Community Healthcare Trust Inc
Form 10-Q
August 08, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

OR

¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-37401

Community Healthcare Trust Incorporated
(Exact Name of Registrant as Specified in Its Charter)

Maryland	46-5212033
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3326 Aspen Grove Drive
Suite 150
Franklin, Tennessee 37067
(Address of Principal Executive Offices) (Zip Code)
(615) 771-3052
(Registrant’s Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer ¨	Accelerated filer x	Emerging-growth company x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section13(a) of the Exchange Act. x

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

The Registrant had 18,008,663 shares of Common Stock, $0.01 par value per share, outstanding as of July 31, 2017.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
FORM 10-Q
June 30, 2017
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	(Unaudited) June 30, 2017	December 31, 2016
ASSETS		
Real estate properties		
Land and land improvements	$ 37,277	$ 29,884
Buildings, improvements, and lease intangibles	281,408	222,755
Personal property	109	97
Total real estate properties	318,794	252,736
Less accumulated depreciation	(26,610)	(18,404)
Total real estate properties, net	292,184	234,332
Cash and cash equivalents	831	1,568
Mortgage note receivable, net	10,518	10,786
Other assets, net	5,722	4,843
Total assets	$ 309,255	$ 251,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Debt, net	$ 117,251	$ 51,000
Accounts payable and accrued liabilities	3,057	3,541
Other liabilities	3,533	2,981
Total liabilities	123,841	57,522
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value; 450,000,000 shares authorized; 13,121,163 and 12,988,482 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	131	130
Additional paid-in capital	214,975	214,323
Cumulative net income	2,644	1,265
Accumulated other comprehensive loss	(436)	—
Cumulative dividends	(31,900)	(21,711)
Total stockholders' equity	185,414	194,007
Total liabilities and stockholders' equity	$ 309,255	$ 251,529

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Rental income	$7,338	$4,530	$13,956	$8,203
Tenant reimbursements	1,334	1,105	2,462	2,062
Mortgage interest	258	561	519	1,097
	8,930	6,196	16,937	11,362
EXPENSES				
Property operating	2,140	1,228	3,878	2,277
General and administrative	835	895	1,605	1,701
Depreciation and amortization	4,281	3,332	8,205	6,147
Bad debts	—	30	67	30
	7,256	5,485	13,755	10,155
OTHER INCOME (EXPENSE)				
Interest expense	(1,209)	(222)	(1,806)	(602)
Interest and other income, net	1	19	3	19
	(1,208)	(203)	(1,803)	(583)
NET INCOME	$466	$508	$1,379	$624
NET INCOME PER COMMON SHARE:				
Net income per common share – Basic	$0.04	$0.04	$0.11	$0.06
Net income per common share – Diluted	$0.04	$0.04	$0.11	$0.06
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC	12,686,183	12,038,381	12,686,183	9,774,782
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-DILUTED	12,815,605	12,064,839	12,840,730	9,834,050
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	$0.3900	$0.3800	$0.7775	$0.7575

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	$466	$508	$1,379	$624
Other comprehensive income (loss):				
Decrease in fair value of cash flow hedges	(440)	—	(598)	—
Reclassification for amounts recognized as interest expense	156	—	162	—
Total other comprehensive loss	(284)	—	(436)	—
COMPREHENSIVE INCOME	$182	$508	$943	$624

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY
(Unaudited)
(dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Additional Paid in Capital	Cumulative Net Income	Accumulated Other Comprehensive Loss	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2016	$ —	$ 130	$ 214,323	$ 1,265	$ —	$ (21,711)	$ 194,007
Stock-based compensation	—	1	652	—	—	—	653
Unrecognized loss on cash flow hedges	—	—	—	—	(598)	—	(598)
Reclassification adjustment for losses included in net income (interest expense)	—	—	—	—	162	—	162
Net income	—	—	—	1,379	—	—	1,379
Dividends to common stockholders ($0.7775 per share)	—	—	—	—	—	(10,189)	(10,189)
Balance at June 30, 2017	$ —	$ 131	$ 214,975	$ 2,644	$ (436)	$ (31,900)	$ 185,414

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
OPERATING ACTIVITIES		
Net income	$1,379	$624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,389	6,191
Stock-based compensation	653	262
Straight-line rent receivable	(544)	(234)
Straight-line rent liability	9	—
Provision for bad debts, net of recoveries	67	(30)
Reduction in contingent purchase price	(5)	(481)
Changes in operating assets and liabilities:		
Other assets	(641)	(815)
Accounts payable and accrued liabilities	(512)	1,638
Other liabilities	11	(219)
Net cash provided by operating activities	8,806	6,936
INVESTING ACTIVITIES		
Acquisitions of real estate	(65,165)	(46,233)
Funding of mortgage notes receivable	—	(12,406)
Proceeds from the repayment of notes receivable	294	—
Capital expenditures on existing real estate properties	(306)	(706)
Net cash used in investing activities	(65,177)	(59,345)
FINANCING ACTIVITIES		
Net borrowings (repayments) on revolving credit facility	7,000	(17,000)
Term loan borrowings	60,000	—
Dividends paid	(10,189)	(7,814)
Net proceeds from issuance of common stock	—	86,804
Equity issuance costs	—	(679)
Debt issuance costs	(784)	—
Settlement of contingent purchase price	(393)	—
Net cash provided by financing activities	55,634	61,311
Increase (decrease) in cash and cash equivalents	(737)	8,902
Cash and cash equivalents, beginning of period	1,568	2,018
Cash and cash equivalents, end of period	$831	$10,920
Supplemental Cash Flow Information:		
Interest paid	$1,665	$474
Invoices accrued for construction, tenant improvement and other capitalized costs	$3	$80
Reclassification between accounts and notes receivable	$476	$—
Conversion of mortgage note upon acquisition of real estate property	$—	$12,500
Decrease in fair value of cash flow hedges	$(598)	$—

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business Overview
Community Healthcare Trust Incorporated (the ‘‘Company’’, ‘‘we’’, ‘‘our’’) was organized in the State of Maryland on March 28, 2014. The Company is a fully-integrated healthcare real estate company that owns and acquires real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in non-urban markets. The Company conducts its business through an UPREIT structure in which its properties are owned by its operating partnership (the "OP"), either directly or through subsidiaries. The Company is the sole general partner of the OP, owning 100% of the OP units. As of June 30, 2017, the Company had investments of approximately $329.3 million in 78 real estate properties, including a mortgage note, located in 25 states, totaling approximately 1.7 million square feet in the aggregate.

Basis of Presentation
The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements.

This interim financial information should be read in conjunction with the financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2017.

Principles of Consolidation
Our Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, and may also include joint ventures, partnerships and variable interest entities, or VIEs, where the Company controls the operating activities. All material intercompany accounts and transactions have been eliminated.

Jumpstart Our Business Startups Act of 2012
The Company has elected the "emerging growth company" status as permitted under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. The Company elected to "opt out" of the provision allowed under the JOBS Act to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. As a result, we must comply with new or revised accounting standards as required when they are adopted. Our decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Use of Estimates in the Condensed Consolidated Financial Statements
Preparation of the Condensed Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results may materially differ from those estimates.

Notes to Condensed Consolidated Financial Statements - Continued

Segment Reporting
The Company acquires and owns healthcare-related real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in non-urban markets. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision-making. Therefore, the Company discloses its operating results in a single segment.

Cash and Cash Equivalents
Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased.

Accounting for Real Estate Property Acquisitions
Real estate property acquisitions are accounted for as business combinations or asset purchases. An acquisition accounted for as a business combination is recorded at fair value and related closing costs are expensed. An acquisition accounted for as an asset purchase is recorded at its purchase price, inclusive of acquisition costs, which is allocated among the acquired assets and assumed liabilities based upon their relative fair values at the date of acquisition. Upon the adoption of Accounting Standards Update ("ASU") No, 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, on January 1, 2017, the Company expects that substantially all of its acquisitions will be accounted for as asset acquisitions.
The allocation of real estate property acquisitions may include land, building and improvements, personal property, and identified intangible assets and liabilities (consisting of above- and below-market leases, in-place leases, and tenant relationships) based on the evaluation of information and estimates available at that date, and we allocate the purchase price based on these assessments. We make estimates of the acquisition date fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence, tax records, and other sources. Based on these estimates, we recognize the acquired assets and liabilities at their estimated fair values. We expense transaction costs associated with business combinations in the period incurred. The fair value of tangible property assets acquired considers the value of the property as if vacant determined by comparable sales and other relevant data. The determination of fair value involves the use of significant judgment and estimation. We value land based on various inputs, which may include internal analysis of recently acquired properties, existing comparable properties within our portfolio, or third party appraisals or valuations based on comparable sales.
In recognizing identified intangible assets and liabilities of an acquired property, the value of above- or below-market leases is estimated based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between contractual amounts to be received pursuant to the leases and management’s estimate of market lease rates measured over a period equal to the estimated remaining term of the lease. In the case of a below-market lease, the Company would also evaluate any renewal options associated with that lease to determine if the intangible should include those periods. The capitalized above-market or below-market lease intangibles are amortized as a reduction from or an addition to rental income over the estimated remaining term of the respective leases.
In determining the value of in-place leases and tenant relationships, management considers current market conditions and costs to execute similar leases in arriving at an estimate of the carrying costs during the expected lease-up period from vacant to existing occupancy. In estimating carrying costs, management includes real estate taxes, insurance, other property operating expenses, estimates of lost rental revenue during the expected lease-up periods, and costs to execute similar leases, including leasing commissions. The values assigned to in-place leases and tenant relationships are amortized over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off.

Notes to Condensed Consolidated Financial Statements - Continued

Depreciation and amortization of real estate assets and liabilities in place as of June 30, 2017, is recognized on a straight-line basis over the estimated useful life of the asset. The estimated useful lives at June 30, 2017 are as follows:

Land improvements	3 - 15 years
Buildings	20 - 40 years
Building improvements	3.0 - 39.8 years
Tenant improvements	2.3 - 6.9 years
Lease intangibles	1.4 - 13.7 years
Personal property	3 -10 years

Asset Impairments

The Company assesses the potential for impairment of identifiable, definite-lived, intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be fully recoverable. Indicators of impairment may include significant under-performance of an asset relative to historical or expected operating results; significant changes in the Company’s use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company’s review for possible impairment may include those assets subject to purchase options and those impacted by casualties, such as tornadoes and hurricanes. If management determines that the carrying value of the Company’s assets may not be fully recoverable based on the existence of any of the factors above, or others, management would measure and record an impairment charge based on the estimated fair value of the property or the estimated fair value less costs to sell the property.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. In calculating fair value, a company must maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements.

A hierarchy of valuation techniques is defined to determine whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

- Level 1 – quoted prices for identical instruments in active markets.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3 – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our interest rate swaps are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument’s term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Lease Accounting

We, as lessor, make a determination with respect to each of our leases whether they should be accounted for as operating leases or capital leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic useful life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. We believe all of our leases

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Notes to Condensed Consolidated Financial Statements - Continued

meet the accounting criteria to be accounted for as operating leases. Payments received under operating leases are accounted for in the Condensed Consolidated Statements of Income as rental revenue for actual cash rent collected plus or minus straight-line adjustments such as lease escalators. Assets subject to operating leases are reported as real estate investments in the Condensed Consolidated Balance Sheets.

Substantially all of our leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

Revenue Recognition

The Company recognizes rental revenue when it is realized or realizable and earned. There are four criteria that must all be met before a Company may recognize revenue, including persuasive evidence that an arrangement exists, delivery has occurred or services have been rendered (i.e., the tenant has taken possession of and controls the physical use of the leased asset), the price has been fixed or is determinable, and collectability is reasonably assured.

The Company derives most of its revenues from its real estate property and mortgage note portfolio. The Company's rental and mortgage interest income is recognized based on contractual arrangements with its tenants and borrowers.

Rental income is recognized as earned over the life of the lease agreement on a straight-line basis. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue in amounts more or less than amounts currently due from tenants. If management determines that the collectability of straight-line rents is not reasonably assured, the amount of future revenue recognized may be limited to amounts contractually owed and, where appropriate, establish an allowance for estimated losses. Straight-line rent included in rental income was approximately $270,000 and $138,000, respectively, for the three months ended June 30, 2017 and 2016 and was $535,000 and $234,000, respectively, for the six months ended June 30, 2017 and 2016.

Mortgage interest income is recognized based on the interest rates, maturity dates and amortization periods set forth within each note agreement. Fees received related to its mortgage notes are amortized to mortgage interest income on a straight-line basis which approximates amortization under the effective interest method.

Income received but not yet earned is deferred until such time it is earned. Deferred revenue, included in other liabilities, was approximately $1.0 million and $0.8 million, respectively, at June 30, 2017 and December 31, 2016.

Allowance for Doubtful Accounts and Credit Losses

Accounts Receivable

Management monitors the aging and collectability of its accounts receivable balances on an ongoing basis. Whenever deterioration in the timeliness of payment from a tenant is noted, management investigates and determines the reason or reasons for the delay. Considering all information gathered, management’s judgment is exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining collectability are: the type of contractual arrangement under which the receivable was recorded (e.g., triple net lease, gross lease, or other type of agreement); the tenant’s reason for slow payment; industry influences under which the tenant operates; evidence of willingness and ability of the tenant to pay the receivable; credit-worthiness of the tenant; collateral, security deposit, letters of credit or other monies held as security; tenant’s historical payment pattern; other contractual agreements between the tenant and the Company; relationship between the tenant and the Company; the state in which the tenant operates; and the existence of a guarantor and the willingness and ability of the guarantor to pay the receivable. Considering these factors and others, management concludes whether all or some of the aged receivable balance is likely uncollectible. Upon determining that some portion of the receivable is likely uncollectible, the Company will record a provision for bad debts for the amount it expects will be uncollectible. When efforts to collect a receivable are exhausted, the receivable amount is charged off against the allowance. At June 30, 2017 and December 31, 2016, the Company had an allowance for bad debts of approximately $221,000 and $154,000, respectively.

Notes to Condensed Consolidated Financial Statements - Continued

Mortgage Note Receivable
The Company evaluates collectability of mortgage notes and records allowances as necessary. A note is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. This assessment also includes an evaluation of the loan collateral. If a mortgage loan becomes past due, the Company will review the specific circumstances and may discontinue the accrual of interest on the loan. The loan is not returned to accrual status until the debtor has demonstrated the ability to continue debt service in accordance with the contractual terms. Loans placed on non-accrual status will be accounted for on a cash basis, in which income is recognized only upon the receipt of cash, or on a cost-recovery basis, in which all cash receipts reduce the carrying value of the loan, based on the Company's expectation of future collectability.

The Company had one mortgage note receivable outstanding as of June 30, 2017 and December 31, 2016 with a principal balance of $10.6 million and $10.9 million, respectively. Principal and interest are due monthly based on a 20-year amortization schedule, with a balloon payment due at maturity on September 30, 2026. The borrower and several related entities filed for voluntary bankruptcy on June 23, 2017. As of June 30, 2017, the net balance on the mortgage note was approximately $10.5 million and the borrower was current on all obligations to the Company. The Company has evaluated the collectability of the mortgage note, and based on information currently available, believes the note to be collectible. The Company will continue to evaluate the collectability of the note as additional information becomes available.

The Company may receive loan or commitment fees upon the funding of a mortgage note. The Company will amortize those fees into income over the life of the mortgage note on a straight line basis and will reflect the mortgage note, net of the unamortized fees, on its Consolidated Balance Sheet.

Stock-Based Compensation
The Company's 2014 Incentive Plan, as amended, or our 2014 Incentive Plan, is intended to attract and retain qualified persons upon whom, in large measure, our sustained progress, growth and profitability depend, to motivate the participants to achieve long-term company goals and to more closely align the participants’ interests with those of our other stockholders by providing them with a proprietary interest in our growth and performance. The three distinct programs under the 2014 Incentive Plan are the Amended and Restated Alignment of Interest Program, the Amended and Restated Executive Officer Incentive Program and the Non-Executive Officer Incentive Program. Our executive officers, officers, employees, consultants and non-employee directors are eligible to participate in the 2014 Incentive Plan. The 2014 Incentive Plan increases, on an annual basis, the number of shares of common stock available for issuance to an amount equal to 7% of the total number of shares of the Company’s common stock outstanding on December 31 of the immediately preceding year. The 2014 Incentive Plan is administered by the Company’s compensation committee, which interprets the 2014 Incentive Plan and has broad discretion to select the eligible persons to whom awards will be granted, as well as the type, size and terms and conditions of each award, including the number of shares subject to awards and the expiration date of, and the vesting schedule or other restrictions (including, without limitation, restrictive covenants) applicable to, awards. The Company recognizes share-based payments to its directors and employees in its Consolidated Statements of Income on a straight-line basis over the requisite service period based on the fair value of the award on the measurement date.

Intangible Assets
Intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. Intangible assets with finite lives are amortized over their respective lives to their estimated residual values and are reviewed for impairment only when impairment indicators are present.

Identifiable intangible assets of the Company are generally comprised of in-place lease intangible assets, above- and below-market lease intangibles and deferred financing costs. In-place lease intangible assets are amortized on a straight-line basis over the applicable lives of the assets. Deferred financing costs are amortized to interest expense over the term of the related credit facility or other debt instrument using the straight-line method, which approximates the effective interest method.

Notes to Condensed Consolidated Financial Statements - Continued

Contingent Liabilities
From time to time, the Company may be subject to loss contingencies arising from legal proceedings and similar matters. Additionally, while the Company maintains comprehensive liability and property insurance with respect to each of its properties, the Company may be exposed to unforeseen losses related to uninsured or under-insured damages.

Management will monitor any matter that may present a contingent liability, and, on a quarterly basis, will review any reserves and accruals relating to the liabilities, adjusting provisions as necessary in view of changes in available information. Liabilities for contingencies are first recorded when a loss is determined to be both probable and can be reasonably estimated. Changes in estimates regarding the exposure to a contingent loss will be reflected as adjustments to the related liability in the periods when they occur and will be disclosed in the notes to the Condensed Consolidated Financial Statements.

On occasion, the Company may also have acquisitions which include contingent consideration. In 2016, the Company acquired a medical office building and concurrently recorded the fair value of contingent purchase price of approximately $0.5 million. Subsequently, management monitored this contingency and adjusted its liability to its estimated fair value on a quarterly basis, offsetting property operating expense in the periods when they occurred. In April 2017, the Company paid approximately $0.4 million in settlement of this contingent liability.

Income Taxes
The Company has elected to be taxed as a real estate investment trust ("REIT"), as defined under the Internal Revenue Code of 1986, as amended (the "Code"). We have also elected for one of our subsidiaries to be treated as a taxable REIT subsidiary ("TRS"), which is subject to federal and state income taxes. No provision has been made for federal income taxes for the REIT; however, the Company has made provisions for federal and state income taxes for the TRS. The Company intends at all times to qualify as a REIT under Sections 856 and 860 of the Code. The Company must distribute at least 90% per annum of its REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) and meet other requirements to continue to qualify as a real estate investment trust.

The Company classifies interest and penalties related to uncertain tax positions, if any, in the Condensed Consolidated Statements of Income as a component of general and administrative expenses.

Sales and Use Taxes
The Company must pay sales and use taxes to certain state tax authorities based on rent collected from tenants in properties located in those states. The Company is generally reimbursed for those taxes by those tenants. The Company accounts for the payments to the taxing authority and subsequent reimbursement from the tenant on a net basis, included in tenant reimbursement revenue on the Company’s Condensed Consolidated Statements of Income.

Concentration of Credit Risks
Our credit risks primarily relate to cash and cash equivalents, our mortgage note receivable and our interest rate swaps, which are discussed below. Cash and cash equivalents are primarily held in bank accounts and overnight investments. We maintain our bank deposit accounts with large financial institutions in amounts that often exceed federally-insured limits. We have not experienced any losses in such accounts.

Derivative Financial Instruments
In the normal course of business, we are subject to risk from adverse fluctuations in interest rates. We have chosen to manage this risk through the use of derivative financial instruments, or interest rate swaps. Counterparties to these contracts are major financial institutions. We are exposed to credit loss in the event of nonperformance by these

counterparties. We do not use derivative instruments for trading or speculative purposes. Our objective in managing exposure to market risk is to limit the impact on cash flows. To qualify for hedge accounting, our interest rate swaps must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions must be, and be expected to remain, probable of occurring in accordance with our related assertions. All of our hedges are cash flow hedges and are recognized at their fair value in the Condensed Consolidated Balance Sheets. Changes in the fair value of the effective portion of the derivatives are recognized in accumulated other comprehensive loss, whereas the change in fair value of the ineffective portion is recognized in earnings in interest expense.

Earnings per Share

Basic earnings per common share is calculated using weighted average shares outstanding less issued and outstanding non-vested shares of common stock. Diluted earnings per common share is calculated using weighted average shares outstanding plus the dilutive effect of the non-vested shares of common stock using the treasury stock method and the average stock price during the period.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases. This standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are not currently a lessee in any material lease arrangements and the amendments in ASU 2016-02 do not significantly change the current lessor accounting model; therefore, we do not currently believe that the adoption of this standard will have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, as amended by ASU No. 2015-14, Revenue from Contracts with Customers, a comprehensive new revenue recognition standard that supersedes most existing revenue recognition guidance, including sales of real estate. This standard's core principle is that a company will recognize revenue when it transfers goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods and services. However, leasing contracts, representing the major source of the Company's revenues, are not within the scope of the new standard and will continue to be accounted for under other standards. This new standard is effective for the Company for annual and interim periods beginning on January 1, 2018 with early adoption permitted in 2017. The Company is currently in the early stages of evaluating the impact that ASU 2014-09 will have on revenues and disclosures generated from activities other than leasing, such as non-lease components and mortgages.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, companies will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, companies will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. Companies will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Companies will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This standard is effective for the Company on January 1, 2020 with early adoption permitted. The Company is in the initial stage of evaluating the impact of this new standard on its notes and trade receivables.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which clarifies or provides guidance relating to eight specific cash flow classification issues. The standard should be applied retrospectively for each period presented, as appropriate. This new standard is effective for the Company on January 1, 2018 with early adoption permitted. Of the eight areas addressed, the Company expects that its presentation on its statements of cash flows could be impacted relating to cash payments of contingent consideration or settlement of insurance claims, based on historical transactions. In the

Notes to Condensed Consolidated Financial Statements - Continued

future, however, the impact of this new guidance will depend on future transactions, though the impact will only be related to the classification of those items on the statement of cash flows and will not impact the Company's cash flows or its results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718), which provides guidance about which changes in the terms or conditions of a share-based payment award require a company to apply modification accounting in Topic 718. Under ASU No. 2017-09, a company will generally be required to apply modification accounting unless the fair value or intrinsic value of the modified award, the vesting conditions of the modified award, and the classification of the modified award as equity or a liability are the same as the original award immediately before the award is modified. This standard is effective for the Company on January 1, 2018 with early adoption permitted. The Company does not believe the adoption of this standard will have an impact on its results of operations, but could impact the accounting on future modifications of share-based awards.

Note 2. Real Estate Investments

At June 30, 2017, the Company had investments of approximately $329.3 million in 78 real estate properties, including a mortgage note. The following table summarizes the Company's real estate investments.

(Dollars in thousands)	Number of Facilities	Land and Land Improvements	Buildings, Improvements, and Lease Intangibles	Personal Property	Total	Accumulated Depreciation
Medical office buildings:						
Florida	4	$ 4,138	$ 23,777	$ —	$27,915	$ 1,847
Ohio	5	3,167	23,516	—	26,683	2,394
Texas	3	3,096	12,172	—	15,268	2,615
Kansas	2	1,379	10,497	—	11,876	2,205
Iowa	1	2,241	8,979	—	11,220	621
Illinois	1	821	8,760	—	9,581	1,213
Virginia	1	369	4,649	—	5,018	78
Other states	13	3,272	22,692	—	25,964	1,665
	30	18,483	115,042	—	133,525	12,638
Physician clinics:						
Kansas	3	1,616	10,899	—	12,515	1,579
Florida	3	—	5,950	—	5,950	413
Illinois	1	1,891	3,134	—	5,025	5
Other states	9	3,195	18,459	—	21,654	2,401
	16	6,702	38,442	—	45,144	4,398
Surgical centers and hospitals:						
Louisiana	1	1,683	21,353	—	23,036	311
Indiana	1	523	14,405	—	14,928	15
Michigan	2	629	8,266	—	8,895	1,467
Illinois	1	2,171	5,410	—	7,581	527
Florida	1	271	7,004	—	7,275	4
Arizona	2	576	5,389	—	5,965	748
Other states	5	1,555	11,001	—	12,556	2,463
	13	7,408	72,828	—	80,236	5,535
Specialty centers:						
Alabama	3	415	4,417	—	4,832	1,045
Nevada	1	276	4,402	—	4,678	92
Kentucky	1	193	3,432	—	3,625	651
Other states	10	1,716	15,227	—	16,943	1,532
	15	2,600	27,478	—	30,078	3,320
Behavioral facilities:						
Illinois	1	1,300	18,803	—	20,103	509
Ohio	1	514	4,153	—	4,667	26
Indiana	1	270	2,651	—	2,921	111
	3	2,084	25,607	—	27,691	646
Corporate property	—	—	2,011	109	2,120	73
Total owned properties	77	$ 37,277	$ 281,408	$ 109	$318,794	$ 26,610
Mortgage note receivable, net	1	—	—	—	10,518	—
Total real estate investments	78	$ 37,277	$ 281,408	$ 109	$329,312	$ 26,610

Notes to Condensed Consolidated Financial Statements - Continued

Note 3. Real Estate Leases

The Company's properties are generally leased pursuant to non-cancelable, fixed-term operating leases with expiration dates through 2033. The Company's leases generally require the lessee to pay minimum rent, with fixed rent renewal terms or increases based on a Consumer Price Index and additional rent, which may include taxes (including property tax), insurance, maintenance and other operating costs associated with the leased property.

Future minimum lease payments under the non-cancelable operating leases due the Company for the years ending December 31, as of June 30, 2017, are as follows (in thousands):

2017	$15,082
2018	27,225
2019	24,065
2020	21,403
2021	18,518
2022 and thereafter	103,039
	$209,332

Note 4. Real Estate Acquisitions

Property Acquisitions

During the second quarter of 2017, the Company acquired 10 real estate properties totaling approximately 203,000 square feet for an aggregate purchase price of approximately $36.2 million, including cash consideration of approximately $35.9 million. Upon acquisition, the properties were 100% leased in the aggregate with lease expirations ranging from 2019 through 2032. Amounts reflected in revenues and net income for the three months ended June 30, 2017 for these properties was approximately $0.2 million and $0.1 million, respectively. Transaction costs totaling approximately $0.3 million related to these acquisitions were capitalized in the period as part of the real estate assets.

During the first quarter of 2017, the Company acquired 10 real estate properties totaling approximately 145,000 square feet for an aggregate purchase price of approximately $28.5 million, including cash consideration of approximately $28.4 million. Upon acquisition, the properties were 95.2% leased in the aggregate with lease expirations ranging from 2018 through 2032. Amounts reflected in revenues and net income for the six months ended June 30, 2017 for these properties was approximately $1.1 million and $0.3 million, respectively. Transaction costs totaling approximately $0.4 million related to these acquisitions were capitalized in the period as part of the real estate assets. During the first quarter of 2017, the Company also acquired a property, adjacent to its corporate office, for a cash purchase price of approximately $0.9 million. The property is currently leased to a tenant but the Company intends to use the property for future expansion of its corporate office.

Notes to Condensed Consolidated Financial Statements - Continued

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the property acquisitions for the first six months of 2017.

	Estimated Fair Value	Estimated Useful Life
	(In thousands)	(In years)
Land	$ 7,264	
Buildings	49,506	20 - 40
Intangibles:		
In place lease intangibles	8,982	1.4 - 8.9
Total intangibles	8,982	
Accounts receivable and other assets assumed	16	
Accounts payable, accrued liabilities and other liabilities assumed (1)	(332)	
Prorated rent, interest and operating expense reimbursement amounts collected	(271)	
Total cash consideration	$ 65,165	

(1) Includes security deposits received.

Note 5. Debt, net

The table below details the Company's debt as of June 30, 2017 and December 31, 2016.

(Dollars in thousands)	Balance as of		Maturity Dates
	June 30, 2017	December 31, 2016	
Revolving Credit Facility	$58,000	$ 51,000	8/19
5-Year Term Loan, net	29,628	—	3/22
7-Year Term Loan, net	29,623	—	3/24
	$117,251	$ 51,000	

On March 29, 2017, we entered into a second amended and restated Credit Facility (as amended and restated, the "Credit Facility"). The Credit Facility is by and among Community Healthcare OP, LP, the Company, the Lenders from time to time party thereto, and SunTrust Bank, as Administrative Agent. The Company’s material subsidiaries are guarantors of the obligations under the Credit Facility. The Credit Facility provides for a $150.0 million revolving credit facility (the "Revolving Credit Facility") and $100.0 million in term loans (the "Term Loans"). The Credit Facility, through the accordion feature, allows borrowings up to a total of $450.0 million, including the ability to add and fund additional term loans. The Revolving Credit Facility matures on August 9, 2019 and includes two 12-month options to extend the maturity date of the facility, subject to the satisfaction of certain conditions. The Term Loans include a five-year term loan facility in the aggregate principal amount of $50.0 million (the "5-Year Term Loan") which matures on March 29, 2022 and a seven-year term loan facility in the aggregate principal amount of $50.0 million (the "7-Year Term Loan") which matures on March 29, 2024. Upon closing of the Credit Facility on March 29, 2017, the Company borrowed $30.0 million under each of the 5-Year Term Loan and the 7-Year Term Loan. Each of the 5-Year Term Loan and 7-Year Term Loan has a delayed draw feature that is available in up to three draws within 15 months from March 29, 2017, subject to a minimum draw of $10.0 million and pro forma compliance. The Company incurred approximately $784,000 in fees and other costs upon closing of the Credit Facility which are netted against the term loans and are being amortized to interest expense on a straight-line basis which approximates the effective interest method.

Amounts outstanding under the Revolving Credit Facility bear annual interest at a floating rate that is based, at the Company’s option, on either: (i) LIBOR plus 1.75% to 2.75% or (ii) a base rate plus 0.75% to 1.75%, in each case, depending upon the Company's leverage ratio. In addition, the Company is obligated to pay an annual fee equal to 0.25% of the amount of the unused portion of the Revolving Credit Facility if amounts borrowed are greater than 33.3% of the borrowing capacity under the Revolving Credit Facility and 0.35% of the unused portion of the Revolving Credit Facility if amounts borrowed are less than or equal to 33.3% of the borrowing capacity under the Revolving Credit Facility. At June 30, 2017, the Company had $58.0 million outstanding under the Revolving Credit Facility with a weighted average interest rate of approximately 3.45% and remaining borrowing capacity of $92.0 million. See Note 10 for subsequent repayment of the balance outstanding of the Revolving Credit Facility.

Amounts outstanding under the Term Loans bear annual interest at a floating rate that is based, at the Company's option, on either: (i) LIBOR plus 2.2% to 2.9% or (ii) a base rate plus 1.25% to 1.9%, in each case, depending upon the Company's leverage ratio. In addition, the Company is obligated to pay an annual fee equal to 0.35% of the amount of the unused portion of the Term Loans. The Company entered into interest rate swaps to fix the interest rates on the term loans as discussed in Note 6. At June 30, 2017, the Company had $60.0 million outstanding under the Term Loans with a fixed weighted average interest rate under the swaps of approximately 4.34% and remaining borrowing capacity of $40.0 million.

The Company's ability to borrow under the Credit Facility is subject to its ongoing compliance with a number of customary affirmative and negative covenants, including limitations with respect to liens, indebtedness, distributions, mergers, consolidations, investments, restricted payments and asset sales, as well as financial maintenance covenants. Also, the Company's present financing policy prohibits incurring debt (secured or unsecured) in excess of 40% of its total book capitalization. The Company was in compliance with its financial covenants under its Credit Facility at June 30, 2017.

Note 6. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company may use derivative financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with its borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The Company does not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not able to perform under the agreements. To mitigate this risk, the Company only enters into derivative financial instruments with counterparties with high credit ratings and with major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company does not anticipate that any of the counterparties will fail to meet their obligations.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and/or caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above the cap strike rate on the contract.

As of June 30, 2017, the Company had two outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk for notional amounts totaling $60.0 million. The Company had recorded the fair value of its interest rate derivatives totaling approximately $436,000 in other liabilities in its Condensed Consolidated Balance

Sheet.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified to interest expense in the period

Notes to Condensed Consolidated Financial Statements - Continued

that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized in interest expense.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's Term Loans. During the next twelve months, the Company estimates that an additional $404,000 will be reclassified from other comprehensive income ("OCI") as an increase to interest expense.

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the three and six months ended June 30, 2017.

(Dollars in thousands)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Amount of gain (loss) recognized in OCI on derivative	$ (440)	$ (598)
Amount of gain (loss) reclassified from accumulated OCI into interest expense	$ (156)	$ (162)
Amount of gain (loss) recognized in income on derivative (ineffective portion, reclassifications of missed forecasted transactions and amounts excluded from effectiveness testing)	$ —	$ —

Credit-risk-related Contingent Features

As of June 30, 2017, the fair value of derivatives in a net liability position including accrued interest but excluding any adjustment for nonperformance risk related to these agreements was $439,000. As of June 30, 2017, the Company has not posted any collateral related to these agreements and was not in breach of any agreement provisions. If the Company had breached any of these provisions, it could have been required to settle its obligations under the agreements at their aggregate termination value of approximately $460,000 at June 30, 2017.

Note 7. Stockholders' Equity

Common Stock

The following table provides a reconciliation of the beginning and ending common stock balances for the six months ended June 30, 2017 and for the year ended December 31, 2016:

	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Balance, beginning of period	12,988,482	7,596,940
Issuance of common stock	—	5,175,000
Restricted stock-based awards	132,681	216,542
Balance, end of period	13,121,163	12,988,482

Universal Shelf S-3 Registration Statement

On September 13, 2016, the Company filed a registration statement on Form S-3 that allows us to offer debt or equity securities (or a combination thereof) of up to $750.0 million from time to time. The Form S-3 registration statement was declared effective as of September 26, 2016. During July 2017, the Company completed an equity offering, discussed in more detail in Note 10, and issued approximately $114.6 million in shares of its common stock under its Form S-3 registration statement, which results in approximately $635.4 million remaining to be issued under the Form

S-3 registration statement.

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Notes to Condensed Consolidated Financial Statements - Continued

Note 8. Net Income Per Common Share

The following table sets forth the computation of basic and diluted net income per common share.

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Net income	$466	$ 508	$1,379	$ 624
Weighted average Common Shares outstanding				
Weighted average Common Shares outstanding	13,108,974	12,249,676	13,099,382	11,973,110
Unvested restricted stock	(422,791)	(211,295)	(413,199)	(198,328)
Weighted average Common Shares outstanding–Basic	12,686,183	12,038,381	12,686,183	11,774,782
Weighted average Common Shares outstanding–Basic	12,686,183	12,038,381	12,686,183	11,774,782
Dilutive effect of restricted stock	129,422	26,458	154,547	59,268
Weighted average Common Shares outstanding –Diluted	12,815,605	12,064,839	12,840,730	11,834,050
Basic Net Income per Common Share	$0.04	$ 0.04	$0.11	$ 0.06
Diluted Net Income per Common Share	$0.04	$ 0.04	$0.11	$ 0.06

Note 9. Incentive Plan

Under the Company's 2014 Incentive Plan, awards may be made in the form of restricted stock, cash or a combination of both. Compensation expense recognized from the amortization of the value of the Company's officer, employee and director shares over the applicable vesting periods during the three months ended June 30, 2017 and 2016 was approximately $0.3 million and $0.1 million, respectively, and during the six months ended June 30, 2017 and 2016 was approximately $0.7 million and $0.3 million, respectively.

A summary of the activity under the 2014 Incentive Plan for the three and six months ended June 30, 2017 and 2016 is included in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock-based awards, beginning of period	419,070	203,471	302,299	85,757
Stock in lieu of compensation	4,843	7,074	64,128	65,931
Stock awards	11,067	14,350	68,553	73,207
Total granted	15,910	21,424	132,681	139,138
Stock-based awards, end of period	434,980	224,895	434,980	224,895

Notes to Condensed Consolidated Financial Statements - Continued

Note 10. Subsequent Events

Dividend Declared
On August 7, 2017, the Company’s Board of Directors declared a quarterly common stock dividend in the amount of $0.3925 per share. The dividend is payable on September 1, 2017 to stockholders of record on August 28, 2017.

Equity Offering
On July 26, 2017, the Company completed a public offering of 4,887,500 shares of its common stock, including 637,500 shares of common stock issued in connection with the exercise in full of the underwriters' option to purchase additional shares, and received net proceeds of approximately $108.9 million after deducting underwriting discount and commissions and estimated offering expenses payable by the Company.

Proceeds from the offering were used to repay the outstanding balance on our revolving credit facility totaling $58.0 million. The remaining proceeds will be used to fund our future investments and for general corporate and working capital purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosure Regarding Forward-Looking Statements

This report and other materials that Community Healthcare Trust Incorporated (the "Company") has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by management of the Company, contain, or will contain, contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "believes", "expects", "may", "should", "seeks", "approximately", "intends", "plans", "es "anticipates" or other similar words or expressions, including the negative thereof. Forward-looking statements are based on certain assumptions and can include future expectations, future plans and strategies, financial and operating projections or other forward-looking information. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Because forward-looking statements relate to future events, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Thus, the Company's actual results and financial condition may differ materially from those indicated in such forward-looking statements. Some factors that might cause such a difference include the following: general volatility of the capital markets and the market price of the Company's common stock, changes in the Company's business strategy, availability, terms and deployment of capital, the Company's ability to refinance existing indebtedness at or prior to maturity on favorable terms, or at all, changes in the real estate industry in general, interest rates or the general economy, adverse developments related to the healthcare industry, the degree and nature of the Company's competition, the ability to consummate acquisitions under contract and the other factors described in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company's Quarterly Reports on Form 10-Q for the three months ended March 31, 2017 and June 30, 2017, and the Company's other filings with the Securities and Exchange Commission from time to time. Readers are therefore cautioned not to place undue reliance on the forward-looking statements contained herein which speak only as of the date hereof. The Company intends these forward-looking statements to speak only as of the time of this report and the Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future developments, or otherwise, except as may be required by law.

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of the Company's consolidated financial condition, results of operations and cash. MD&A is provided as a supplement to, and should be read in conjunction with, the Company's Condensed Consolidated Financial Statements and accompanying notes.

Overview

References such as "we," "us," "our," and "the Company" mean Community Healthcare Trust Incorporated, a Maryland corporation, and its consolidated subsidiaries, including Community Healthcare OP, LP, a Delaware limited partnership of which we are the sole general partner (the "OP").

We were organized in the State of Maryland on March 28, 2014. We are a self-administered, self-managed healthcare real estate investment trust, or REIT, that acquires and owns properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in non-urban markets. The Company conducts its business through an UPREIT structure in which its properties are owned by the OP, either directly or through subsidiaries. The Company is the sole general partner, owning 100% of the OP units.

Trends and Matters Impacting Operating Results

Management will monitor factors and trends that it believes are important to the Company and the REIT industry in order to gauge their potential impact on the operations of the Company. Certain of the factors and trends that management believes may impact the operations of the Company are discussed below.

Real estate acquisitions

During the second quarter of 2017, the Company acquired 10 real estate properties totaling approximately 203,000 square feet for an aggregate purchase price of approximately $36.2 million, including cash consideration of approximately $35.9 million. Upon acquisition, the properties were 100% leased in the aggregate with lease expirations ranging from 2019 through 2032.

During the first quarter of 2017, the Company acquired ten real estate properties totaling approximately 145,000 square feet for an aggregate purchase price of approximately $28.5 million, including cash consideration of approximately $28.4 million. Upon acquisition, the properties were approximately 95.2% leased in the aggregate with lease expirations ranging from 2018 through 2032. During the first quarter of 2017, the Company also acquired a property, adjacent to its corporate office, for a cash purchase price of approximately $0.9 million. The property is currently leased to a tenant but the Company intends to use the property for future expansion of its corporate office.

See Note 4 to the Condensed Consolidated Financial Statements for more details on these acquisitions.

Leased square footage

As of June 30, 2017, our real estate portfolio was approximately 92.7% leased. During the second quarter of 2017, we had expiring or terminated leased related to approximately 28,800 square feet and leased or renewed leases relating to approximately 48,000 square feet.

Equity Offering

On July 26, 2017, the Company completed a public offering of 4,887,500 shares of its common stock, including 637,500 shares of common stock issued in connection with the exercise in full of the underwriters' option to purchase additional shares, and received net proceeds of approximately $108.9 million after deducting underwriting discount and commissions and estimated offering expenses payable by the Company.

Proceeds from the offering were used to repay the outstanding balance on our revolving credit facility totaling $58.0 million. The remaining proceeds will be used to fund our future investments and for general corporate and working capital purposes.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that are reasonably likely to have a material effect on the Company's consolidated financial condition, results of operations or liquidity.

Inflation

We believe inflation will have a minimal impact on the operating performance of our properties. Many of our lease agreements contain provisions designed to mitigate the adverse impact of inflation. These provisions include clauses that enable us to receive payment of increased rent pursuant to escalation clauses which generally increase rental rates during the terms of the leases. These escalation clauses often provide for fixed rent increases or indexed escalations (based upon the Consumer Price Index or other measures). However, some of these contractual rent increases may be less than the actual rate of inflation. Generally, our lease agreements require the tenant to pay property operating expenses, including maintenance costs, real estate taxes and insurance. This requirement reduces our exposure to increases in these costs and property operating expenses resulting from inflation.

Seasonality

We do not expect our business to be subject to material seasonal fluctuations.

New Accounting Pronouncements

See Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report for information on new accounting standards not yet adopted.

Results of Operations

The Company's results of operations for the three months ended June 30, 2017 compared to the same period in 2016 have most significantly been impacted by its real estate acquisitions. As of June 30, 2017 and 2016, the Company had investments in real estate properties, including mortgage notes, totaling approximately $329.3 million and $205.0 million, respectively.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

The table below shows our results of operations for the three months ended June 30, 2017 compared to the same period in 2016 and the effect of changes in those results from period to period on our net income.

(dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase (Decrease) to Net Income $
REVENUES			
Rental income	$7,338	$4,530	$ 2,808
Tenant reimbursements	1,334	1,105	229
Mortgage interest	258	561	(303)
	8,930	6,196	2,734
EXPENSES			
Property operating	2,140	1,228	(912)
General and administrative	835	895	60
Depreciation and amortization	4,281	3,332	(949)
Bad debts	—	30	30
	7,256	5,485	(1,771)
OTHER INCOME (EXPENSE)			
Interest expense	(1,209)	(222)	(987)
Interest and other income, net	1	19	(18)
	(1,208)	(203)	(1,005)
NET INCOME	$466	$508	$ (42)

Revenues

Our revenues for the three months ended June 30, 2017 and 2016 totaling approximately $8.9 million and $6.2 million, respectively, represented income generated from our investments in 78 and 48 real estate properties and mortgage notes, respectively. Revenues generally include contractual rents and late fees due under the leases with our tenants, as well as straight-line rent adjustments and estimated operating expense recoveries under our tenant leases, and mortgage interest related to our mortgage notes receivable.

- Rental income for the three months ended June 30, 2017 compared to the same period in 2016 increased approximately $2.5 million related to properties acquired since June 30, 2016.

- Tenant reimbursements for the three months ended June 30, 2017 compared to the same period in 2016 increased approximately $0.2 million related to properties acquired since June 30, 2016.

- Mortgage interest decreased approximately $0.3 million for the three months ended June 30, 2017 compared to the same period in 2016 due to interest recorded during 2016 related to a $12.5 million mortgage note that the Company funded in the first quarter of 2016 and then converted to real estate upon the acquisition of the property in the second quarter of 2016.

Expenses

Our expenses for the three months ended June 30, 2017 and 2016 totaling approximately $7.3 million and $5.5 million, respectively, generally represented expenses related to our real estate properties, general and administrative expenses, depreciation and amortization expense, and bad debt expense.

- Property operating expenses included expenses incurred related to our owned real estate properties and generally include real estate taxes and insurance, utilities, repairs and maintenance and other operating expenses of the properties. Property operating expenses for the three months ended June 30, 2017 compared to the same period in 2016 increased approximately $0.4 million related to properties acquired since June 30, 2016. Property operating expenses for the three months ended June 30, 2016 were also reduced by approximately $0.3 million due to net fair value adjustments of the contingent purchase price initially recognized upon the acquisition of two properties in 2016.

- General and administrative expenses generally included legal, regulatory, and accounting fees, as well as certain compensation-related and occupancy costs related to its officers, employees and corporate office. General and administrative expenses for the three months ended June 30, 2016 also included approximately $0.2 million in closing expenses related to the Company's acquisitions. The Company included closing costs as part of the purchase price for its acquisitions in 2017 upon the adoption of ASU No, 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which is discussed in more detail in Note 1. Other legal, regulatory and accounting fees not related to the acquisition of properties increased approximately $0.1 million for the three months ended June 30, 2017 compared to the same period in 2016.

- Depreciation and amortization generally included depreciation on its buildings and improvements, as well as amortization of intangible assets resulting from the acquisition of its real estate properties, Depreciation and amortization for the three months ended June 30, 2017 compared to the same period in 2016 increased approximately $1.3 million related to properties acquired since June 30, 2016 while certain intangible assets became fully depreciated resulting in a decrease of approximately $0.5 million.

Interest expense

Interest expense for the three months ended June 30, 2017 and 2016 totaling approximately $1.2 million and $0.2 million, respectively, mainly included accrued interest due on the Revolving Credit Facility, on the Term Loans, as well as amortization of deferred financing costs related to the Revolving Credit Facility. In April 2016, the Company completed a follow-on public offering of 5,175,000 shares of its common stock and received $86.8 million from the offering which was partially used to repay the outstanding balance on its revolving credit facility. The Company did not borrow any additional amounts on its revolving credit facility throughout the second quarter of 2016, resulting in lower interest expense.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

The table below shows our results of operations for the six months ended June 30, 2017 compared to the same period in 2016 and the effect of changes in those results from period to period on our net income.

	Six Months Ended June 30,		Increase (Decrease) to Net Income
(dollars in thousands)	2017	2016	$
REVENUES			
Rental income	$13,956	$8,203	$ 5,753
Tenant reimbursements	2,462	2,062	400
Mortgage interest	519	1,097	(578)
	16,937	11,362	5,575
EXPENSES			
Property operating	3,878	2,277	(1,601)
General and administrative	1,605	1,701	96
Depreciation and amortization	8,205	6,147	(2,058)
Bad debts	67	30	(37)
	13,755	10,155	(3,600)
OTHER INCOME (EXPENSE)			
Interest expense	(1,806)	(602)	(1,204)
Interest and other income, net	3	19	(16)
	(1,803)	(583)	(1,220)
NET INCOME	$1,379	$624	$ 755

Revenues

Our revenues for the six months ended June 30, 2017 and 2016 totaling approximately $16.9 million and $11.4 million, respectively, represented income generated from our investments in 78 and 48 real estate properties and mortgage notes, respectively. Revenues generally include contractual rents and late fees due under the leases with our tenants, as well as straight-line rent adjustments and estimated operating expense recoveries under our tenant leases, and mortgage interest related to our mortgage notes receivable.

- Rental income for the six months ended June 30, 2017 compared to the same period in 2016 increased approximately $4.2 million related to properties acquired since June 30, 2016. The remaining increase is mostly due to rental income on properties acquired from January 1, 2016 through June 30, 2016.

- Tenant reimbursements for the six months ended June 30, 2017 compared to the same period in 2016 increased approximately $0.3 million related to properties acquired since June 30, 2016. The remaining increase is mostly due to rental income on properties acquired from January 1, 2016 through June 30, 2016.

- Mortgage interest decreased approximately $0.6 million for the six months ended June 30, 2017 compared to the same period in 2016 due to interest recorded during 2016 related to a $12.5 million mortgage note

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that the Company funded in the first quarter of 2016 and then converted to real estate upon the acquisition of the property in the second quarter of 2016.

Expenses

Our expenses for the six months ended June 30, 2017 and 2016 totaling approximately $13.8 million and $10.2 million, respectively, generally represented expenses related to our real estate properties, general and administrative expenses, depreciation and amortization expense, and bad debt expense.

- Property operating expenses included expenses incurred related to our owned real estate properties and generally include real estate taxes and insurance, utilities, repairs and maintenance and other operating expenses of the properties. Property operating expenses for the six months ended June 30, 2017 compared to the same period in 2016 increased approximately $0.7 million related to properties acquired since June 30, 2016. Property operating expenses for the six months ended June 30, 2016 were also reduced by approximately $0.5 million due to net fair value adjustments of the contingent purchase price initially recognized upon the acquisition of two properties in 2016. The remaining increase is mostly due to property operating expenses on properties acquired from January 1, 2016 through June 30, 2016.

- General and administrative expenses generally included legal, regulatory, and accounting fees, as well as certain compensation-related and occupancy costs related to its officers, employees and corporate office. General and administrative expenses for the six months ended June 30, 2016 also included approximately $0.5 million in closing expenses related to the Company's acquisitions. The Company included closing costs as part of the purchase price for its acquisitions in 2017 upon the adoption of ASU No, 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which is discussed in more detail in Note 1. Other legal, regulatory and accounting fees not related to the acquisition of properties increased approximately $0.2 million and compensation-related expenses increased approximately $0.2 million.

- Depreciation and amortization generally included depreciation on its buildings and improvements, as well as amortization of intangible assets resulting from the acquisition of its real estate properties, Depreciation and amortization for the six months ended June 30, 2017 compared to the same period in 2016 increased approximately $2.0 million related to properties acquired since June 30, 2016 and increased approximately $0.9 million related to properties acquired from January 1, 2016 through June 30, 2016, while certain intangible assets became fully depreciated resulting in a decrease of approximately $1.0 million.

Interest expense

Interest expense for the six months ended June 30, 2017 and 2016 totaling approximately $1.8 million and $0.6 million, respectively, mainly included accrued interest due on the Revolving Credit Facility, on the Term Loans, as well as amortization of deferred financing costs related to the Revolving Credit Facility. In April 2016, the Company completed a follow-on public offering of 5,175,000 shares of its common stock and received $86.8 million from the offering which was partially used to repay the outstanding balance on its revolving credit facility. The Company did not borrow any additional amounts on its revolving credit facility throughout the second quarter of 2016, resulting in lower interest expense.

Funds from Operations

Funds from operations ("FFO") and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT's operating performance equal to "net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization related to real estate properties, and after adjustments for unconsolidated partnerships and joint ventures."

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. The Company believes that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO and FFO per share can facilitate comparisons of operating performance between periods. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share. However, FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income attributable to common stockholders as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity. The table below reconciles FFO to net income for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, excepts per share amounts)	2017	2016	2017	2016
Net income	$466	$ 508	1,379	$ 624
Real estate depreciation and amortization	4,276	3,330	8,197	6,144
Total adjustments	4,276	3,330	8,197	6,144
Funds from Operations	$4,742	$ 3,838	$9,576	$ 6,768
Funds from Operations per Common Share-Basic	$0.37	$ 0.32	$0.75	$ 0.69
Funds from Operations per Common Share-Diluted	$0.37	$ 0.32	$0.75	$ 0.69
Weighted Average Common Shares Outstanding-Basic	12,686,182	12,038,381	12,686,183	9,774,782
Weighted Average Common Shares Outstanding-Diluted	12,815,605	12,064,839	12,840,780	9,834,050

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Liquidity and Capital Resources

The Company monitors its liquidity and capital resources and relies on several key indicators in its assessment of capital markets for financing acquisitions and other operating activities as needed, including the following:

- Leverage ratios and financial covenants included in our Credit Facility;
- Dividend payout percentage; and
- Interest rates, underlying treasury rates, debt market spreads and equity markets.

The Company uses these indicators and others to compare its operations to its peers and to help identify areas in which the Company may need to focus its attention.

Sources and Uses of Cash

The Company derives most of its revenues from its real estate property and mortgage notes portfolio, collecting rental income, operating expense reimbursements and mortgage interest based on contractual arrangements with its tenants and borrowers. These sources of revenue represent our primary source of liquidity to fund our dividends, general and administrative expenses, property operating expenses, interest expense on our Credit Facility and other expenses incurred related to managing our existing portfolio and investing in additional properties. To the extent additional resources are needed, the Company will fund its investment activity generally through equity or debt issuances either in the public or private markets or through proceeds from our Credit Facility.

The Company expects to meet its liquidity needs through cash on hand, cash flows from operations and cash flows from sources discussed above. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

On March 29, 2017, we entered into our second amended and restated Credit Facility which provides for a $150.0 million Revolving Credit Facility and $100.0 million in Term Loans. The Credit Facility, through the accordion feature, allows borrowings up to a total of $450.0 million, including the ability to add and fund additional term loans. The Revolving Credit Facility matures on August 9, 2019 and includes two 12-month options to extend the maturity date of the facility, subject to the satisfaction of certain conditions. The Term Loans include a five-year term loan facility in the aggregate principal amount of $50.0 million which matures on March 29, 2022 and a seven-year term loan facility in the aggregate principal amount of $50.0 million which matures on March 29, 2024. Upon closing of the Credit Facility on March 29, 2017, the Company borrowed $30.0 million under each of the 5-Year Term Loan and the 7-Year Term Loan. Each of the 5-Year Term Loan and 7-Year Term Loan has a delayed draw feature that is available in up to three draws within 15 months from March 29, 2017, subject to a minimum draw of $10.0 million and pro forma compliance. The Company entered into interest rate swaps to fix the interest rates on the term loans. At June 30, 2017, the Company had $58.0 million outstanding under the Revolving Credit Facility with a weighted average interest rate of approximately 3.45% and remaining borrowing capacity of $92.0 million and had $60.0 million outstanding under the Term Loans with a fixed weighted average interest rate under the swaps of approximately 4.34% and remaining borrowing capacity of $40.0 million. Our debt to total book capitalization ratio was approximately 38.7% at June 30, 2017.

The Company’s ability to borrow under the Credit Facility is subject to its ongoing compliance with a number of customary affirmative and negative covenants, including limitations with respect to liens, indebtedness, distributions, mergers, consolidations, investments, restricted payments and asset sales, as well as financial maintenance covenants. Also, our present financing policy prohibits incurring debt (secured or unsecured) in excess of 40% of our total book capitalization. At June 30, 2017, the Company was in compliance with its financial covenants under the Credit Facility.

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Universal Shelf S-3 Registration Statement

On September 13, 2016, the Company filed a registration statement on Form S-3 that will allow us to offer debt or equity securities (or a combination thereof) of up to $750.0 million from time to time. The Form S-3 registration statement was declared effective as of September 26, 2016. During July 2017, the Company completed an equity offering, discussed in more detail in Note 10, and issued approximately $114.6 million in shares of its common stock under its Form S-3 registration statement, which results in approximately $635.4 million remaining to be issued under the Form S-3 registration statement.

Equity Offering

On July 26, 2017, the Company completed a public offering of 4,887,500 shares of its common stock, including 637,500 shares of common stock issued in connection with the exercise in full of the underwriters' option to purchase additional shares, and received net proceeds of approximately $108.9 million after deducting underwriting discount and commissions and estimated offering expenses payable by the Company.

Proceeds from the offering were used to repay the outstanding balance on our revolving credit facility totaling $58.0 million. The remaining proceeds will be used to fund our future investments and for general corporate and working capital purposes.

Operating Activities

Cash flows provided by operating activities for the six months ended June 30, 2017 and 2016 were approximately $8.8 million and $6.9 million, respectively. Cash flows provided by operating activities were generally provided by contractual rents, net of expenses, on our real estate property portfolio.

Investing Activities

Cash flows used in investing activities for the six months ended June 30, 2017 and 2016 were approximately $65.2 million and $59.3 million, respectively. During the six months ended June 30, 2017, the Company invested in 20 properties for an aggregate purchase price of approximately $64.7 million, including approximately $64.3 million in cash consideration. The Company also acquired a property, adjacent to its corporate office, for a cash purchase price of approximately $0.9 million. The property is currently leased to a tenant but the Company intends to use the property for future expansion of its corporate office. During the six months ended June 30, 2016, the Company invested in seven properties for an aggregate purchase price of approximately $58.9 million, including approximately $46.7 million in cash consideration, including transaction costs incurred, and the conversion of a $12.5 million mortgage note that the Company had funded during the first quarter of 2016.

Financing Activities

Cash flows provided by financing activities for the six months ended June 30, 2017 and 2016 were approximately $55.6 million and $61.3 million, respectively. During the six months ended June 30, 2017, the Company entered into its Credit Facility, borrowing $60.0 million in Term Loans, and paid $10.2 million in dividends.

Security Deposits

As of June 30, 2017, the Company held approximately $0.8 million in security deposits for the benefit of the Company in the event the obligated tenant fails to perform under the terms of its respective lease. Generally, the Company may, at its discretion and upon notification to the tenant, draw upon the security deposits if there are any defaults under the leases.

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Dividends

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a REIT.

On August 7, 2017, the Company's Board of Directors declared a quarterly common stock dividend in the amount of $0.3925 per share. The dividend is payable on September 1, 2017 to stockholders of record on August 28, 2017. This rate equates to an annualized dividend of $1.57 per share.

On May 4, 2017, the Company paid a cash dividend in the amount of $0.390 per share to stockholders of record on May 19, 2017. This rate equates to an annualized dividend of $1.56 per share.

On March 3, 2017, the Company paid a cash dividend in the amount of $0.3875 per share to shareholders of record on February 17, 2017. This rate equates to an annual dividend of $1.55 per share.

The ability of the Company to pay dividends is dependent upon its ability to generate cash flows and to make accretive new investments.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We may use certain derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We will not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. An interest rate swap is a contractual agreement entered into by two counterparties under which each agrees to make periodic payments to the other for an agreed period of time based on a notional amount of principal. Under the most common form of interest rate swap, known from our perspective as a floating-to-fixed interest rate swap, a series of floating, or variable, rate payments on a notional amount of principal is exchanged for a series of fixed interest rate payments on such notional amount.

In March 2017, we entered into a second amended and restated Credit Facility which provides for $100.0 million in variable rate Term Loans. Upon closing of the Credit Facility, we borrowed $60.0 million in the aggregate on the Term Loans, with a delayed draw feature for the remaining $40.0 million, and subsequently entered into interest rate swaps to fix the interest rates on the Term Loans. See Notes 5, 6 and 10 for more information on the Term Loans and interest rate swaps.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures
The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this report. Based on this evaluation, Company’s management has concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

Changes In Internal Control Over Financial Reporting
There were no changes in our system of internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company may, from time to time, be involved in litigation arising in the ordinary course of business or which may be expected to be covered by insurance. The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, an investor should consider the risk factor below, the risk factors included in its Annual Report on Form 10-K for the year ended December 31, 2016, its Quarterly Report on Form 10-Q for the three months ended March 31, 2017, and other reports that may be filed by the Company.

Mortgage notes in which we have invested or may invest may be impacted by unfavorable real estate market conditions, which could decrease their value.

If we acquire an investment in a mortgage note, such investment will involve special risks relating to the particular borrower, and we will be at risk of loss on that investment, including losses as a result of a default on the mortgage note. For example, on June 23, 2017, the borrower under our only outstanding mortgage note filed for bankruptcy in the state of Louisiana. The net balance on this mortgage note was approximately $10.5 million as of June 30, 2017 and there can be no assurance that we will recover the full value of this mortgage note. These losses may be caused by many conditions beyond our control, including economic conditions affecting real estate values, tenant defaults and lease expirations, interest rate levels and the other economic and liability risks associated with real estate. We do not know whether the values of the property securing any of our real estate related investments will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Corporate Charter of Community Healthcare Trust Incorporated, as amended (1)
3.2	Bylaws of Community Healthcare Trust Incorporated, as amended (2)
10.1	Amendment No. 2 to the 2014 Incentive Plan of Community Healthcare Trust Incorporated (3)
10.2	Amendment No. 3 to the 2014 Incentive Plan of Community Healthcare Trust Incorporated (4)
10.3	Underwriting Agreement, dated July 20, 2017, by and among Community Healthcare Trust Incorporated, Community Healthcare OP, LP, Sandler O'Neill & Partners, L.P., Evercore Group L.L.C. and SunTrust Robinson Humphrey, Inc., as representatives of the underwriters named in Schedule A of

	the Underwriting Agreement (5)
31.1 *	Certification of the Chief Executive Officer of Community Healthcare Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Rule 302 of the Sarbanes-Oxley Act of 2002
31.2 *	Certification of the Chief Financial Officer of Community Healthcare Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Rule 302 of the Sarbanes-Oxley Act of 2002
32.1 **	Certifications 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 Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed as Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on May 6, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(2) Filed as Exhibit 3.2 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(3) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 17, 2017.

(4) Filed as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 17, 2017.

(5) Filed as Exhibit 1.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 26, 2017.

* Filed herewith.

** Furnished herewith.

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, 2017

COMMUNITY HEALTHCARE TRUST INCORPORATED

By: /s/ Timothy G. Wallace
Timothy G. Wallace
Chief Executive Officer and President

By: /s/ W. Page Barnes
W. Page Barnes
Executive Vice President and Chief Financial Officer

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