or commitments in sixteen states consisting of:

- seven hospital facilities including three acute care, one behavioral healthcare, one rehabilitation and two sub-acute;
- forty-seven medical office buildings, including eleven 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, intends, plans, believes, estimates, a 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 );
- 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 from purchase option exercises and lease expirations and renewals, loan repayments and other restructuring;

the availability and terms of capital to fund the 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;

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

further 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;

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 resulted in the reduction of Medicaid funding to the operators of our facilities, including UHS, during each of the last several years, and many states may effectuate further reductions in the level of Medicaid funding due to continued projected state budget deficits); demographic changes; the ability to enter into managed care provider agreements on acceptable terms; an increase in uninsured and self-pay patients which unfavorably impacts the collectability of patient accounts; decreasing in-patient admission trends; technological and pharmaceutical improvements that may increase the cost of providing, or reduce the demand for, health care, and; the ability to attract and retain qualified medical personnel, including physicians;

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

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

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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;

two LLCs that own properties in California, in which we have various non-controlling equity interests, could not obtain earthquake insurance at rates which are economically beneficial in relation to the risks covered;

competition for our operators from other REITs;

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

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

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

our majority ownership interests in various LLCs in which we hold non-controlling equity interests. In addition, pursuant to the operating agreements of most of the LLCs (consisting of substantially all of the LLCs that own MOBs in Arizona, Reno, Nevada and California), the third-party member and the Trust, at any time, have the right to make an offer ( Offering Member ) to the other member(s) ( Non-Offering Member ) in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member ( Offer to Sell ) at a price as determined by the Offering Member ( Transfer Price ), or; (ii) purchase the entire ownership interest of the Non-Offering Member ( Offer to Purchase ) at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 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 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.

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A summary of our critical accounting policies is outlined in Note 1 to the consolidated financial statements. 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 consolidated and unconsolidated medical office buildings ( 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, scheduled rent increases under existing leases, as well as the acquisitions and sales of properties that have existing in-place leases with terms in excess of one year. As a result, the straight-line adjustments to rental revenue may vary from period-to-period. Bonus rents are recognized when earned based upon increases in each facility s net revenue in excess of stipulated amounts. Bonus rentals are determined and paid each quarter based upon a computation that compares the respective facility s current quarter s net revenue to the corresponding quarter in the base year. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred.

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

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

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

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

An other than temporary impairment of an investment/advance in an LLC is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value, including projected declines in cash flow. To the

extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

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

As of December 31, 2013, we have non-controlling equity investments or commitments in thirteen LLCs which own medical office buildings. As of December 31, 2013, we accounted for these LLCs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities. Palmdale Medical Properties was consolidated in our financial statements through June 30, 2013, as discussed below, since it was considered to be a variable interest entity where we were the primary beneficiary by virtue of its master lease with a wholly-owned subsidiary of Universal Health Services, Inc. ( UHS ), a related party to us. The master lease expired effective as of July 1, 2013 and, as of that date, we began accounting for Palmdale Medical Properties under the equity method.

The majority of these LLCs are joint-ventures between us and a non-related party that manages and holds minority ownership interests in the entities. Each LLC is generally self-sustained from a cash flow perspective and generates sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing. Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans.

In addition, at December 31, 2011, as a result of our purchases of third-party minority ownership interests in eleven LLCs in which we formerly held non-controlling majority ownership interests, we now hold 100% of the ownership interest in these LLCs which own MOBs and are accounted for on a consolidated basis, as discussed herein (see Notes 3 and 8 to the consolidated financial statements for additional disclosure).

Palmdale Medical Properties had a master lease with a subsidiary of UHS through June 30, 2013. Additionally, UHS of Delaware, a wholly-owned subsidiary of UHS, serves as advisor to us under the terms of an advisory agreement and manages our day-to-day affairs. All of our officers are officers or employees of UHS (through UHS of Delaware, Inc.). As a result of our related-party relationship with UHS and the master lease, lease assurance or lease guarantee arrangements with subsidiaries of UHS, we have accounted for this LLC on a consolidated basis, since the fourth quarter of 2007 through June 30, 2013, since it was a variable interest entity and we were deemed to be the primary beneficiary. As of July 1, 2013, the master lease expired and this LLC is no longer considered a variable interest entity and we therefore began to account for this LLC on an unconsolidated basis pursuant to the equity method as of July 1, 2013.

Effective January 1, 2014, we purchased the third-party minority ownership interests in two LLCs (Palmdale Medical Properties and Sparks Medical Properties) in which we formerly held non-controlling majority ownership interest. As a result of our purchase of the minority ownership interests, we now hold 100% of the ownership interests in these LLCs which own MOBs and will begin accounting for them on a consolidated basis effective January 1, 2014. Each of the property s assets and liabilities will be recorded at their fair values. (See Note 3 to the consolidated financial statements for additional disclosure).

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**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:** UHS is our principal tenant and through UHS of Delaware, Inc., a wholly owned subsidiary of UHS, serves as our advisor (the Advisor ) under an Advisory Agreement dated December 24, 1986 between the Advisor and us (the Advisory Agreement ). Our officers are all employees of a wholly-owned subsidiary of UHS and although as of December 31, 2013 we had no salaried employees, our officers do receive stock-based compensation.

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. The Advisor is entitled to certain advisory fees for its services. See Relationship with UHS and Related Party Transactions in Note 2 to the consolidated financial statements for additional information on the Advisory Agreement and related fees. In December of 2013, 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 2014 pursuant to the same terms as the Advisory Agreement in place during 2013. In December of 2012, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the 2013 advisory fee, as compared to the 2012 advisory fee, was increased to 0.70% (from 0.65%) of our average invested real estate assets, as derived from our consolidated balance sheet. See Relationship with Universal Health Services, Inc. in Item 1 and Note 2 to the consolidated financial statements for additional information on the Advisory Agreement and related fees.

The combined revenues generated from the leases on the UHS hospital facilities comprised approximately 30%, for each of the years ended December 31, 2013 and 2012, and 55% of our revenues for the year ended December 31, 2011. The decrease during 2012 as compared to 2011 is due primarily to the December, 2011 purchase of the third-party minority ownership interests in eleven LLCs in which we previously held noncontrolling majority ownership interests (we began recording the financial results of the entities in our financial statements on a consolidated basis at that time) and various acquisitions of medical office buildings ( MOBs ) and clinics completed during 2011 and the first quarter of 2012. 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 22%, 21% and 19% of the combined consolidated and unconsolidated revenues for the years ended December 31, 2013, 2012 and 2011, respectively. In addition, twelve of the MOBs, including certain properties owned by LLCs in which we hold either 100% of

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the ownership interest or various non-controlling, majority ownership interests, include or will include tenants which are subsidiaries of UHS. The leases to the hospital facilities of UHS are guaranteed by UHS and cross-defaulted with one another. For additional disclosure related to our relationship with UHS, please refer to Note 2 to the consolidated financial statements Relationship with UHS and Related Party Transactions.

**Recent Accounting Pronouncements:** For a summary of recent accounting pronouncements, please see Note 1 to the Consolidated Financial Statements as included in this Annual Report on Form 10-K for the year ended December 31, 2013.

**Results of Operations**

**Year ended December 31, 2013 as compared to the year ended December 31, 2012:**

Our Consolidated Statement of Income for the year ended December 31, 2012, includes the revenue and expenses associated with Palmdale Medical Properties, an LLC in which we held a 95% non-controlling equity interest as of December 31, 2013 (we now hold 100% of the ownership in this LLC effective as of January 1, 2014). As previously discussed, effective July 1, 2013, the master lease agreement between Palmdale Medical Properties and Palmdale Regional Medical Center, a wholly-owned subsidiary of UHS, expired. Therefore, effective on July 1, 2013, this LLC was no longer considered a variable interest entity and we began accounting for this LLC on an unconsolidated basis pursuant to the equity method. Prior to the expiration of the master lease, this LLC was accounted for on a consolidated basis, through June 30, 2013. The table below reflects the As Adjusted Statement of Income for the twelve months ended December 31, 2012, reflecting the revenue and expense impact of the deconsolidation of this LLC as if it had been deconsolidated effective July 1, 2012, since our Consolidated Statement of Income for the first six months of 2013 includes the revenue and expenses associated with Palmdale Medical Properties. There was no material impact to our net income as a result of the deconsolidation of this LLC.

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|---|
| | As reported in Consolidated Statements of Income | As reported in Consolidated Statements of Income | July 1 December 31, 2012 Statements of Income for Palmdale Medical Properties | As Adjusted | As Adjusted Variance |
| Revenues | $ 54,280 | $ 53,950 | $ 657 | $ 53,293 | $ 987 |
| **Expenses:** | | | | | |
| Depreciation and amortization | 18,753 | 20,216 | 172 | 20,044 | 1,291 |
| Advisory fees to UHS | 2,369 | 2,119 | | 2,119 | (250) |
| Other operating expenses | 14,409 | 14,575 | 266 | 14,309 | (100) |
| Transaction costs | 203 | 680 | | 680 | 477 |
| | 35,734 | 37,590 | 438 | 37,152 | 1,418 |
| Income before equity in income of unconsolidated LLCs, interest expense and gains, net | 18,546 | 16,360 | 219 | 16,141 | 2,405 |
| Equity in income of unconsolidated LLCs | 2,095 | 2,365 | (13) | 2,378 | (283) |
| | | 8,520 | | 8,520 | (8,520) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Gains on divestiture of properties owned by unconsolidated LLCs | | | | | | |
| Interest expense, net | | (7,472) | (7,768) | (206) | (7,562) | 90 |
| Net income | $ | 13,169 | $ 19,477 | $ | $ 19,477 | ($ 6,308) |

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During 2013, net income decreased $6.3 million to $13.2 million as compared to $19.5 million during 2012. The decrease was primarily attributable to the following, as computed utilizing the As Adjusted Variance column indicated on the table above:

- an unfavorable change of $8.5 million resulting from the aggregate net gains recorded during 2012 on divestiture of properties owned by two unconsolidated LLCs in which we formerly held noncontrolling majority ownership interests, as discussed below and herein (see Note 3 to the Consolidated Financial Statements);

- a favorable change of $1.3 million (As Adjusted) resulting from a decrease in depreciation and amortization expense, resulting primarily from a $1.7 million decrease in amortization expense recorded on intangible assets, partially offset by an increase in depreciation expense resulting from MOBs acquired during 2013 and the fourth quarter of 2012;

- a favorable change of $477,000 resulting from a decrease in transaction costs;

- a favorable change of $90,000 (As Adjusted) in interest expense due primarily to a decrease in the average effective borrowing rate pursuant to the terms of our $150 million revolving credit agreement, partially offset by an increase in our average outstanding borrowings (as discussed below in *Credit facilities and mortgage debt*), and;

- other combined net favorable changes of $354,000 including the aggregate net operating income (before depreciation and amortization and interest expense) generated at three MOBs acquired during 2013 and the fourth quarter of 2012, partially offset by the net operating losses incurred at a newly constructed MOB that opened in April, 2013 (property is owned by an unconsolidated LLC in which we hold a noncontrolling majority ownership interest).

Total revenues increased approximately $1.0 million (As Adjusted) during 2013, as compared to 2012, due primarily from increases resulting from MOBs acquired during 2013 and the fourth quarter of 2012, partially offset by other combined revenue decreases experienced at certain properties.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $12.9 million and $12.6 million (As Adjusted basis), for 2013 and 2012, respectively. The increase in other operating expenses during 2013, as compared to 2012, is primarily attributable to expenses related to the MOBs acquired during 2013 and the fourth quarter of 2012. A large portion of the expenses associated with our consolidated medical office buildings is passed on 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 in tenant reimbursements and other revenue in our condensed consolidated statements of income.

During 2013, we had a total of 106 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 13% of the aggregate rentable square feet of these properties (8% 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 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 $17 per square foot during 2013. The weighted-average leasing commissions on the new and renewed leases commencing during 2013 was approximately 3% 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 2013 was approximately 2% of the future aggregate base rental revenue over the lease terms. Tenant concessions 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 2013, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 6%.

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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 2013 and 2012, as reflected below, since we believe it is helpful to our investors since it adjusts for 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 2013 and 2012 (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Net income | $ 13,169 | $ 19,477 |
| Depreciation and amortization expense on real property/intangibles of consolidated investments | 18,496 | 20,030 |
| Depreciation and amortization expense on real property/intangibles of unconsolidated affiliates | 3,290 | 3,293 |
| Gains (net of related transaction costs) on divestiture of properties owned by unconsolidated LLCs | | (8,520) |
| Funds From Operations | 34,955 | 34,280 |
| Transaction costs | 203 | 680 |
| Adjusted Funds From Operations | $ 35,158 | $ 34,960 |

Our FFO increased $675,000 to $35.0 million during 2013 as compared to $34.3 million during 2012. The increase was primarily due to: (i) an unfavorable change of $6.3 million resulting from the decrease in net income, as discussed above; (ii) an unfavorable change of $1.5 million in the add-back of depreciation and amortization expense on real property/intangibles, and; (iii) a favorable change of $8.5 million in gains recorded on divestiture of properties owned by an unconsolidated LLCs. Our AFFO were $35.2 million during 2013 as compared to $35.0 million during 2012.

**Year ended December 31, 2012 as compared to the year ended December 31, 2011:**

Our Consolidated Statement of Income for the year ended December 31, 2012 includes the revenue and expenses associated with the below-mentioned LLCs in which we purchased the third-party minority interests during the fourth quarter of 2011. Since we now own 100% of these entities, we began consolidating the financial data effective December 12, 2011. Prior to these minority interest purchases, we previously held noncontrolling majority interests in these LLCs and they were therefore accounted for on an unconsolidated basis. Our Consolidated Statement of Income for the year ended December 31, 2011 includes a partial month of revenue and expenses associated with the below-mentioned LLCs in which we purchased the third-party minority ownership interests during the fourth quarter of 2011. The table below reflects the As Adjusted Statement of Income for the year ended December 31, 2011, reflecting the revenue and expense impact of the consolidation of these various LLCs as if they had been consolidated for the twelve months ended December 31, 2011. The As Adjusted amounts are used for comparison discussions in the Results of Operations, as they present both periods on a comparable basis. Our 2012 net income was unfavorably impacted as a result of the consolidation of these

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LLCs primarily due to a $6.6 million increase in depreciation and amortization resulting from the increased basis recorded in connection with the fair value recognition of the assets and liabilities related to the eleven LLCs of which we purchased the third-party minority ownership interests.

| | Year Ended December 31, 2012 | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|---|
| | As reported in Consolidated Statements of Income | As reported in Consolidated Statements of Income | January 1 December 11, 2011 Statements of Income for LLCs in which we purchased third-party minority interests | As Adjusted | As Adjusted Variance |
| Revenues | $ 53,950 | $ 29,494 | $ 16,961 | $ 46,455 | $ 7,495 |
| **Expenses:** | | | | | |
| Depreciation and amortization | 20,216 | 7,306 | 3,922 | 11,228 | (8,988) |
| Advisory fees to UHS | 2,119 | 2,008 | | 2,008 | (111) |
| Other operating expenses | 14,575 | 5,581 | 7,196 | 12,777 | (1,798) |
| Transaction costs | 680 | 518 | | 518 | (162) |
| Provision for asset impairment | | 5,354 | | 5,354 | 5,354 |
| | 37,590 | 20,767 | 11,118 | 31,885 | (5,705) |
| Income before equity in income of unconsolidated LLCs, interest expense and gains, net | 16,360 | 8,727 | 5,843 | 14,570 | 1,790 |
| Gain on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs, net | | 28,576 | | 28,576 | (28,576) |
| Equity in income of unconsolidated LLCs | 2,365 | 3,058 | (1,810) | 1,248 | 1,117 |
| Gains on divestiture of properties owned by unconsolidated LLCs | 8,520 | 35,835 | | 35,835 | (27,315) |
| Interest expense, net | (7,768) | (2,402) | (4,033) | (6,435) | (1,333) |
| Net income | $ 19,477 | $ 73,794 | $ | $ 73,794 | ($ 54,317) |

During 2012, net income decreased $54.3 million to $19.5 million as compared to $73.8 million during 2011. The decrease was primarily attributable to the following, as computed utilizing the As Adjusted Variance column indicated on the table above:

an unfavorable change of $28.6 million resulting from the aggregate net gain (net of $301,000 of related transaction costs) recorded during 2011 in connection with the fair value recognition of the assets and liabilities related to eleven LLCs in which we purchased the third-party minority ownership interests, as discussed below and herein (see Note 3 to the Consolidated Financial Statements);

an unfavorable change of $27.3 million resulting from the decrease in net gains recorded on the divestiture of properties owned by unconsolidated LLCs during 2012 and 2011, as discussed below and herein (see Note 3 to the Consolidated Financial Statements);

an unfavorable change of $9.0 million (As Adjusted) in depreciation and amortization expense primarily due to a $6.6 million increase incurred during 2012 resulting from the increased basis recorded in connection with the fair value recognition of the assets and liabilities related to the eleven LLCs of which we purchased the third-party minority ownership interests during the fourth quarter of 2011, as well as a $3.0 million increase during 2012 at five MOBs and clinics acquired during 2011 and the first quarter of 2012;

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an unfavorable change of $1.3 million (As Adjusted) in interest expense, as discussed below;

a favorable change of $5.4 million resulting from the provision for asset impairment recorded during 2011 on an MOB located in Atlanta, Georgia;

a favorable change of approximately $5.2 million from the net operating income (before depreciation and amortization and interest expenses) generated at five MOBs and clinics acquired during 2011 and the first quarter of 2012;

a favorable change of $1.1 million (As Adjusted) resulting from an increase in equity in income of unconsolidated LLCs resulting primarily from increased income generated at a number of our LLCs, and;

other combined net favorable changes of $200,000.

Total revenue increased by $7.5 million (As Adjusted) during 2012, as compared to 2011, due primarily to the revenue, or increased revenue, generated during 2012 at five MOBs/clinic acquired at various times during 2011 and 2012, as discussed below and herein.

During 2012, we recorded a combined net gain of $8.5 million in connection with the sale of two medical office buildings by LLCs in which we formerly held a noncontrolling majority ownership interests, as discussed below and herein. See Note 3 to the Consolidated Financial Statements for additional disclosure related to this divestiture.

Interest expense, net of interest income, increased $1.3 million (As Adjusted) during 2012 as compared to 2011, primarily due to: (i) an increase in our average outstanding borrowings (to $75.4 million in 2012 from $67.8 million in 2011) as well as an increase in the average effective interest rate (to 2.4% in 2012 from 1.8% in 2011) pursuant to the terms of our new $150 million revolving credit agreement that commenced in July, 2011; (ii) interest expense incurred on the combined $29.4 million of third-party debt assumed as part of the acquisitions, as mentioned below, partially offset by; (iii) a decrease in interest expense related to the previously unconsolidated LLCs which are now consolidated in our financial statements, as discussed below. The increased borrowings during 2012, as compared to 2011, were used primarily to: (i) fund the purchases of the six acquired MOBs/clinic during 2011 and the first and fourth quarters of 2012; (ii) fund the fourth quarter of 2011 purchases of the third-party minority ownership interests in various LLCs in which we formerly held noncontrolling majority ownership interests; (iii) fund investments in, and advances to, various LLCs, partially offset by; (iv) our share of the cash proceeds generated during 2011 and 2012 in connection with the sale of MOBs by various LLCs in which we formerly held noncontrolling majority ownership interests, as discussed herein.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $12.9 million and $11.5 million (As Adjusted basis), for 2012 and 2011, respectively. The increase in other operating expenses during 2012 as compared to 2011, is primarily attributable to the expenses related to the five MOBs/clinic acquired during 2011 and first quarter of 2012, as previously discussed. A large portion of the expenses associated with our consolidated medical office buildings is passed on 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 in tenant reimbursements and other revenue in our condensed consolidated statements of income.

During 2012, we had a total of 91 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 13% of the aggregate rentable square feet of these properties (8% 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 occupancy and age of our buildings, local

overall economic conditions, proximity to hospital campuses and the vacancy rates, rental rates

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and capacity of our competitors in the market. The weighted-average tenant improvement costs associated with these new or renewed leases was approximately $23 per square foot during 2012. The weighted-average leasing commissions on the new and renewed leases commencing during 2012 was approximately 3% 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 2012 was approximately 3% of the future aggregate base rental revenue over the lease terms. Tenant concessions 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 2012, the weighted-average rental rates, as compared to rental rates on the expired leases, decreased by approximately 1%. Rental rates on new leases were excluded from the above-mentioned market rates to expired lease rates calculation since a significant portion of the new leases occurred at then newly constructed MOBs which are leasing unoccupied space at generally fixed rental rates.

Below is a reconciliation of our reported net income to FFO and AFFO for 2012 and 2011 (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Net income | $ 19,477 | $ 73,794 |
| Depreciation and amortization expense on real property/intangibles of consolidated investments | 20,030 | 7,173 |
| Depreciation and amortization expense on real property/intangibles of unconsolidated affiliates | 3,293 | 10,558 |
| Gain on fair value recognition resulting from the purchase of minority interests in majority-owned LLCs | | (28,576) |
| Gain (net of related transaction costs) on divestitures of properties owned by unconsolidated LLCs | (8,520) | (35,835) |
| Provision for asset impairment | | 5,354 |
| Funds From Operations | 34,280 | 32,468 |
| Transaction costs | 680 | 518 |
| Adjusted Funds From Operations | $ 34,960 | $ 32,986 |

Our FFO increased $1.8 million to $34.3 million during 2012 as compared to $32.5 million during 2011. The increase was primarily due to: (i) an unfavorable change of $54.3 million resulting from the decrease in net income, as discussed above; (ii) a favorable change of $28.6 million from the 2011 gain on purchase of minority interests in majority-owned LLCs; (iii) plus a $5.6 million increase in the add-back of depreciation and amortization expense (including consolidated investments and unconsolidated affiliates); (iv) a favorable change of $27.3 million in gains recorded on divestiture of properties owned by an unconsolidated LLCs., and; (v) an unfavorable change of $5.4 million from the provision for asset impairment add-back during 2011.

Our AFFO increased $2.0 million to $35.0 million during 2012 as compared to $33.0 million during 2011. The increase in AFFO during 2012, as compared to 2011, was attributable to: (i) the above-mentioned $1.8 million increase in FFO, plus; (ii) the $200,000 increase in the add-back of the transaction costs incurred during each period.

**Summary of Acquisitions, Divestitures and Purchases of Third-Party Minority Ownership Interests completed during 2012 and 2011:**

Below is a summary of all transactions completed during 2012 and 2011. Each of the MOBs acquired during 2011, one of the MOBs acquired during 2012 and certain of the divestitures of MOBs by formerly jointly-owned LLCs were part of planned like-kind exchange transactions pursuant to Section 1031 of the Internal Revenue Code.

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Acquisitions:

During 2012, we paid an aggregate of $16.9 million in cash and assumed $22.4 million of third-party debt to acquire the following:

| Property: | Type of facility | City | State | Date of Acquisition |
|---|---|---|---|---|
| PeaceHealth Medical Clinic | Single-tenant MOB | Bellingham | WA | January, 2012 |
| Northwest Texas Professional Office Tower | Multi-tenant MOB | Amarillo | TX | December, 2012 |

Transaction costs recorded in connection with the purchase of the two above-mentioned MOBs aggregated approximately $680,000 for the year ended December 31, 2012.

During 2011, we paid an aggregate of $39.6 million in cash and assumed $7.0 million of third-party debt to acquire the following:

| Property: | Type of facility | City | State | Date of Acquisition |
|---|---|---|---|---|
| Lake Pointe Medical Arts Building | Multi-tenant MOB | Rowlett | TX | June, 2011 |
| Forney Medical Plaza | Multi-tenant MOB | Forney | TX | July, 2011 |
| Tuscan Professional Building | Multi-tenant MOB | Irving | TX | December, 2011 |
| Emory at Dunwoody Building | Single-tenant medical clinic | Atlanta | GA | December, 2011 |

Transaction costs recorded in connection with the purchase of the four above-mentioned MOBs aggregated approximately $518,000 for the year ended December 31, 2011.

Divestiture of MOBs by formerly jointly-owned LLCs:

During 2012, we received an aggregate of $12.2 million of net cash proceeds in connection with the divestiture of the following MOBs by two LLCs in which we formerly owned noncontrolling majority ownership interests ranging from 90% to 95%. These proceeds were net of closing costs and the minority member s share of the proceeds. These divestitures resulted in an aggregate net gain of $8.5 million which is included in our results of operations for the year ended December 31, 2012.

| Name of LLC: | Property owned by LLC: | City | State | Date of Divestiture |
|---|---|---|---|---|
| Canyon Healthcare Properties | Canyon Springs Medical Plaza | Gilbert | AZ | Feb, 2012 |
| 575 Hardy Investors | Centinela Medical Building Complex | Inglewood | CA | Oct, 2012 |

During the fourth quarter of 2011, we received an aggregate of $33.8 million of net cash proceeds in connection with the divestitures of the following MOBs by various LLCs in which we formerly owned noncontrolling, majority ownership interests ranging from 75% to 95%. These

proceeds were net of closing costs, the minority member s share of the proceeds and third-party debt assumed by the purchaser. These divestitures resulted in an aggregate net gain of $35.8 million (net of related transaction costs totaling approximately $500,000) which is included in our results of operations for the year ended December 31, 2011.

| Name of LLC: | Property owned by LLC: | City | State | Date of Divestiture |
|---|---|---|---|---|
| Cobre Properties | Cobre Valley Medical Plaza | Globe | AZ | Dec, 2011 |