UBS AG
Form 424B2
April 12, 2019

The information in this Preliminary Terms Supplement is not complete and may be changed. We may not sell these Securities until the Final Terms Supplement, the Prospectus Supplement, the accompanying Product Supplement and the Prospectus (collectively, the "Offering Documents") are delivered in final form. The Offering Documents are not an offer to sell these Securities, and we are not soliciting offers to buy these Securities in any state where the offer or sale is not permitted.

Subject to Completion
Dated April 12, 2019

PRELIMINARY TERMS SUPPLEMENT

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-225551

Preliminary Terms Supplement

UBS AG Trigger Phoenix Autocallable Optimization Securities

UBS AG $ Securities Linked to the common stock of Netflix, Inc. due on or about April 15, 2021

Indicative Terms

Issuer	UBS AG, London Branch
Principal Amount	$10.00 per security. The Securities are offered at a minimum investment of 100 Securities at $10.00 per Security (representing a $1,000 investment) and integral multiples of $10.00 in excess thereof.
Term	Approximately 24 months, unless called earlier.
Underlying Asset	The common stock of Netflix, Inc.
Contingent Coupon	If the closing price of the underlying asset is equal to or greater than the coupon barrier on any observation date, UBS will pay you the contingent coupon applicable to such observation date. If the closing price of the underlying asset is less than the coupon barrier on any observation date, the contingent coupon applicable to such observation date will not be payable and UBS will not make any payment to you on the relevant coupon payment date. The contingent coupon will be a fixed amount based upon equal bi-monthly installments at the per annum contingent coupon rate. Contingent coupons are not guaranteed and UBS will not pay you the contingent coupon for any observation date on which the closing price of the underlying asset is less than the coupon barrier. The table below sets forth each observation date and a hypothetical contingent coupon for the Securities. The table below

assumes a contingent coupon rate of 9.48% per annum. The actual contingent coupon rate will be set at the time the trade is placed on the trade date. Amounts in the table below may have been rounded for ease of analysis.

Observation Date*	Contingent Coupon (per security)
12-Jun-2019	$0.1580
12-Aug-2019	$0.1580
14-Oct-2019	$0.1580
12-Dec-2019	$0.1580
12-Feb-2020	$0.1580
13-Apr-2020	$0.1580
12-Jun-2020	$0.1580
12-Aug-2020	$0.1580
12-Oct-2020	$0.1580
14-Dec-2020	$0.1580
12-Feb-2021	$0.1580
12-Apr-2021	$0.1580

*Observation dates are subject to the market disruption event provisions set forth in the accompanying product supplement.

Contingent Coupon Rate	9.48% to 9.91% per annum (or approximately 1.580% to 1.652% per outstanding two months). The actual contingent coupon rate will be set at the time the trade is placed on the trade date.
Automatic Call Feature	The Securities will be called automatically if the closing price of the underlying asset on any observation date is equal to or greater than the initial price. If the Securities are called on any observation date, UBS will pay you on the corresponding coupon payment date a cash payment per Security equal to your principal amount plus the contingent coupon otherwise due on such date pursuant to the contingent coupon feature. No further amounts will be owed to you under

	the Securities.
Payment at Maturity (per Security)	If the Securities are not called and the final price is equal to or greater than the trigger price and coupon barrier, UBS will pay you a cash payment per Security on the maturity date equal to your principal plus the contingent coupon otherwise due on the maturity date. If the Securities are not called and the final price is less than the trigger price, UBS will pay you a cash payment on the maturity date of significantly less than the principal amount, if anything, resulting in a loss of principal that is proportionate to the decline of the underlying asset, for an amount equal to \$10 + (\$10 x underlying return).
Underlying Return	$\frac{\text{Final Price} - \text{Initial Price}}{\text{Initial Price}}$
Closing Price	On any trading day, the last reported sale price (or, in the case of NASDAQ, the official closing price) of the underlying asset during the principal trading session on the principal national securities exchange on which it is listed for trading, as determined by the calculation agent.
Initial Price	The closing price of the underlying asset on the trade date, as determined by the calculation agent and as may be adjusted in the case of certain corporate events, as described in the accompanying product supplement.
Trigger Price/Coupon Barrier	Both 60.00% of the initial price of the underlying asset, as determined by the calculation agent and as may be adjusted in the case of certain corporate events, as described in the accompanying product supplement.
Final Price	The closing price of the underlying asset on the final valuation date, as determined by the calculation agent and subject to adjustments in the case of certain corporate events, as described in the accompanying product supplement.
Trade Date	April 12, 2019
Settlement Date	April 16, 2019
Final Valuation Date	April 12, 2021. The final valuation date may be subject to postponement in the event of a market disruption event, as described in the accompanying product supplement.
Maturity Date	April 15, 2021. The maturity date may be subject to postponement in the event of a market disruption event, as described in the accompanying product supplement.
Coupon Payment Dates	Three business days following each observation date, except the coupon payment date for the final valuation date will be the maturity date.
CUSIP	[ ]
ISIN	[ ]
Valoren	[ ]

The estimated initial value based on an issuance size of approximately \$100,000 of the Securities as of the trade date is expected to be between 94.30% and 96.80% of the issue price to the public for Securities linked to the underlying asset. The range of the estimated initial value of the Securities was determined on the date of this preliminary terms supplement by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the Securities, see "Key Risks - Fair value considerations" and "Key Risks - Limited or no secondary market and secondary market price considerations" in this preliminary terms supplement.

Notice to investors: the Securities are significantly riskier than conventional debt instruments. The issuer is not necessarily obligated to repay the full principal amount of the Securities at maturity, and the Securities may have the same downside market risk as the underlying asset. This market risk is in addition to the credit risk inherent in purchasing a debt obligation of UBS. You should not purchase the Securities if you do not understand or are not comfortable with the significant risks involved in investing in the Securities.

You should carefully consider the risks described under "Key Risks" in this preliminary terms supplement, under "Key Risks" beginning on page 3 of the prospectus supplement and under ''Risk Factors'' beginning on

page PS-9 of the accompanying product supplement before purchasing any Securities. Events relating to any of those risks, or other risks and uncertainties, could adversely affect the market value of, and the return on, your Securities. You may lose a significant portion or all of your initial investment in the Securities. The Securities will not be listed or displayed on any securities exchange or any electronic communications network.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this preliminary terms supplement, the previously delivered prospectus supplement, the accompanying product supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

See "Additional Information about UBS and the Securities" in this preliminary terms supplement. The Securities we are offering will have the terms set forth in the Prospectus Supplement dated November 1, 2018 relating to the Securities, the accompanying product supplement, the accompanying prospectus and this preliminary terms supplement.

Offering of Securities	**Issue Price to Public**		**Underwriting Discount**		**Proceeds to UBS AG**	
	Total	**Per Security**	**Total**	**Per Security**	**Total**	**Per Security**
Securities linked to the common stock of Netflix, Inc.	$	100%	$	1.50%	$	98.50%

UBS Financial Services Inc. **UBS Investment Bank**

Additional Information About UBS and the Securities

UBS has filed a registration statement (including a prospectus, as supplemented by a product supplement and a prospectus supplement for the Securities) with the Securities and Exchange Commission, or SEC, for the offering for which this preliminary terms supplement relates. Before you invest, you should read these documents and any other documents relating to the Securities that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents for free from the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC website is 0001114446.

You may access these documents on the SEC website at www.sec.gov as follows:

- Prospectus supplement dated November 1, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000091412118002132/ub46175276-424b2.htm
- Market-Linked Securities product supplement dated October 31, 2018:

http://www.sec.gov/Archives/edgar/data/1114446/000091412118002085/ub47016353-424b2.htm

- Prospectus dated October 31, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000119312518314003/d612032d424b3.htm

References to “UBS,” “we,” “our” and “us” refer only to UBS AG and not to its consolidated subsidiaries. In this document, “Trigger Phoenix Autocallable Optimization Securities” or the “Securities” refer to the Securities that are offered hereby. Also, references to the “prospectus supplement” mean the UBS prospectus supplement, dated November 1, 2018, references to "Market-Linked Securities product supplement" mean the UBS product supplement, dated October 31, 2018, relating to the Securities generally, and references to the “accompanying prospectus” mean the UBS prospectus titled "Debt Securities and Warrants", dated October 31, 2018.

This preliminary terms supplement, together with the documents listed above, contains the terms of the Securities and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Key Risks” and in “Risk Factors” in the accompanying product supplement, as the Securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before deciding to invest in the Securities

UBS reserves the right to change the terms of, or reject any offer to purchase, the Securities prior to their issuance. In the event of any changes to the terms of the Securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

Key Risks

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here and are comparable to the corresponding risks discussed in the "Key Risks" section of the prospectus supplement, but we urge you to read the more detailed explanation of risks relating to the Securities generally in ‘‘Risk Factors’’ section of the accompanying product supplement. We also urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities.

- **Risk of loss at maturity -** The Securities differ from ordinary debt securities in that UBS will not necessarily pay the full principal amount of the Securities at maturity. If the Securities are not called, UBS will repay you the principal amount of your Securities in cash only if the final price of the underlying asset is equal to or greater than the trigger price and will only make such payment at maturity. If the Securities are not called and the final price is less than the trigger price, you will be fully exposed to the negative underlying return and lose a significant portion or all of your initial investment in an amount proportionate to the decline in the price of the underlying asset.

- **The contingent repayment of your principal applies only at maturity -** You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the then-current underlying asset price is equal to or greater than the trigger price at that time.
- **You may not receive any contingent coupons -** UBS will not necessarily pay periodic contingent coupons on the Securities. If the closing price of the underlying asset on an observation date is less than the coupon barrier, UBS will not pay you the contingent coupon applicable to such observation date. If the closing price of the underlying asset is less than the coupon barrier on each of the observation dates, UBS will not pay you any contingent coupons during the term of, and you will not receive a positive return on, your Securities. Generally, this non-payment of the contingent coupon coincides with a period of greater risk of principal loss on your Securities.
- **Your potential return on the Securities is limited and you will not participate in any appreciation of the underlying asset** - The return potential of the Securities is limited to the contingent coupon rate, regardless of the appreciation of the underlying asset. In addition, the total return on the Securities will vary based on the number of observation dates on which the requirements of the contingent coupon have been met prior to maturity or an automatic call. Further, if the Securities are called due to the automatic call feature, you will not receive any contingent coupons or any other payment in respect of any observation dates after the applicable call settlement date. Since the Securities could be called as early as the first observation date, the total return on the Securities could be minimal. If the Securities are not called, you will not participate in any appreciation in the price of the underlying asset even though you will be subject to the underlying asset's risk of decline. As a result, the return on an investment in the Securities could be less than the return on a direct investment in the underlying asset.
- **Higher contingent coupon rates are generally associated with a greater risk of loss -** Greater expected volatility with respect to the underlying asset reflects a higher expectation as of the trade date that the price of such underlying asset could close below its trigger price on the final valuation date of the Securities. This greater expected risk will generally be reflected in a higher contingent coupon rate for that Security. However, an underlying asset's volatility can change significantly over the term of the Securities and the price of the underlying asset for your Securities could fall sharply, which could result in a significant loss of principal.
- **Reinvestment risk -** The Securities will be called automatically if the closing price of the underlying asset is equal to or greater than the initial price on any observation date. In the event that the Securities are called prior to maturity, there is no guarantee that you will be able to reinvest the proceeds from an investment in the Securities at a comparable rate of return for a similar level of risk. To the extent you are able to reinvest such proceeds in an investment comparable to the Securities, you will incur transaction costs and the original issue price for such an investment is likely to include certain built-in costs such as dealer discounts and hedging costs.
- **Greater expected volatility generally indicates an increased risk of loss at maturity -** "Volatility" refers to the frequency and magnitude of changes in the price of the underlying asset. The greater the expected volatility of the

underlying asset as of the trade date, the greater the expectation is as of the trade date that the closing price of the underlying asset could be less than the coupon barrier on any observation date and that the final price of the underlying asset could be less than the trigger price on the final valuation date and, as a consequence, indicates an increased risk of loss. However, the underlying asset's volatility can change significantly over the term of the Securities, and a relatively lower coupon barrier and/or trigger price may not necessarily indicate that the Securities have a greater likelihood of a return of principal at maturity. You should be willing to accept the downside market risk of the underlying asset and the potential to lose a significant portion or all of your initial investment.

- **Credit risk of UBS -** The Securities are unsubordinated, unsecured debt obligations of the issuer, UBS, and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Securities, including any repayment of principal, depends on the ability of UBS to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of UBS may affect the market value of the Securities and, in the event UBS were to default on its obligations, you may not receive any amounts owed to you under the terms of the Securities and you could lose your entire investment.

- **Market risk** - The price of the underlying asset can rise or fall sharply due to factors specific to that underlying asset and (i) in the case of common stock or American depositary receipts, its issuer (the "underlying asset issuer") or (ii) in the case of an exchange traded fund, the securities, futures contracts or physical commodities constituting the assets of that underlying asset. These factors include price volatility, earnings, financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general market volatility and levels, interest rates and economic and political conditions. You, as an investor in the Securities, should make your own investigation into the underlying asset issuer and the underlying asset for your Securities. **We urge you to review financial and other information filed periodically by the underlying asset issuer with the SEC.**

- **Fair value considerations.**

- **The issue price you pay for the Securities will exceed their estimated initial value** - The issue price you pay for the Securities will exceed their estimated initial value as of the trade date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the trade date, we will determine the estimated initial value of the Securities by reference to our internal pricing models and it will be set forth in the final terms supplement. The pricing models used to determine the estimated initial value of the Securities incorporate certain variables, including the price, volatility and expected dividends on the underlying asset, prevailing interest rates, the term of the Securities and our internal funding rate. Our internal funding rate is typically lower than the rate we would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected profits and the difference in rates will reduce the economic value of the Securities to you. Due to these factors, the estimated initial value of the Securities as of the trade date will be less than the issue price you pay for the Securities.

- **The estimated initial value is a theoretical price; the actual price that you may be able to sell your Securities in any secondary market (if any) at any time after the trade date may differ from the estimated initial value** - The value of your Securities at any time will vary based on many factors, including the factors described above and in "- Market risk" above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the trade date, if you attempt to sell the Securities in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the Securities determined by reference to our internal pricing models. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

- **Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the Securities as of the trade date** - We may determine the economic terms of the Securities, as well as hedge our obligations, at least in part, prior to pricing the Securities on the trade date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the Securities cannot be determined as of the trade date and any such differential between the estimated initial value and the issue price of the Securities as of the trade date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the Securities.

- **Limited or no secondary market and secondary market price considerations.**

- **There may be little or no secondary market for the Securities** - The Securities will not be listed or displayed on any securities exchange or any electronic communications network. There can be no assurance that a secondary market for the Securities will develop. UBS Securities LLC and its affiliates may make a market in each offering of the Securities, although they are not required to do so and may stop making a market at any time. If you are able to sell your Securities prior to maturity, you may have to sell them at a substantial loss. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

- **The price at which UBS Securities LLC and its affiliates may offer to buy the Securities in the secondary market (if any) may be greater than UBS' valuation of the Securities at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statements** - For a limited period of time following the issuance of the Securities, UBS Securities LLC or its affiliates may offer to buy or sell such Securities at a price that exceeds (i) our valuation of the Securities at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such Securities following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under "Supplemental Plan of Distribution (Conflicts of Interest); Secondary Markets (if any).” Thereafter, if UBS Securities LLC or an affiliate makes secondary markets for the Securities, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the Securities. As described above, UBS Securities LLC and its affiliates are not required to make a market for the Securities and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Financial Services Inc. and UBS Securities LLC reflect this temporary positive differential on their customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

- **Price of Securities prior to maturity** - The market price of the Securities will be influenced by many unpredictable and interrelated factors, including the price of the underlying asset; the volatility of the underlying asset; the dividend rate paid on the underlying asset; the time remaining to the maturity of the Securities; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; the creditworthiness of UBS and the then current bid-ask spread for the Securities.
- **Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices** - All other things being equal, the use of the internal funding rates described above under “- Fair value considerations” as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC’s and its affiliates’ market making premium, expected to reduce the price at which you may be able to sell the Securities in any secondary market.

- **Owning the Securities is not the same as owning the underlying asset -** The return on your Securities may not reflect the return you would realize if you actually owned the underlying asset. For instance, you will not receive or be entitled to receive any dividend payments or other distributions on the underlying asset over the term of your Securities. Furthermore, the underlying asset may appreciate substantially during the term of your Securities and you will not participate in such appreciation.
- **No assurance that the investment view implicit in the Securities will be successful -** It is impossible to predict whether and the extent to which the price of the underlying asset will rise or fall. The price of the underlying asset will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying asset issuer. You should be willing to accept the risks of owning equities in general and the underlying asset in particular, and the risk of losing a significant portion or all of your initial investment.
- **There is no affiliation between the underlying asset issuer, or for Securities linked to exchange traded funds, the issuers of the constituent stocks comprising the underlying asset (the "underlying asset constituent stock issuers"), and UBS, and UBS is not responsible for any disclosure by such issuer(s)** - We and our affiliates may currently, or from time to time in the future engage in business with the underlying asset issuer or, if applicable, any underlying asset constituent stock issuers. However, we are not affiliated with the underlying asset issuer or any underlying asset constituent stock issuers and are not responsible for such issuer’s public disclosure of information, whether contained in SEC filings or otherwise. You, as an investor in the Securities, should make your own investigation into the underlying asset issuer or, if applicable, each underlying asset constituent stock issuer. Neither the underlying asset issuer nor any underlying asset constituent stock issuer is involved in the Securities offered hereby in any way and has no obligation of any sort with respect to your Securities. Such issuer(s) have no

obligation to take your interests into consideration for any reason, including when taking any corporate actions that might affect the value of, and any amounts payable on, your Securities.

- **The calculation agent can make adjustments that affect the payment to you at maturity-** For certain corporate events affecting the underlying asset, the calculation agent may make adjustments to the initial price, the coupon barrier, the trigger price and/or the final price of the underlying asset. However, the calculation agent will not make an adjustment in response to all events that could affect the underlying asset. If an event occurs that does not require the calculation agent to make an adjustment, the value of the Securities may be materially and adversely affected. In addition, all determinations and calculations concerning any such adjustments will be made by the calculation agent. You should be aware that the calculation agent may make any such adjustment, determination or calculation in a manner that differs from that discussed in the accompanying product supplement as necessary to achieve an equitable result. In the case of common stock or American depositary receipts, following certain corporate events relating to the issuer of the underlying asset where the issuer is not the surviving entity, the amount of cash you receive at maturity may be based on the common stock or American depositary receipts of a successor to the underlying asset issuer in combination with any cash or any other assets distributed to holders of the underlying asset in such corporate event. Additionally, if the issuer of the underlying asset becomes subject to (i) a reorganization event whereby the underlying asset is exchanged solely for cash, (ii) a merger or consolidation with UBS or any of its affiliates or (iii) an underlying asset is delisted or otherwise suspended from trading, the amount you receive at maturity may be based on the common stock or American depositary receipts issued by another company. In the case of an exchange traded fund, following a suspension from trading or if an exchange traded fund is discontinued, the amount you receive at maturity may be based on a share of another exchange traded fund. The occurrence of these corporate events and the consequent adjustments may materially and adversely affect the value of the Securities. For more information, see the sections "General Terms of the Securities -- Antidilution Adjustments for Securities Linked to an Underlying Asset or Equity Basket Asset" and " --Reorganization Events for Securities Linked to an Underlying Asset or Equity Basket Asset" in the accompanying product supplement. Regardless of the occurrence of one or more dilution or reorganization events, you should note that at maturity UBS will pay you an amount in cash equal to your principal amount, unless the final price of the underlying asset is below the trigger price (as such trigger price may be adjusted by the calculation agent upon occurrence of one or more such events). Regardless of any of the events discussed above, any payment on the Securities is subject to the creditworthiness of UBS.
- **Potential UBS impact on the market price of the underlying asset** - Trading or transactions by UBS or its affiliates in the underlying asset and/or over-the-counter options, futures or other instruments with returns linked to the performance of the underlying asset may adversely affect the market price of the underlying asset and, therefore, the market value of, and any amounts payable on, your Securities.
- **Potential conflict of interest -** UBS and its affiliates may engage in business with the issuer of the underlying asset, which may present a conflict between the obligations of UBS and you, as a holder of the Securities. There are also potential conflicts of interest between you and the calculation agent, which will be an affiliate of UBS. The calculation agent will determine whether the final price is below the trigger price and accordingly the payment at maturity on your Securities. The calculation agent may also postpone the determination of the final price and the maturity date if a market disruption event occurs and is continuing on the final valuation date and may make adjustments to the initial price, the trigger price, the coupon barrier, the final price and/or the underlying asset itself for certain corporate events affecting the underlying asset. For more information, see the sections "General Terms of the Securities -- Antidilution Adjustments for Securities Linked to an Underlying Asset or Equity Basket Asset" and " --Reorganization Events for Securities Linked to an Underlying Asset or Equity Basket Asset" in the accompanying product supplement. As UBS determines the economic terms of the Securities, including the contingent coupon rate, trigger price and coupon barrier, and such terms include the underwriting discount, hedging costs, issuance costs and projected profits, the Securities represent a package of economic terms. There are other potential conflicts of interest insofar as an investor could potentially get better economic terms if that investor entered into exchange-traded and/or OTC derivatives or other instruments with third parties, assuming that such instruments were available and the investor had the ability to assemble and enter into such instruments.
- **Potentially inconsistent research, opinions or recommendations by UBS -** UBS and its affiliates publish research from time to time on financial markets and other matters that may influence the value of the Securities, or

express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. Any research, opinions or recommendations expressed by UBS or its affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of the merits of investing in the Securities and the underlying asset to which the Securities are linked.

- **The Securities are not bank deposits -** An investment in the Securities carries risks which are very different from the risk profile of a bank deposit placed with UBS or its affiliates. The Securities have different yield and/or return, liquidity and risk profiles and would not benefit from any protection provided to deposits.
- **If UBS experiences financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS, which proceedings or measures may have a material adverse effect on the terms and market value of the Securities and/or the ability of UBS to make payments thereunder -** The Swiss Financial Market Supervisory Authority ("FINMA") has broad statutory powers to take measures and actions in relation to UBS if (i) it concludes that there is justified concern that UBS is over-indebted or has serious liquidity problems or (ii) UBS fails to fulfil the applicable capital adequacy requirements (whether on a standalone or consolidated basis) after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorized to open restructuring proceedings or liquidation (bankruptcy) proceedings in respect of, and/or impose protective measures in relation to, UBS. The Swiss Banking Act grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by FINMA, including a bank moratorium or a maturity postponement, which measures may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance ("BIO-FINMA"). In a restructuring proceeding, FINMA, as resolution authority, is competent to approve the resolution plan. The resolution plan may, among other things, provide for (a) the transfer of all or a portion of UBS's assets, debts, other liabilities and contracts (which may or may not include the contractual relationship between UBS and the holders of Securities) to another entity, (b) a stay (for a maximum of two business days) on the termination of contracts to which UBS is a party, and/or the exercise of (w) rights to terminate, (x) netting rights, (y) rights to enforce or dispose of collateral or (z) rights to transfer claims, liabilities or collateral under contracts to which UBS is a party, (c) the conversion of UBS's debt and/or other obligations, including its obligations under the Securities, into equity (a "debt-to-equity" swap), and/or (d) the partial or full write-off of obligations owed by UBS (a "write-off"), including its obligations under the Securities. The BIO-FINMA provides that a debt-to-equity swap and/or a write-off of debt and other obligations (including the Securities) may only take place after (i) all debt instruments issued by UBS qualifying as additional tier 1 capital or tier 2 capital have been converted into equity or written-off, as applicable, and (ii) the existing equity of UBS has been fully cancelled. While the BIO-FINMA does not expressly address the order in which a write-off of debt instruments other than debt instruments qualifying as additional tier 1 capital or tier 2 capital should occur, it states that debt-to-equity swaps should occur in the following order: first, all subordinated claims not qualifying as regulatory capital; second, all other claims not excluded by law from a debt-to-equity swap (other than deposits); and third, deposits (in excess of the amount privileged by law). However, given the broad discretion granted to FINMA as the resolution authority, any restructuring plan in respect of UBS could provide that the claims under or in connection with the Securities will be partially or fully converted into equity or written-off, while preserving other obligations of UBS that rank pari passu with, or even junior to, UBS's obligations under the Securities. Consequently, holders of Securities may lose all of some of their investment in the Securities. In the case of restructuring proceedings with respect to a systemically important Swiss bank (such as UBS), the creditors whose claims are affected by the restructuring plan will not have a right to vote on, reject, or seek the suspension of the restructuring plan. In addition, if a restructuring plan has been approved by FINMA, the rights of a creditor to seek judicial review of the restructuring plan (e.g., on the grounds that the plan would unduly prejudice the rights of holders of Securities or otherwise be in violation of the Swiss Banking Act) are very limited. In particular, a court may not suspend the implementation of the restructuring plan. Furthermore, even if a creditor successfully challenges the restructuring plan, the court can only require the relevant creditor to be compensated ex post and there is currently no guidance as to on what basis such compensation would be calculated or how it would be funded.
- **Dealer incentives -** UBS and its affiliates act in various capacities with respect to the Securities. We and our affiliates may act as a principal, agent or dealer in connection with the sale of the Securities. Such affiliates,

including the sales representatives, will derive compensation from the distribution of the Securities and such compensation may serve as an incentive to sell these Securities instead of other investments. We will pay total underwriting compensation of 1.50% per Security to any of our affiliates acting as agents or dealers in connection with the distribution of the Securities. Given that UBS Securities LLC and its affiliates temporarily maintain a market making premium, it may have the effect of discouraging UBS Securities LLC and its affiliates from recommending sale of your Securities in the secondary market.

- **Uncertain tax treatment -** Significant aspects of the tax treatment of the Securities are uncertain. You should read carefully the sections entitled "What are the Tax Consequences of the Securities" herein and in the prospectus supplement and “Material U.S. Federal Income Tax Consequences” in the accompanying product supplement, and consult your tax advisor about your tax situation.

Information about the Underlying Asset

All disclosures regarding the underlying asset are derived from publicly available information. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the underlying asset. **You should make your own investigation into the underlying asset.**

The underlying asset will be registered under the Securities Act of 1933, the Securities Exchange Act of 1934 (as amended, the "Exchange Act") and/or the Investment Company Act of 1940, each as amended. Companies with securities registered with the SEC are required to file financial and other information specified by the SEC periodically. Information filed by the underlying asset issuer with the SEC can be reviewed electronically through a website maintained by the SEC. The address of the SEC’s website is http://www.sec.gov. Information filed with the SEC by the underlying asset issuer can be located by reference to its SEC file number provided below. In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates.

Netflix, Inc.

According to publicly available information, Netflix, Inc. ("Netflix") is an Internet television network offering TV shows and movies, including original series, documentaries and feature films. Information filed by Netflix with the SEC can be located by reference to its SEC file number: 001-35727, or its CIK Code: 0001065280. Netflix's website is netflix.com. Netflix's common stock is listed on The NASDAQ Global Select Market under the ticker symbol "NFLX."

Information from outside sources is not incorporated by reference in, and should not be considered part of, this preliminary terms supplement or any accompanying prospectus. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the underlying asset.

<u>Historical Information</u>

The following table sets forth the quarterly high and low closing prices for Netflix's common stock, based on daily closing prices on the primary exchange for Netflix. We obtained the closing prices below from Bloomberg Professional service (“Bloomberg”), without independent verification. The closing prices may be adjusted by Bloomberg for corporate actions such as stock splits, public offerings, mergers and acquisitions, spin-offs, extraordinary dividends, delistings and bankruptcy. UBS has not undertaken an independent review or due diligence of any publicly available information obtained from Bloomberg. Netflix's closing price on April 11, 2019 was $367.65. The actual initial price will be the closing price of Netflix's common stock on the trade date. **Past performance of the underlying asset is not indicative of the future performance of the underlying asset.**

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
07/01/2014	09/30/2014	$69.20	$60.27	$64.45
10/01/2014	12/31/2014	$66.69	$45.21	$48.80
01/02/2015	03/31/2015	$69.00	$45.55	$59.53
04/01/2015	06/30/2015	$97.31	$59.02	$93.85
07/01/2015	09/30/2015	$126.45	$93.51	$103.26
10/01/2015	12/31/2015	$130.93	$97.32	$114.38
01/04/2016	03/31/2016	$117.68	$82.79	$102.23
04/01/2016	06/30/2016	$111.51	$85.33	$91.48
07/01/2016	09/30/2016	$100.09	$85.84	$98.55
10/03/2016	12/30/2016	$128.35	$99.50	$123.80
01/03/2017	03/31/2017	$148.06	$127.49	$147.81
04/03/2017	06/30/2017	$165.88	$139.76	$149.41
07/03/2017				

Cash flows from financing activities:		
Net borrowings on line of credit	19,100	10,000
Repayments of mortgage notes payable of	0	(126)

consolidated LLCs				
Repayments of loans payable of consolidated LLCs		(60)		(94)
Repayments of mortgage notes payable		(80)		(3,449)
Proceeds from mortgage notes payable		0		5,250
Financing costs of mortgage notes payable		0		(308)
Dividends paid		(15,315)		(14,667)
Issuance of shares of beneficial interest, net		115		4,696
Net cash provided by financing activities		3,760		1,302
Decrease in cash and cash equivalents		(247)		(1,792)
Cash and cash equivalents, beginning of period		987		3,038
Cash and cash equivalents, end of period	$	740	$	1,246
Supplemental disclosures of cash flow information:				
Interest paid	$	762	$	994
Supplemental disclosures of non-cash information:				
Deconsolidation of LLC:				
Net real estate investments	$	0	$	12,169
Cash and cash equivalents		0		1,938
Other assets		0		144
Mortgage and note payable		0		13,465
Other liabilities		0		370
Third-party equity interests		0		21
Investment in LLC	$	0	$	395

See accompanying notes to these consolidated financial statements.

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UNIVERSAL HEALTH REALTY INCOME TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(unaudited)

(1) General

This Quarterly Report on Form 10-Q is for the Quarterly Period ended June 30, 2011. In this Quarterly Report, we, us, our and the Trust refer t Universal Health Realty Income Trust.

You should carefully review all of the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the SEC). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called forward-looking statements by words such as may, will, should, could, would, predicts, potential, continue, exp future, intends, plans, believes, estimates, appears, projects and similar expressions, as well as statements in future tense. You should b that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks outlined herein and in our Annual Report on Form 10-K for the year ended December 31, 2010 in *Item 1A Risk Factors* and in *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations - Forward Looking Statements*. Those factors may cause our actual results to differ materially from any of our forward-looking statements.

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. 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 Universal Health Services, Inc. (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 tightening in the credit markets and the instability in certain banking and financial institutions over the past several years have not had a material impact on us. However, there can be no assurance that unfavorable credit market conditions will not materially increase our cost of borrowings and/or have a material adverse impact on our ability to finance our future growth through borrowed funds.

In this Quarterly Report on Form 10-Q, 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 99%. We currently account for our share of the income/loss from these investments by the equity method (see Note 5). As of June 30, 2011, we had investments or commitments in thirty-two LLCs, thirty-one of which are accounted for by the equity method and one that is currently consolidated in our financial statements.

The financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the SEC and reflect all normal and recurring adjustments which, in our opinion, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, the notes thereto and accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2010.

(2) Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions

Leases: We commenced operations in 1986 by purchasing the real property 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

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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 61% and 54% of our consolidated revenue for each of the three and six months ended June 30, 2011 and 2010, respectively. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 99%, the leases on the UHS hospital facilities accounted for approximately 19% of the combined consolidated and unconsolidated revenue for each of the three and six month periods ended June 30, 2011 and 2010. In addition, twelve medical office buildings (MOBs), owned by an LLC in which we hold various non-controlling equity interests, 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.

On May 19, 2011, certain subsidiaries of UHS provided the required notice to us exercising the 5-year renewal options on the following hospital facilities which extended the existing lease terms to December, 2016:

- McAllen Medical Center
- Wellington Regional Medical Center
- Southwest Healthcare System - Inland Valley Campus

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).

We are committed to invest up to a total of $8.9 million in equity and debt financing, of which $4.9 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC (Palmdale Medical Properties) that constructed, owns, and operates the Palmdale Medical Plaza, located in Palmdale, California, on the campus of a UHS hospital. This MOB has a triple net, 75% master lease commitment by UHS of Palmdale, Inc., a wholly-owned subsidiary of UHS, pursuant to the terms of which the master lease for each suite will be cancelled at such time that the suite is leased to another tenant acceptable to the LLC and UHS of Palmdale, Inc. This MOB, tenants of which will include subsidiaries of UHS, was completed and opened during the third quarter of 2008 at which time the master lease commenced. As of June 30, 2011, the master lease threshold of 75% has not been met and is not expected to be met in the near future. The LLC has a third-party term loan of $6.5 million, which is non-recourse to us, outstanding as of June 30, 2011. This LLC, which is deemed to be a variable interest entity, is consolidated in our financial statements since we are the primary beneficiary.

We are committed to invest up to $5.5 million in debt or equity of which $2.0 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC (Banburry Medical Properties) that developed, constructed, owns and operates the Summerlin Medical Office Building III, located in Las Vegas, Nevada, on the campus of a UHS hospital. This MOB, tenants of which will include subsidiaries of UHS, was completed and opened during the first quarter of 2009. Summerlin Hospital Medical Center (Summerlin Hospital), a majority-owned subsidiary of UHS committed to lease approximately 25% of this building pursuant to the terms of a 10-year flex lease. In addition, Summerlin Hospital committed to a 50% master lease on the remaining 75% of the building (representing 37.5% of the building) pursuant to the terms of which the master lease for each suite was cancelled at such time that the suite was leased to another tenant acceptable to the LLC and Summerlin Hospital. During the first quarter of 2010, the master lease threshold was met and, as a result, this MOB is accounted for as an unconsolidated LLC under the equity method beginning on January 1, 2010. The LLC has a third-party term loan of $12.8 million, which is non-recourse to us, outstanding as of June 30, 2011.

We are committed to invest up to $6.4 million in equity and debt financing, of which $5.6 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC (Sparks Medical Properties) that owns and operates the Vista Medical Terrace and The Sparks Medical Building, located in Sparks, Nevada, on the campus of a UHS hospital. These MOBs were acquired by the LLC during the third quarter of 2008. This LLC has a third-party term loan of $5.4 million, which is non-recourse to us, outstanding as of June 30, 2011. As this LLC is not considered to be a variable interest entity, it is accounted for pursuant to the equity method.

We are committed to invest up to $8.4 million in equity and debt financing, of which $6.8 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC that owns and operates the Centennial Hills Medical Office Building I, located in Las Vegas, Nevada, on the campus of a UHS hospital. This MOB was completed and opened during the fourth

quarter of 2007. This LLC has a third-party term loan of $12.0 million, which is non-recourse to us, outstanding as of June 30, 2011. As this LLC is not considered to be a variable interest entity, it is accounted for under the equity method.

We are committed to invest up to a total of $4.8 million in equity and debt financing, of which $1.1 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC (Texoma Medical Properties) that developed, constructed, owns and operates the Texoma Medical Plaza located in Denison, Texas, which was completed and opened during the first quarter of 2010. This MOB is located on the campus of a newly constructed and recently opened replacement UHS acute care hospital owned and operated by Texoma Medical Center (Texoma Hospital), a wholly-owned subsidiary of UHS. Texoma Hospital has committed to lease 75% of this building, pursuant to which the master lease for each suite will be cancelled at such time that the suite is leased to another tenant acceptable to the LLC and Texoma Hospital. It is anticipated that the master lease threshold on this MOB will be met in the near future. This MOB will have tenants that include subsidiaries of UHS. This LLC has a third-party construction loan of $13.3 million, which is non-recourse to us, outstanding as of June 30, 2011. As this LLC is not considered to be a variable interest entity, it is accounted for pursuant to the equity method.

We are committed to invest up to a total of $4.7 million in equity and debt financing, of which $3.7 million has been funded as of June 30, 2011, in exchange for a 95% non-controlling equity interest in an LLC (Auburn Medical Properties) that developed, constructed, owns and operates the Auburn Medical Office Building II, located in Auburn, Washington, on the campus of a UHS hospital. Auburn Regional Medical Center (Auburn Hospital), a wholly-owned subsidiary of UHS committed to lease 75% of this building, pursuant to which the master lease for each suite was cancelled at such time that the suite was leased to another tenant acceptable to the LLC and Auburn Hospital. The master lease threshold on this MOB has been met. This MOB, tenants of which include subsidiaries of UHS, was completed and opened in the third quarter of 2009. This LLC has a third-party

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construction loan of $7.9 million, which is non-recourse to us, outstanding as of June 30, 2011. As this LLC is not considered to be a variable interest entity, it is accounted for pursuant to the equity method.

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. The Advisory Agreement was renewed for 2011 at the same terms and conditions as 2010.

The Advisory Agreement provides that the Advisor is entitled to receive an annual advisory fee equal to 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 the first six months of 2011 or 2010 since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to $480,000 and $466,000 for the three months ended June 30, 2011 and 2010, respectively, and were based upon average invested real estate assets of $295 million and $286 million for the three-month periods ended June 30, 2011 and 2010, respectively. Advisory fees incurred and paid (or payable) to UHS amounted to $951,000 and $903,000 for the six months ended June 30, 2011 and 2010, respectively, and were based upon average invested real estate assets of $293 million and $278 million for the six-month periods ended June 30, 2011 and 2010, respectively.

Officers and Employees: Our officers are all employees of UHS and although as of June 30, 2011 we had no salaried employees, our officers do receive stock-based compensation from time-to-time.

Share Ownership: As of June 30, 2011 and December 31, 2010, UHS owned 6.2% 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 61% and 54% of our consolidated revenues for each of the three and six months ended June 30, 2011 and 2010, respectively, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain the publicly available filings for Universal Health Services, Inc. from the SEC s website at www.sec.gov. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

UHS Other Matters:

Southwest Healthcare System: During the third quarter of 2009, UHS advised us that Southwest Healthcare System (SWHCS), a wholly-owned subsidiary of UHS which operates Rancho Springs Medical Center (the real property of which is not owned by the Trust) and Inland Valley Regional Medical Center (Inland Valley , the real property of which is owned by the Trust) located in Riverside County, California, entered into an agreement with the Center for Medicare and Medicaid Services (CMS). The agreement required SWHCS to engage an independent quality monitor to assist SWHCS in meeting all CMS conditions of participation. Further, the agreement provided that,

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during the last 60 days of the agreement, CMS would conduct a full Medicare certification survey. That survey took place the week of January 11, 2010.

In April, 2010, SWHCS received notification from CMS that it intended to effectuate the termination of SWHCS s Medicare provider agreement effective June 1, 2010. In May, 2010, UHS entered into an agreement with CMS which abated the termination action scheduled for June 1, 2010. The agreement is one year in duration and required SWHCS to engage independent experts in various disciplines to analyze and develop implementation plans for SWHCS to meet the Medicare conditions of participation. Pursuant to the agreement, CMS would conduct a full certification survey, which commenced during the last week of July, 2011, to determine if SWHCS has achieved substantial compliance with the Medicare conditions of participation. UHS has not yet been notified as to the results of the survey and they are not aware of when notification will be made to them. During the term of the agreement, SWHCS remains eligible to receive reimbursements from Medicare for services rendered to Medicare beneficiaries.

Also in April, 2010, SWHCS received notification from the California Department of Public Health (CDPH) indicating that it planned to initiate a process to revoke SWHCS s hospital license. In May, 2010, SWHCS received the formal document related to the revocation action. In September, 2010, SWHCS entered into an agreement with CDPH relating to the license revocation. The terms of the CDPH agreement are substantially similar to those contained in the agreement with CMS. As a result of the agreement, SWHCS s hospital license remains in effect pending the outcome of the CMS full certification survey. Pursuant to the results of the CMS full certification survey, should SWHCS be deemed to have achieved substantial compliance with the Medicare conditions of participation, CDPH shall deem SWHCS s license to be in good standing. Failure of SWHCS to achieve substantial compliance with the Medicare conditions of participation, pursuant to CMS s full certification survey, will likely have a material adverse impact on SWHCS s ability to continue to operate the facilities.

As a result of the matters discussed above, SWHCS had not been permitted to open newly constructed capacity at Rancho Springs Medical Center and Inland Valley. However, in February, 2011, SWHC received permission from CDPH to begin accessing the new capacity which has occurred. Unrelated to these developments, a competitor of SWHCS opened a newly constructed acute care hospital during April, 2011. UHS is unable to predict the net impact of these developments on SWHCS s results of operations during the remainder of 2011 and beyond.

UHS has advised us that Rancho Springs Medical Center and Inland Valley remain fully committed to providing high-quality healthcare to their patients and the communities they serve. UHS therefore intends to work expeditiously and collaboratively with both CMS and CDPH in an effort to resolve these matters, although there can be no assurance they will be able to do so. Failure to resolve these matters could have a material adverse effect on UHS and, in turn, us. While the $2.6 million annual base rentals on Inland Valley are guaranteed by UHS through the end of the existing lease term (December, 2016), should this matter, or the opening of the above-mentioned newly constructed acute care facility by a competitor, adversely impact the future revenues and/or operating results of SWHCS, the future bonus rental earned by us on Inland Valley, as well as the underlying value of the property, may be materially adversely impacted. At June 30, 2011, the book value of the property was $18.7 million. Bonus rental revenue earned by us from Inland Valley amounted to $294,000 and $577,000 during the three and six months ended June 30, 2011, respectively, and $1.1 million during the year ended December 31, 2010.

Psychiatric Solutions, Inc.: In connection with the acquisition of Psychiatric Solutions, Inc. (PSI) by UHS, UHS has substantially increased its level of indebtedness which could, among other things, adversely affect its ability to raise additional capital to fund operations, limit its ability to react to changes in the economy or its industry and could potentially prevent it from meeting its obligations under the agreements related to its indebtedness. If UHS experiences financial difficulties and, as a result, operations of its existing facilities suffer, or UHS otherwise fails to make payments to us, our revenues will significantly decline.

Although we do not expect to be directly impacted by UHS acquisition of PSI, UHS is substantially more leveraged and we cannot assure you that UHS will 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.

(3) Dividends

A dividend of $0.605 per share or $7.7 million in the aggregate was declared by the Board of Trustees on June 2, 2011 and was paid on June 30, 2011 to shareholders of record as of June 16, 2011.

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(4) Acquisitions and Dispositions

Six Months Ended June 30, 2011:

In June, 2011, utilizing a qualified third-party intermediary in connection with a planned like-kind exchange transaction pursuant to Section 1031 of the Internal Revenue Code, we purchased the Lake Pointe Medical Arts, a multi-tenant medical office building located in Rowlett, Texas. The purchase price for this 50,974 square foot MOB was approximately $12.2 million which is included on our June 30, 2011 Balance Sheet as Real estate assets acquired . The net tangible and intangible property asset allocation of the total purchase price will be finalized during the second half of the year, subject to a third-party appraisal and will be based upon their respective fair value at acquisition. Intangible assets will include the value of the in-place leases at the time of acquisition.

Three were no divestitures during the first six months of 2011.

Subsequent to June 30, 2011:

In July, 2011, utilizing a qualified third-party intermediary in connection with a planned like-kind exchange transaction pursuant to Section 1031 of the Internal Revenue Code, we purchased the Forney Medical Plaza, a multi-tenant medical office building located in Forney, Texas. The purchase price for this 50,946 square foot MOB was approximately $15.0 million. The net tangible and intangible property asset allocation of the total purchase price will be finalized during the second half of the year, subject to a third-party appraisal and will be based upon their respective fair value at acquisition. Intangible assets will include the value of the in-place leases at the time of acquisition.

In addition, as part of the planned like-kind exchange transactions, we have recently entered into a non-binding letter of intent with the third-party, managing member of thirty of our LLCs, and other parties. Pursuant to the terms outlined in the non-binding letter of intent, and subject to the completion of definitive agreements and satisfaction of various closing conditions, it is intended that we purchase the noncontrolling minority interest of certain LLCs, divest our noncontrolling, majority interests in certain LLCs and consent to the transfer to other parties, the current third-party, noncontrolling minority ownership interests in certain LLCs.

We have also executed non-binding letters of intent, and are in various stages of negotiations, in connection with the potential acquisition of two additional MOBs from various third parties. Although we can provide no assurance that we will complete any or all of these tranactions, if completed, we anticipate finalizing the transactions at various times during the third quarter of 2011. Please see *Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Non-binding Letters of Intent* for additional disclosure.

Six Months Ended June 30, 2010:

During the first six months of 2010, we invested $5.1 million in debt financing and equity for a 95% non-controlling ownership interest in an LLC (3811 Bell Medical Properties) that purchased the North Valley Medical Plaza, a medical office building located in Phoenix, Arizona.

There were no dispositions during the first six months of 2010.

(5) Summarized Financial Information of Equity Affiliates

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 99% 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.

At June 30, 2011, we have non-controlling equity investments or commitments in thirty-two LLCs which own medical office buildings (MOBs). As of June 30, 2011, we accounted for: (i) thirty-one of these LLCs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities, and; (ii) one of these LLCs (Palmdale Medical Properties) on a consolidated basis, as discussed below, since it is considered to be variable interest entity where we are the primary beneficiary by virtue of its master lease with a subsidiary of Universal Health Services, Inc. (UHS), a related party to us.

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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 and/or leasehold improvements and reductions and repayments of third-party debt. 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 short to intermediate term loans.

As a result of master lease arrangements between UHS and various LLCs in which we hold majority non-controlling ownership interests, we have consolidated or deconsolidated these LLCs as required in accordance with the FASB s standards and guidance.

Summerlin Medical Office Building II is located in Las Vegas, Nevada on the campus of Summerlin Hospital Medical Center. In connection with this MOB, which is owned by an LLC in which we hold a majority, non-controlling ownership interest, Summerlin Hospital Medical Center committed to a master lease agreement for a specified portion of the space. As a result of this master lease agreement, the LLC was considered a variable interest entity. Since we were the primary beneficiary, the financial results of this MOB were included in our financial statements on a consolidated basis prior to October 1, 2010. During the fourth quarter of 2010, the master lease arrangement expired and, as a result, this MOB is accounted for as an unconsolidated LLC under the equity method beginning on October 1, 2010. There was no material impact on our net income as a result of the deconsolidation of this LLC.

Palmdale Medical Properties has a master lease with a subsidiary of UHS. 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. 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 account for this LLC on a consolidated basis, since the fourth quarter of 2007, since it is a variable interest entity and we are deemed to be the primary beneficiary. The master lease threshold on this MOB has not yet been met and is not expected to be met in the near future.

The other LLCs in which we hold various non-controlling ownership interests are not variable interest entities and therefore are not subject to consolidation.

Rental income is recorded by our consolidated and unconsolidated MOBs relating to leases in excess of one year in length 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 acquisition 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.

The following tables represent summarized financial and other information related to the thirty-one LLCs which were accounted for under the equity method as of June 30, 2011:

Name of LLC	Ownership	Property Owned by LLC
DSMB Properties	76%	Desert Samaritan Hospital MOBs
DVMC Properties(a.)	90%	Desert Valley Medical Center
Suburban Properties	33%	Suburban Medical Plaza II
Litchvan Investments	89%	Papago Medical Park
Paseo Medical Properties II	75%	Thunderbird Paseo Medical Plaza I & II
Willetta Medical Properties(a.)	90%	Edwards Medical Plaza
Santa Fe Scottsdale(a.)	90%	Santa Fe Professional Plaza
575 Hardy Investors(a.)	90%	Centinela Medical Building Complex
Brunswick Associates	74%	Mid Coast Hospital MOB
Deerval Properties(d.)	90%	Deer Valley Medical Office II
PCH Medical Properties	85%	Rosenberg Children s Medical Plaza

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Name of LLC	Ownership	Property Owned by LLC
Gold Shadow Properties(b.)	98%	700 Shadow Lane & Goldring MOBs
Arlington Medical Properties	75%	Saint Mary s Professional Office Building
ApaMed Properties	85%	Apache Junction Medical Plaza
Spring Valley Medical Properties(b.)	95%	Spring Valley Medical Office Building
Sierra Medical Properties	95%	Sierra San Antonio Medical Plaza
Spring Valley Medical Properties II(b.)	95%	Spring Valley Hospital Medical Office Building II
PCH Southern Properties	95%	Phoenix Children s East Valley Care Center
Centennial Medical Properties(b.)	95%	Centennial Hills Medical Office Building I
Canyon Healthcare Properties	95%	Canyon Springs Medical Plaza
653 Town Center Investments(b.)(c.)	95%	Summerlin Hospital Medical Office Building
DesMed(b.)	99%	Desert Springs Medical Plaza
Deerval Properties II(d.)	95%	Deer Valley Medical Office Building III
Cobre Properties	95%	Cobre Valley Medical Plaza
Sparks Medical Properties(b.)	95%	Vista Medical Terrace & The Sparks Medical Building
Auburn Medical Properties II(b.)	95%	Auburn Medical Office Building II
Grayson Properties(b.)(e.)	95%	Texoma Medical Plaza
BRB/E Building One(f.)	95%	BRB Medical Office Building
Banburry Medical Properties(b.)(g.)	95%	Summerlin Hospital MOB III
3811 Bell Medical Properties(h.)	95%	North Valley Medical Plaza
653 Town Center Phase II(b.)(i.)	98%	Summerlin Hospital MOB II

(a.) The membership interests of this entity are held by a master LLC in which we hold a 90% non-controlling ownership interest.

(b.) Tenants of this medical office building include or will include subsidiaries of UHS.

(c.) The membership interests of this entity are held by a master LLC in which we hold a 95% non-controlling ownership interest.

(d.) Deerval Parking Company, LLC, which owns the real property of a parking garage located near Deer Valley Medical Office Buildings II and III, is 50% owned by each of Deerval Properties and Deerval Properties II.

(e.) We have committed to invest up to $4.8 million in equity and debt financing, of which $1.1 million has been funded as of June 30, 2011. This building, which is on the campus of a UHS hospital and has tenants that include subsidiaries of UHS, was completed and opened during the first quarter of 2010. This LLC has a third-party construction loan of $13.3 million, which is non-recourse to us, outstanding as of June 30, 2011.

(f.) We have committed to invest up to $3.0 million in equity and debt financing, $2.7 million of which has been funded as of June 30, 2011, in an LLC that owns and operates this MOB which was completed and opened during the fourth quarter of 2010. This LLC obtained a third-party construction loan commitment of $6.2 million, which is non-recourse to us, $6.1 million of which has been borrowed as of June 30, 2011.

(g.) We have committed to invest up to $5.5 million in equity and debt financing, of which $2.0 million has been funded as of June 30, 2011. The LLC has a third-party term loan of $12.8 million, which is non-recourse to us, outstanding as of June 30, 2011.

(h.) We have committed to invest up to $6.2 million in equity and debt financing, all of which has been funded as of June 30, 2011. This MOB was acquired during the first quarter of 2010.

(i.) This LLC has a third-party loan of $12.7 million, which is non-recourse to us, outstanding as of June 30, 2011. This facility was accounted for on a consolidated basis prior to October 1, 2010. During the fourth quarter of 2010, the master lease at this facility expired; therefore, this LLC is no longer deemed to be a variable interest entity and is accounted for on an unconsolidated basis pursuant to the equity method beginning October 1, 2010.

Below are the combined statements of income (unaudited) for the LLCs accounted for under the equity method at June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010 (b.)	2011	2010 (b.)
	(amounts in thousands)			
Revenues	$ 14,828	$ 14,049	$ 29,581	$ 27,065

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010 (b.)	2011	2010 (b.)
	(amounts in thousands)			
Operating expenses	6,532	6,310	13,104	11,735
Depreciation and amortization	3,436	3,017	6,725	6,011
Interest, net	4,546	4,316	9,020	8,362
Net income	$ 314	$ 406	$ 732	$ 957
Our share of net income (a.)	$ 727	$ 833	$ 1,502	$ 1,569

(a.) Our share of net income includes interest income earned by us on various advances made to LLCs of approximately $655,000 and $600,000 for the three months ended June 30, 2011 and 2010, respectively, and $1.3 million and $1.1 million for the six months ended June 30, 2011 and 2010, respectively.

(b.) Excludes Summerlin II MOB which was accounted for on a consolidated basis through September 30, 2010.

Below are the combined balance sheets (unaudited) for the LLCs accounted for under the equity method:

	June 30, 2011	December 31, 2010
	(amounts in thousands)	
Net property, including CIP	$ 333,102	$ 334,757
Other assets	28,796	27,912
Total assets	$ 361,898	$ 362,669
Liabilities	$ 12,499	$ 12,852
Loans payable, non-recourse to us	269,404	271,693
Advances payable to us	34,197	29,082
Equity	45,798	49,042
Total liabilities and equity	$ 361,898	$ 362,669
Our share of equity and advances to LLCs	$ 82,677	$ 80,442

As of June 30, 2011, aggregate maturities of mortgage notes payable by the LLCs which are accounted for under the equity method and are non-recourse to us, are as follows (amounts in thousands):

2011	$ 15,345
2012	40,679
2013	28,673
2014	42,484
2015	63,733
Thereafter	78,490
Total	$ 269,404

Name of LLC	Mortgage Balance (b.)	Maturity Date
Banbury Medical Properties(a.)(d.)	12,814	12/31/2011
ApaMed Properties	2,673	01/01/2012
575 Hardy Investors	9,423	02/01/2012
Auburn Medical Properties	7,890	04/02/2012
Gold Shadow Properties	6,424	04/10/2012
BRB/E Building One(c.)	6,077	11/01/2012
Sierra Medical Properties	3,904	12/31/2012
Centennial Medical Properties	11,982	01/31/2013
Sparks Medical Properties	5,381	02/12/2013

Litchvan Investments	7,699	10/01/2013
Paseo Medical Properties II	17,000	06/08/2014
653 Town Center Investments	9,676	07/01/2014
Grayson Properties (c.)(e.)	13,264	07/01/2014
Brunswick Associates	8,291	01/01/2015
Spring Valley Medical Properties	5,582	02/10/2015
DSMB Properties	24,572	09/10/2015
Arlington Medical Properties	25,799	10/10/2015
DVMC Properties	4,220	11/01/2015
Willetta Medical Properties	12,863	10/10/2016
Deerval Properties	9,611	09/01/2017
Deerval Properties II	16,505	09/01/2017
653 Town Center Phase II	12,687	10/01/2017
Cobre Properties	2,500	11/01/2017
Canyon Healthcare Properties	16,671	12/01/2017
PCH Southern Properties	6,907	12/01/2017
PCH Medical Properties	8,989	05/01/2018
	$ 269,404	

(a.) We believe the terms of this loan are within current market underwriting criteria. At this time, we expect to refinance this loan on or before the 2011 maturity date for a three to ten year term at the then current market interest rates. In the unexpected event that we are unable to refinance this loan on reasonable terms, we will explore other financing alternatives, including, among other things, potentially increasing our equity investment in the property utilizing funds borrowed under our revolving credit facility.

(b.) All mortgage loans, other than construction loans, require monthly principal payments through maturity and include a balloon principal payment upon maturity.

(c.) Construction loans.

(d.) We have exercised the right to extend this loan for an additional six months to December 31, 2011.

(e.) This original construction loan automatically converted to a term loan commencing July 1, 2011 with a maturity date of July 1, 2014.

During 2008, we advanced $4.0 million to our third-party partners in a certain LLC in connection with a $4.0 million loan agreement. Interest on this non-amortizing loan is paid to us on a quarterly basis. The interest rate on this loan is: (i) 4.25% plus LIBOR, or; (ii) if information to determine LIBOR is not available, three hundred seventy-five basis points over the then existing borrowing cost. The loan has a stated maturity date of 2012, although it may be prepaid without penalty and is secured by various forms of collateral, including personal guarantees from each of the partners to the loan, as well as their ownership interest in the LLC. Interest on this loan agreement has been paid to us through July 31, 2011.

Pursuant to the operating agreements of the LLCs, 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.

We have recently entered into a non-binding letter of intent with the third-party, managing member of thirty of our LLCs, and other parties. Pursuant to the terms outlined in the non-binding letter of intent, and subject to the completion of definitive agreements and satisfaction of various closing conditions, it is intended that we purchase the noncontrolling minority interest of certain LLCs, divest our noncontrolling, majority interests in certain LLCs and consent to the transfer to other parties, the current third-party, noncontrolling minority ownership interests in certain LLCs. The non-binding letter of intent provides for completion of the proposed transactions by September 30, 2011, although there is no assurance that any or all of such transactions will be consummated by that date or at all. Please see *Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Non-binding Letters of Intent* for additional disclosure.

(6) Recent Accounting Pronouncements

There were no new accounting pronouncements during the first six months of 2011 that impacted, or are expected to impact us.

(7) Long-term debt

Our previous unsecured $100 million revolving credit agreement (the Agreement) was terminated by us on July 25, 2011 and replaced with a new revolving credit facility. The Agreement provided for interest at our option, at the Eurodollar rate plus 0.75% to 1.125%, or the prime rate plus zero to 0.125%. A fee of 0.15% to 0.225% was payable on the unused portion of the commitment.

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The margins over the Eurodollar, prime rate and the commitment fee were based upon our debt to total capital ratio as defined by the Agreement. As of June 30, 2011, the applicable margin over the Eurodollar rate was 0.75%, the margin over the prime rate was zero, and the commitment fee was 0.15%.

On July 25, 2011, we entered into a new $150 million revolving credit agreement (Credit Agreement). The Credit Agreement, which will mature in four years, replaced our previous revolving credit facility which was scheduled to mature in January, 2012 and increased our borrowing capacity from $100 million to $150 million. The Credit Agreement includes a $50 million sub limit for letters of credit and a $20 million sub limit for swingline/short-term loans. The Credit Agreement also provides an option to increase the total facility borrowing capacity by an additional $50 million, subject to lender agreement. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.75% to 2.50% or at the Base Rate plus an applicable margin ranging from 0.75% to 1.50%. The Credit Agreement defines Base Rate as the greatest of: (a) the administrative agent s prime rate, (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A fee of 0.30% to 0.50% will be charged on the unused portion of the commitment. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. The initial applicable margin over the LIBOR rate is 1.75%, the margin over the Base Rate is 0.75%, and the commitment fee is 0.30%.

At June 30, 2011, we had $71.7 million of outstanding borrowings and $9.4 million of letters of credit outstanding against our then existing revolving credit agreement. After giving effect to the increased borrowing capacity in the Credit Agreement entered into in July of 2011, we had $68.9 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of June 30, 2011. There are no compensating balance requirements.

Covenants relating to the Agreement require the maintenance of a minimum tangible net worth and specified financial ratios, limit our ability to incur additional debt, limit the aggregate amount of mortgage receivables and limit our ability to increase dividends in excess of 95% of cash available for distribution, unless additional distributions are required to comply with the applicable section of the Internal Revenue Code of 1986 and related regulations governing real estate investment trusts. We are in compliance with all of the covenants at June 30, 2011. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

The following table includes a summary of the required compliance ratios, giving effect to the new covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2011
Tangible net worth	$ 125,000	$ 138,166
Debt to total capital	< 55%	34%
Debt service coverage ratio	> 6.00 x	43.96x
Debt to cash flow ratio	< 3.50 x	2.19x

We have two mortgages and one term loan, all of which are non-recourse to us, included on our consolidated balance sheet as of June 30, 2011, with a combined outstanding carrying balance of $14.8 million and fair value of $15.4 million. Changes in market rates on our fixed rate debt impact the fair value of debt, but have no impact on interest incurred or cash flow. The mortgages are secured by the real property of the buildings as well as property leases and rents. The following table summarizes our outstanding mortgages and term loan at June 30, 2011 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands)	Interest Rate	Maturity Date
Medical Center of Western Connecticut fixed rate mortgage loan(a)	$ 5,155	6.0%	2017
Kindred Hospital-Corpus Christi fixed rate mortgage loan(a)	3,164	6.5%	2019
Palmdale Medical Plaza term loan	6,504	5.1%	2013
Total	$ 14,823		

(a) Amortized principal payments made on a monthly basis.

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(8) Segment Reporting

Our primary business is investing in and leasing healthcare and human service facilities through direct ownership or through joint ventures, which aggregate into a single reportable segment. We actively manage our portfolio of healthcare and human service facilities and may from time to time make decisions to sell lower performing properties not meeting our long-term investment objectives. The proceeds of sales are typically reinvested in new developments or acquisitions, which we believe will meet our planned rate of return. It is our intent that all healthcare and human service facilities will be owned or developed for investment purposes. Our revenue and net income are generated from the operation of our investment portfolio.

Our portfolio is located throughout the United States however, we do not distinguish or group our operations on a geographical basis for purposes of allocating resources or measuring performance. We review operating and financial data for each property on an individual basis; therefore, we define an operating segment as our individual properties. Individual properties have been aggregated into one reportable segment based upon their similarities with regard to both the nature and economics of the facilities, tenants and operational processes, as well as long-term average financial performance.

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Item 2. 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. As of June 30, 2011, we have fifty-three real estate investments or commitments located in fifteen states consisting of:

- seven hospital facilities consisting of three acute care, one behavioral healthcare, one rehabilitation and two sub-acute;
- forty-two medical office buildings, including thirty-two owned by various LLCs, and;
- four pre-school and childcare centers.

Forward Looking Statements and Certain Risk Factors

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 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;

UHS s acquisition of Psychiatric Solutions, Inc. has required UHS to substantially increase its level of indebtedness which could, among other things, adversely affect its ability to raise additional capital to fund operations, limit its ability to react to changes in the economy or its industry and could potentially prevent it from meeting its obligations under the agreements related to its indebtedness. If UHS experiences financial difficulties and, as a result, operations of its existing facilities suffer, or UHS otherwise fails to make payments to us, our revenues will significantly decline;

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 (see Note 2, Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions for

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disclosure related to Southwest Healthcare System s regulatory matters with the Center for Medicare and Medicaid Services and the California Department of Public Health);

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;

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, 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. We have recently entered into a non-binding letter of intent with the third-party, managing member of thirty of our LLCs, and other parties, to purchase the noncontrolling minority interest of certain LLCs, divest our noncontrolling, majority interests in certain LLCs and consent to the transfer to other parties, the current third-party, noncontrolling minority ownership interests in certain LLCs. Please see *Item 1A. Risk Factors We hold significant, non-controlling equity ownership interest in various LLCs* and *In connection with the potential divestiture of the real property owned by certain LLCs in which we own majority, non-controlling ownership interests, as mentioned above, we have purchased, and entered into non-binding letters of intent to purchase, medical office building as part of series of planned like-kind exchange transactions under Section 1031 of the Internal Revenue Code* for additional disclosure regarding various non-binding letters of intent.

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 and Medicaid (most states have reported significant budget deficits that have resulted in the reduction of Medicaid funding for 2010 and 2011 and, although the fiscal year 2012 state budgets for certain states have not yet been finalized, Medicaid reimbursements are likely to be reduced to the operators of our facilities, including UHS), and including, but not limited to, the potential unfavorable impact of future reductions to Medicare reimbursements resulting from the recently passed Budget Control Act of 2011 (as discussed below); 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 collectibility 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. Included in this law are the imposition of 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. Among its other provisions, the law would establish a bipartisan Congressional committee, known as the Joint Committee, which would be responsible for developing recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. If the Joint Committee is unable to reach an agreement, across-the-board cuts to discretionary, national defense and Medicare spending could be automatically implemented which could result in Medicare payment reductions of up to 2%. The operators of our facilities cannot predict if reductions to future Medicare payments to providers will be implemented as a result of the 2011 Act or what impact, if any, the 2011 Act may have on their future results of operations;

three 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;

competition from other health care providers, including physician owned facilities and other facilities owned by UHS, including, but not limited to, McAllen, Texas, the site of our largest acute care facility (McAllen Medical Center), and Wildomar, California (Inland Valley Regional Medical Center);

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;

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fluctuations in the value of our common stock, and;

other factors referenced herein or in our other filings with the Securities and Exchange Commission.

Given these uncertainties, risks and assumptions, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition, including the operating results of our lessees and the facilities leased to subsidiaries of UHS, could differ materially from those expressed in, or implied by, the forward-looking statements.

Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our financial statements, including the following:

Revenue Recognition: Our revenues consist primarily of rentals received from tenants, which are comprised of minimum rent (base rentals), bonus rentals and reimbursements from tenants for their pro-rata share of expenses such as common area maintenance costs, real estate taxes and utilities.

The minimum rent for all hospital facilities is fixed over the initial term or renewal term of the respective leases. Rental income recorded by our 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.

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 99% 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.

At June 30, 2011, we have non-controlling equity investments or commitments in thirty-two LLCs which own medical office buildings (MOBs). As of June 30, 2011, we accounted for: (i) thirty-one of these LLCs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities, and; (ii) one of these LLCs (Palmdale Medical Properties) on a consolidated basis, as discussed below, since it is considered to be a variable interest entity where we are the primary beneficiary by virtue of its master lease with a subsidiary of Universal Health Services, Inc. (UHS), a related party to us.

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 and/or leasehold improvements. 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 short to intermediate term loans.

Summerlin Medical Office Building II is located in Las Vegas, Nevada on the campus of Summerlin Hospital Medical Center. In connection with this MOB, which is owned by an LLC in which we hold a majority, non-controlling ownership interest, Summerlin Hospital Medical Center committed to a master lease agreement for a specified portion of the space. As a result of this master lease agreement, the LLC was considered a variable interest entity. Since we were the primary beneficiary, the financial results of this MOB were included in our financial statements on a consolidated basis prior to October 1, 2010. During the fourth quarter of 2010, the master lease arrangement expired and, as a result, this MOB is accounted for as an unconsolidated LLC under the equity method beginning on October 1, 2010. There was no material impact on our net income as a result of the deconsolidation of this LLC.

Palmdale Medical Properties has a master lease with a subsidiary of UHS. 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. 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 account for this LLC on a consolidated basis, since the fourth quarter of 2007, since it is a variable interest entity and we are deemed to be the primary beneficiary. The master lease threshold on this MOB has not yet been met and is not expected to be met in the near future.

The other LLCs in which we hold various non-controlling ownership interests are not variable interest entities and therefore are not subject to consolidation.

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 Universal Health Services, Inc. (UHS) 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 UHS and although as of June 30, 2011 we had no salaried employees, our officers do receive stock-based compensation from time-to-time.

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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 Universal Health Services, Inc. (UHS) and Related Party Transactions in Note 2 to the condensed consolidated financial statements for additional information on the Advisory Agreement and related fees. In December of 2010, 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 2011 at the same terms and conditions as 2010.

The combined revenues generated from the leases on the UHS hospital facilities accounted for approximately 61% and 54% of our consolidated revenue for each of the three and six months ended June 30, 2011 and 2010, respectively. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 99%, the leases on the UHS hospital facilities accounted for approximately 19% of the combined consolidated and unconsolidated revenue for each of the three and six month periods ended June 30, 2011 and 2010. In addition, twelve medical office buildings (MOBs), owned by an LLC in which we hold various non-controlling equity 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 condensed consolidated financial statements Relationship with Universal Health Services, Inc. (UHS) and Related Party Transactions.

Results of Operations

Our Consolidated Statement of Income for the three and six month periods ended June 30, 2010 includes the revenue and expenses associated with the Summerlin II MOB which was deconsolidated on October 1, 2010. The tables below provide the Statements of Income for this LLC for the three and six month periods ended June 30, 2010. The As Adjusted column is used for comparison discussions in the Results of Operations. There was no material impact on our net income as a result of the deconsolidation of this LLC.

(amounts in thousands)

Three Months Ended June 30, 2010	As reported in Consolidated Statements of Income	April June, 2010 Statements of Income for Summerlin II	As Adjusted
Revenues	$ 7,473	$ 641	$ 6,832
Expenses:			
Depreciation and amortization	1,610	115	1,495
Advisory fee to UHS	466		466
Other operating expenses	1,434	237	1,197
	3,510	352	3,158
Income before equity in limited liability companies (LLCs) and interest expense	3,963	(289)	3,674
Equity in income of unconsolidated LLCs	833	115	948
Interest expense	(522)	174	(348)

Net income	$ 4,274	$ 4,274

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Six Months Ended June 30, 2010	As reported in Consolidated Statements of Income	Jan June, 2010 Statements of Income for Summerlin II	As Adjusted
Revenues	$ 15,117	$ 1,282	$ 13,835
Expenses:			
Depreciation and amortization	3,179	228	2,951
Advisory fee to UHS	903		903
Other operating expenses	2,786	477	2,309
	6,868	705	6,163
Income before equity in limited liability companies (LLCs) and interest expense	8,249	(577)	7,672
Equity in income of unconsolidated LLCs	1,569	228	1,797
Interest expense	(1,017)	349	(668)
Net income	$ 8,801		$ 8,801

For the quarter ended June 30, 2011, net income was $3.7 million, or $0.29 per diluted share, as compared to $4.3 million, or $0.35 per diluted share, during the comparable prior year quarter. For the six-month period ended June 30, 2011, net income was $7.8 million, or $0.62 per diluted share, as compared to $8.8 million, or $0.73 per diluted share, during the comparable six-month period of the prior year.

The decrease in net income of $582,000 during the second quarter of 2011, as compared to the comparable prior year quarter, was primarily attributable to:

- an unfavorable change of $288,000 resulting from the previously disclosed June, 2010, expiration of a master lease agreement on an MOB located in Georgia;
- an unfavorable change of $135,000 resulting from the expenses incurred in connection with the potential acquisition and divestiture transactions, as discussed herein and;
- other combined net unfavorable changes of $159,000.

The decrease in net income of $981,000 during the first six months of 2011, as compared to the first six months of 2010, was primarily attributable to:

- an unfavorable change of $576,000 resulting from the 2010, expiration of a master lease agreement on an MOB located in Georgia;

- an unfavorable change of $135,000 resulting from the expenses incurred in connection with the potential acquisition and divestiture transactions, and;

- other combined net unfavorable changes of $270,000.

We continue to actively market the available space in the above-mentioned MOB located in Georgia and are in various stages of negotiations with several prospective tenants.

We recorded equity in unconsolidated LLCs of $727,000 and $948,000 (As Adjusted basis) during the three-month periods ended June 30, 2011 and 2010, respectively, and $1.5 million and $1.8 million (As Adjusted basis) during the six-month periods ended June 30, 2011 and 2010, respectively. The decreases of $221,000 and $295,000 during the three and six months ended June 30, 2011, respectively, as compared to the comparable prior year periods, were due in part to the unfavorable operating results caused by low occupancy levels at an MOB located in Phoenix, Arizona which was acquired by a LLC in March, 2010 and the reserves established in connection with certain tenant receivables at various LLCs.

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During the three and six-month periods ended June 30, 2011, total revenue decreased by $66,000 and $393,000, respectively, (As Adjusted basis). The decreases resulted primarily from a decrease in base rental resulting from a June, 2010 master lease agreement expiration on an MOB located in Georgia, offset by other combined favorable variances, including increases in bonus rental from UHS facilities. The master lease on Southern Crescent II, which has been in effect since 2000, was not renewed upon its expiration in June, 2010. Prior to the expiration, the master lease on this MOB generated approximately $1.1 million of annual revenues, net income and net cash provided by operating activities.

Depreciation and amortization expense increased $44,000 and $91,000 during the three and six months ended June 30, 2011, respectively, as compared to the comparable prior year periods (As Adjusted basis), due primarily to the expense recorded in connection with renovations completed at certain MOBs.

Interest expense, net of interest income, increased $20,000 and $78,000 during the three and six months ended June 30, 2011, respectively, as compared to the comparable prior year periods (As Adjusted basis). The increase was due primarily to an increase in our average outstanding borrowings combined with an increase in our borrowing rate on a specific loan relating to the Palmdale MOB. The increased borrowings were used primarily to fund the investments in and advances to LLCs and additions to real estate investments, as well as to purchase the newly acquired Lake Pointe Medical Arts MOB, as discussed herein.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $941,000 and $944,000 (As Adjusted basis), for the three-month periods ended June 30, 2011 and 2010, respectively, and $1.6 million and $1.8 million (As Adjusted basis) for the six-month periods ended June 30, 2011 and 2010, respectively. The decrease in other operating expenses for the six-month period ended June 30, 2011 is primarily attributable to a decrease in property tax expense at a certain MOB. A portion of the expenses associated with our consolidated medical office buildings is passed on directly to the tenants. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred and are included as tenant reimbursement revenue in our condensed consolidated statements of income.

Funds from operations is a widely recognized measure of performance for Real Estate Investment Trusts (REITs). We believe that funds from operations (FFO) and funds from operations 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 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. FFO does 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 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 for the three and six-month periods ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 3,692	$ 4,274	$ 7,820	$ 8,801
Plus: Depreciation and amortization expense:				
Consolidated investments	1,503	1,573	2,969	3,107
Unconsolidated affiliates	2,718	2,451	5,405	4,882
Funds from operations (FFO)	$ 7,913	$ 8,298	$ 16,194	$ 16,790

The decrease in FFO of $385,000 during the three-month period ended June 30, 2011, as compared to the comparable prior year quarter, was primarily due to: (i) the $582,000 decrease in net income, as mentioned above, partially offset by; (ii) the favorable effect of adding back increased depreciation and amortization expense incurred by us and our unconsolidated affiliates amounting to $197,000.

Our FFO decreased $596,000 during the first six months of 2011 as compared to the comparable six-month period in 2010, resulting primarily from: (i) the $981,000 decrease in net income, as mentioned above, partially offset by; (ii) the favorable effect of

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adding back increased depreciation and amortization expense incurred by us and our unconsolidated affiliates amounting to $385,000. The increased depreciation and amortization expense during the three and six-month periods ended June 30, 2011, as compared to the comparable prior year periods, is related to newly constructed and recently opened MOBs as well as capital expenditures at various properties.

Liquidity and Capital Resources

Net cash provided by operating activities

Net cash provided by operating activities was $10.3 million and $12.3 million for the six-month periods ended June 30, 2011 and 2010, respectively.

The $2.0 million net decrease was attributable to:

- an unfavorable change of $1.1 million due to a decrease in net income (as discussed above in Results of Operations) plus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization and restricted/stock-based compensation);

- an unfavorable change of $325,000 in rent receivable, partially resulting from the increase in the bonus rent receivable from UHS, as well as other unfavorable changes, and;

- a unfavorable change of $602,000 in accrued expenses and other liabilities resulting primarily from a property tax payment made during the first six months of 2011 in connection with the Palmdale MOB as well as payment timing differences with various other accrued expenses and liabilities.

Net cash used in investing activities

Net cash used in investing activities was $14.3 million during the six months ended June 30, 2011 as compared to $15.4 million during the six months ended June 30, 2010.

During the six-month period ended June 30, 2011, we funded: (i) $11.8 million (net of certain acquired liabilities) to acquire the real estate assets of the Lake Pointe Medical Arts MOB, as discussed above; (ii) $11.1 million of advances to LLCs; (iii) $3.1 million of equity investments in LLCs, and; (iv) $300,000 of deposits on real estate assets related to the acquisition of Forney Medical Plaza which was acquired during the third quarter of 2011, as discussed above, and the potential acquisition of an additional medical office building on which we executed a non-binding letter of intent. Also during the six-month period ended June 30, 2011, we received: (i) $6.6 million in repayments of advances to LLCs; (ii) $3.3 million of cash distributions in excess of income from our unconsolidated LLCs, and; (iii) $2.1 million of cash distributions of refinancing proceeds from our unconsolidated LLCs.

During the six-month period ended June 30, 2010, we funded: (i) $9.5 million of advances to LLCs; (ii) $5.2 million of equity investments in LLCs, and; (iii) $302,000 of capital additions. Additionally, a decrease in cash of $1.9 million resulted from the deconsolidation of the Summerlin Hospital Medical Office Building III during the first quarter of 2010. Also during the six-month period ended June 30, 2010, we received: (i) $29,000 related to debt refinancing by an LLC; (ii) $94,000 in repayments of advances to LLCs, and; (iii) $1.5 million of cash distributions in excess of income from our unconsolidated LLCs.

Net cash provided by financing activities

Net cash provided by financing activities was $3.8 million during the six months ended June 30, 2011 and $1.3 million during the six months ended June 30, 2010.

During the six-month period ended June 30, 2011, we: (i) received $19.1 million of additional net borrowings on our revolving line of credit, and; (ii) generated $115,000 of net cash from the issuance of shares of beneficial interest. Additionally, during the six months ended June 30, 2011, we paid: (i) $80,000 on mortgage notes payable that are non-recourse to us; (ii) $60,000 on a loan payable of a consolidated LLC that is non-recourse to us, and; (iii) $15.3 million of dividends.

During the six month period ended June 30, 2010, we received: (i) $10.0 million of additional net borrowings on our revolving line of credit; (ii) received $5.3 million of proceeds related to a new mortgage note payable that is non-recourse to us, related to a consolidated MOB, and; (iii) generated $4.7 million of net cash from the issuance of shares of beneficial interest. Additionally, during the six months ended June 30, 2010, we paid: (i) $3.4 million on mortgage notes payable that are non-recourse to us; (ii) $126,000 on a mortgage note payable of a then-consolidated LLC that is non-recourse to us; (iii) $94,000 on a loan payable of a consolidated LLC that is non-recourse to us; (iv) $308,000 of financing costs on mortgage notes payable that are non-recourse to us, and; (v) $14.7 million of dividends.

During the fourth quarter of 2009, we commenced an at-the-market (ATM) equity issuance program pursuant to the terms of which we may sell, from time-to-time, common shares of our beneficial interest up to an aggregate sales price of $50 million to or through

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Merrill Lynch, Pierce, Fenner and Smith Incorporated, as sales agent and/or principal. There were no shares issued pursuant to our ATM Program during the first six months of 2011. Since inception of this program, we have issued 733,500 shares at an average price of $32.90 per share, which generated approximately $22.9 million of net cash proceeds (net of approximately $1.2 million, consisting of compensation of approximately $725,000 to Merrill Lynch as well as $515,000 of various other fees and expenses). As of June 30, 2011, we generated approximately $24.1 million of gross cash proceeds, excluding all fees and expenses, and had $25.9 million of gross proceeds still available for issuance under the program.

Additional cash flow and dividends paid information for the six-month periods ended June 30, 2011 and 2010:

As indicated on our consolidated statement of cash flows, we generated net cash provided by operating activities of $10.3 million and $12.3 million during the six-month periods ended June 30, 2011 and 2010, respectively. As also indicated on our statement of cash flows, noncash expenses such as depreciation and amortization expense and restricted/stock-based compensation expense are the primary differences between our net income and net cash provided by operating activities during each period. In addition, as reflected in the cash flows from investing activities section, we received $3.3 million and $1.5 million during the six months ended June 30, 2011 and 2010, respectively, of cash distributions in excess of income from various unconsolidated LLCs which represents our share of the net cash flow distributions from these entities. These cash distributions in excess of income represent operating cash flows net of capital expenditures and debt repayments made by the LLCs.

We generated $13.6 million and $13.8 million of net cash during the six months ended June 30, 2011 and 2010, respectively, related to the operating activities of our properties recorded on a consolidated and an unconsolidated basis. We paid dividends of $15.3 million and $14.7 million during the six months ended June 30, 2011 and 2010, respectively. The $1.7 million difference between the $13.6 million of net cash generated related to operating activities during the first six months of 2011, and the $15.3 million of dividends paid, was due to maintaining our dividend level while the factors discussed above in Results of Operations had an unfavorable impact on our operating results during the six month period ended June 30, 2011.

As indicated in the cash flows from investing activities and cash flows from financing activities sections of the statements of cash flows, there were various other sources and uses of cash during the six months ended June 30, 2011 and 2010. Therefore, the funding source for our dividend payments is not wholly dependent on the operating cash flow generated by our properties in any given period. Rather, our dividends, as well as our capital reinvestments into our existing properties, acquisitions of real property and other investments are funded based upon the aggregate net cash inflows or outflows from all sources and uses of cash from the properties we own either in whole or through LLCs, as outlined above.

In determining and monitoring our dividend level on a quarterly basis, our management and Board of Trustees consider many factors in determining the amount of dividends to be paid each period. These considerations primarily include: (i) the minimum required amount of dividends to be paid in order to maintain our REIT status; (ii) the current and projected operating results of our properties, including those owned in LLCs, and; (iii) our future capital commitments and debt repayments, including those of our LLCs. Based upon the information discussed above, as well as consideration of projections and forecasts of our future operating cash flows, management and the Board of Trustees have determined that our operating cash flows have been sufficient to fund our dividend payments. Future dividend levels will be determined based upon the factors outlined above with consideration given to the potential impact that the operating pressures that we have been experiencing since 2010 may have on our future results of operations, as well as the potential impact of anticipated improved operating results at certain of our properties that are either relatively newly constructed and opened or currently experiencing greater than expected vacancy rates.

Included in the various sources of cash were: (i) funds generated from the repayments of advances, made from us to LLCs ($6.6 million and $94,000 for the six months ended June 30, 2011 and 2010, respectively); (ii) cash distributions of refinancing proceeds from LLCs ($2.1 million and $29,000 during the six months ended June 30, 2011 and 2010, respectively); (iii) net real estate investment reductions/(additions)($4,000 and ($302,000) during the six months ended June 30, 2011 and 2010, respectively); (iv) net borrowings on our revolving credit agreements ($19.1 million and $10.0 million for the six months ended June 30, 2011 and 2010, respectively), and; (v) net cash generated in connection with the issuance of shares of beneficial interest ($115,000 and $4.7 million for the six months ended June 30, 2011 and 2010, respectively).

In addition to the dividends paid, the following were also included in the various uses of cash: (i) investments in LLCs ($3.1 million and $5.2 million for the six months ended June 30, 2011 and 2010, respectively); (ii) advances made to LLCs ($11.1 million and $9.5 million for the six months ended June 30, 2011 and 2010, respectively); (iii) deposits on real estate assets ($300,000 for the six months ended June 30, 2011), and; (iv) real estate assets acquired ($11.8 million for the six months ended June 30, 2011).

We expect to finance all capital expenditures and acquisitions and pay dividends utilizing internally generated and additional funds. Additional funds may be obtained through: (i) the issuance of equity pursuant to our at-the-market equity issuance program; (ii) borrowings under our existing revolving credit facility agreement (new agreement entered into on July 25, 2011); (iii) borrowings under or refinancing of existing third-party debt pursuant to mortgage and construction loan agreements entered into by our LLCs, and/or; (iv) the issuance of other long-term debt.

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There can be no assurance that such additional funds will be available in the preferred amounts or from the preferred sources. We believe that our net cash provided by operations will be sufficient to allow us to make distributions necessary to enable us to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986.

Credit facilities and mortgage debt

Our previous unsecured $100 million revolving credit agreement (the Agreement) was terminated by us on July 25, 2011 and replaced with a new revolving credit facility. The Agreement provided for interest at our option, at the Eurodollar rate plus 0.75% to 1.125%, or the prime rate plus zero to 0.125%. A fee of 0.15% to 0.225% was payable on the unused portion of the commitment. The margins over the Eurodollar, prime rate and the commitment fee were based upon our debt to total capital ratio as defined by the Agreement. As of June 30, 2011, the applicable margin over the Eurodollar rate was 0.75%, the margin over the prime rate was zero, and the commitment fee was 0.15%.

On July 25, 2011, we entered into a new $150 million revolving credit agreement (Credit Agreement). The Credit Agreement, which will mature in four years, replaced our previous revolving credit facility which was scheduled to mature in January, 2012 and increased our borrowing capacity from $100 million to $150 million. The Credit Agreement includes a $50 million sub limit for letters of credit and a $20 million sub limit for swingline/short-term loans. The Credit Agreement also provides an option to increase the total facility borrowing capacity by an additional $50 million, subject to lender agreement. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.75% to 2.50% or at the Base Rate plus an applicable margin ranging from 0.75% to 1.50%. The Credit Agreement defines Base Rate as the greatest of: (a) the administrative agent s prime rate, (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A fee of 0.30% to 0.50% will be charged on the unused portion of the commitment. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. The initial applicable margin over the LIBOR rate is 1.75%, the margin over the Base Rate is 0.75%, and the commitment fee is 0.30%.

At June 30, 2011, we had $71.7 million of outstanding borrowings and $9.4 million of letters of credit outstanding against our then existing revolving credit agreement. After giving effect to the increased borrowing capacity in the Credit Agreement entered into in July of 2011, we had $68.9 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of June 30, 2011. There are no compensating balance requirements.

Covenants relating to the Agreement require the maintenance of a minimum tangible net worth and specified financial ratios, limit our ability to incur additional debt, limit the aggregate amount of mortgage receivables and limit our ability to increase dividends in excess of 95% of cash available for distribution, unless additional distributions are required to comply with the applicable section of the Internal Revenue Code of 1986 and related regulations governing real estate investment trusts. We are in compliance with all of the covenants at June 30, 2011. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

The following table includes a summary of the required compliance ratios, giving effect to the new covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2011
Tangible net worth	$ 125,000	$ 138,166
Debt to total capital	< 55%	34%
Debt service coverage ratio	> 6.00x	43.96x
Debt to cash flow ratio	< 3.50x	2.19x

We have two mortgages and one term loan, all of which are non-recourse to us, included on our consolidated balance sheet as of June 30, 2011, with a combined outstanding carrying balance of $14.8 million and fair value of $15.4 million. Changes in market rates on our fixed rate debt impact the fair value of debt, but have no impact on interest incurred or cash flow. The mortgages are secured by the real property of the buildings as well as property leases and rents. The following table summarizes our outstanding mortgages and term loan at June 30, 2011 (amounts in thousands):

Facility Name	Outstanding Balance	Interest Rate	Maturity Date

	(in thousands)		
Medical Center of Western Connecticut fixed rate mortgage loan(a)	$ 5,155	6.0%	2017
Kindred Hospital-Corpus Christi fixed rate mortgage loan(a)	3,164	6.5%	2019
Palmdale Medical Plaza term loan	6,504	5.1%	2013
Total	$ 14,823		

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(a) Amortized principal payments made on a monthly basis.

Off Balance Sheet Arrangements

As of June 30, 2011, we are party to certain off balance sheet arrangements consisting of standby letters of credit and equity and debt financing commitments. Our outstanding letters of credit at June 30, 2011 totaled $15.5 million consisting of: (i) $3.4 million related to Grayson Properties; (ii) $2.8 million related to Banburry Medical Properties; (iii) $2.5 million related to Centennial Hills Medical Properties; (iv) $2.3 million related to Palmdale Medical Properties; (v) $1.1 million related to Sparks Medical Properties; (vi) $908,000 related to Sierra Medical Properties; (vii) $764,000 related to Deerval Properties II; (viii) $419,000 related to Auburn Medical Properties II; (ix) $478,000 related to Arlington Medical Properties; (x) $462,000 related to BRB/E Building One, and; (xi) $396,000 related to Deerval Properties I.

Non-binding Letters of Intent

We recently entered into a non-binding letter of intent with the third-party, managing member of thirty of our limited liability companies (LLCs), and other parties. The thirty LLCs, in which we currently hold various noncontrolling, majority ownership interest, own real estate properties consisting substantially of MOBs. The non-binding letter of intent provides for completion of the proposed transactions by September 30, 2011, although there is no assurance that any or all of such transactions will be consummated by that date or at all.

Pursuant to the terms outlined in the non-binding letter of intent, and subject to the completion of definitive agreements and satisfaction of various closing conditions, it is intended that we:

- Purchase the noncontrolling, minority ownership interests (ranging from 1% to 15%) in fourteen LLCs that own the real property of MOBs in which we currently own noncontrolling majority ownership interests (ranging from 85% to 99%). Eleven of these MOBs are located on or around the campuses of acute care hospitals owned and operated by subsidiaries of Universal Health Services, Inc.;

- Divest our noncontrolling, majority ownership interests (ranging from 75% to 95%) in ten LLCs that own the real property of certain other MOBs and other related real estate properties, most of which are located in Phoenix and surrounding areas in Arizona;

- Consent to the transfer to other parties, the current third-party, noncontrolling minority ownership interests in six LLCs that own the real property of the remaining jointly owned MOBs. Our currently held noncontrolling, majority ownership interest in these LLCs (ranging from 75% to 95%) will not be impacted, and;

- Enter into one-year, annually renewable, management and leasing agreements related to the properties in which we will continue to hold ownership interests.

We also purchased/intend to purchase additional properties from other third parties as part of a series of planned tax deferred like kind exchange transactions under Section 1031of the Internal Revenue Code. In June, 2011, utilizing a qualified third-party intermediary, we purchased the Lake Pointe Medical Arts, a multi-tenant medical office building located in Rowlett, Texas. The purchase price for this 50,974 square foot MOB was approximately $12.2 million which is included on our June 30, 2011 Balance Sheet as Real estate assets acquired . In July, 2011, utilizing a qualified third-party intermediary, we purchased the Forney Medical Plaza, a multi-tenant medical office building located in Forney, Texas. The purchase price for this 50,946 square foot MOB was approximately $15.0 million. In addition, we have executed non-binding letters of intent, and are in various stages of negotiations, in connection with the potential acquisition of two additional MOBs from various other parties. Although we can provide no assurance that we will complete the acquisition of these two properties, if completed, we anticipate finalizing the transactions at various times during the third quarter of 2011.

It is intended that should all of the above-mentioned transactions be completed pursuant to terms and timing as currently contemplated, based upon various assumptions, our funds from operations and cash available for distribution may not be materially different from those that currently exist. However, the various transactions are complex, involve numerous third parties and are not conditioned on each other occurring at any particular date or upon the contemplated terms. We therefore cannot predict whether we will ultimately complete any or all of the tentatively agreed upon transactions as outlined above. Since all of these transactions are dependent upon the completion of definitive agreements, and are subject to terms, conditions and other events that may be beyond our ability to control, we can provide no assurance that our funds from operations will not be affected on a short term or long term basis, or that any or all of the tentative transactions as mentioned above can be successfully completed. If we were to sell our ownership interests in the LLCs as mentioned above, but were not able to redeploy a substantial portion of the proceeds into the potential acquisitions as outlined above, in the time periods contemplated, our funds from operations and cash available for distribution could be materially unfavorably impacted. Should we be unable to defer substantially all of the expected taxable gains resulting from the potential divestitures of our noncontrolling, majority ownership interests in ten LLCs that own the real property of certain MOBs and other related real estate properties (pursuant to Section 1031 of the Internal Revenue Code) we may be required to borrow funds to make a special dividend distribution to our shareholders or be subject to federal income and/or excise tax liabilities.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures during the first six months of 2011. Reference is made to Item 7A in the Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

As of June 30, 2011, under the supervision and with the participation of our management, including the Trust s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the 1934 Act). Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the 1934 Act and the SEC rules thereunder.

There have been no changes in our internal control over financial reporting or in other factors during the second quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

UNIVERSAL HEALTH REALTY INCOME TRUST

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 included a listing of risk factors to be considered by investors in our securities. Other than developments related to our non-controlling equity ownership interests in various LLCs, and the acquisition and potential acquisition of various MOBs as part of a series of planned like-kind exchange transactions under Section 1031 of the Internal Revenue Code, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

We hold significant, non-controlling equity ownership interests in various LLCs.

For the six months ended June 30, 2011 and the year ended December 31, 2010, 70% and 66% , respectively, of our consolidated and unconsolidated revenues were generated by LLCs in which we hold 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, 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.

We have recently entered into a non-binding letter of intent with the third-party, managing member of thirty of our LLCs, and other parties. Pursuant to the terms outlined in the non-binding letter of intent, and subject to the completion of definitive agreements and satisfaction of various closing conditions, it is intended that we purchase the noncontrolling minority interest of certain LLCs, divest our noncontrolling, majority interests in certain LLCs and consent to the transfer to other parties, the current third-party, noncontrolling minority ownership interests in certain LLCs. As a result of these transactions a substantial portion of our medical office building properties will be located on or near the campuses of UHS hospitals increasing our reliance on the performance of UHS and its hospitals. 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. In addition, if we were to sell our ownership interests in certain LLCs but not able to redeploy a substantial portion of the proceeds into potential acquisitions, within a specific time frame, our funds from operations and cash available for distribution could be materially unfavorably impacted. The non-binding letter of intent provides for completion of the proposed transactions by September 30, 2011, although there is no assurance that any or all of such transactions will be consummated by that date or at all.

In connection with the potential divestiture of the real property owned by certain LLCs in which we own majority, non-controlling ownership interests, as mentioned above, we have purchased, and entered into non-binding letters of intent to purchase, medical office buildings as part of a series of planned like-kind exchange transactions under Section 1031 of the Internal Revenue Code.

We intend to purchase additional properties from unrelated third parties as part of a series of planned tax deferred like kind exchange transactions under Section 1031 of the Internal Revenue Code. In June of 2011, as part of the planned reverse like-kind exchange transactions related to the potential divestitures discussed above, we acquired Lake Pointe Medical Arts, a medical office building located in Rowlett, Texas for approximately $12.2 million. Subsequent to June 30, 2011, also as part of the planned reverse like-kind exchange transaction, we acquired Forney Medical Plaza, a medical office building located in Forney, Texas for approximately $15.0 million. In addition, we have executed non-binding letters of intent, and are in various stages of

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negotiations, in connection with the potential acquisition of two additional MOBs from various unrelated third parties. Although we can provide no assurance that we will complete the acquisition of any or all of these properties, if completed, we anticipate finalizing the transactions at various times during the third quarter of 2011.

It is intended that should all of the above-mentioned transactions, including the acquisition and divestiture of ownership interests in various LLCs, be completed pursuant to terms and timing as currently contemplated, based upon various assumptions, our funds from operations and cash available for distribution may not be materially different from those that currently exist. However, the various transactions are complex, involve numerous third parties and are not conditioned on each other occurring at any particular date or upon the contemplated terms. We therefore cannot predict whether we will ultimately complete any or all of the tentatively agreed upon transactions as outlined above. Since all of these transactions are dependent upon the completion of definitive agreements, and are subject to terms, conditions and other events that may be beyond our ability to control, we can provide no assurance that our funds from operations will not be affected on a short term or long term basis, or that any or all of the tentative transactions as mentioned above can be successfully completed. If we were to sell our ownership interests in the LLCs as mentioned above, but were not able to redeploy a substantial portion of the proceeds into the potential acquisitions as outlined above, in the time periods contemplated, our funds from operations and cash available for distribution could be materially unfavorably impacted. Should we be unable to defer substantially all of the expected taxable gains resulting from the potential divestitures of our noncontrolling, majority ownership interests in ten LLCs that own the real property of certain MOBs and other related real estate properties (pursuant to Section 1031 of the Internal Revenue Code) we may be required to borrow funds to make a special dividend distribution to our shareholders or be subject to federal income and/or excise tax liabilities.

Item 6. Exhibits

(a.) Exhibits:

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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Signatures

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

Date: August 8, 2011	UNIVERSAL HEALTH REALTY INCOME TRUST (Registrant)
	/s/ Alan B. Miller Alan B. Miller, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
	/s/ Charles F. Boyle Charles F. Boyle, Vice President and Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Description
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