Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2018

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: 001-37887

MEDEQUITIES REALTY TRUST, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland	**46-5477146**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 West End Avenue, Suite 1000 Nashville, TN	**37203**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (615) 627-4710

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

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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒
Non-accelerated filer	☐ (Do not check if a small reporting company)	Small reporting company	☐
		Emerging growth 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 pursuant to Section 13(a) of the Exchange Act. ☒

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

As of May 3, 2018, the registrant had 31,886,684 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MEDEQUITIES REALTY TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except per share amounts)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Real estate properties		
Land	$ 43,181	$ 43,180
Building and improvements	505,699	505,623
Intangible lease assets	11,387	11,387
Furniture, fixtures, and equipment	3,538	3,538
Less accumulated depreciation and amortization	(46,286)	(41,984)
Total real estate properties, net	517,519	521,744
Mortgage notes receivable, net	41,513	18,557
Cash and cash equivalents	5,917	12,640
Other assets, net	32,729	28,662
Total Assets	$ 597,678	$ 581,603
Liabilities and Equity		
Liabilities		
Debt, net	$ 232,065	$ 215,523
Accounts payable and accrued liabilities	6,204	6,605
Deferred revenue	1,587	2,722
Total liabilities	239,856	224,850
Commitments and contingencies		
Equity		
Common stock, $0.01 par value. Authorized 400,000 shares; 31,887 and 31,836 issued and outstanding at March 31, 2018 and December 31, 2017, respectively	314	314
Additional paid in capital	376,702	375,690
Dividends declared	(74,525)	(67,691)
Retained earnings	49,365	44,196
Accumulated other comprehensive income	3,034	1,247
Total MedEquities Realty Trust, Inc. stockholders' equity	354,890	353,756
Noncontrolling interest	2,932	2,997
Total equity	357,822	356,753
Total Liabilities and Equity	$ 597,678	$ 581,603

See accompanying notes to interim consolidated financial statements.

MEDEQUITIES REALTY TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues		
Rental income	$ 15,929	$ 13,839
Interest on mortgage notes receivable	787	433
Interest on notes receivable	-	10
Total revenues	16,716	14,282
Expenses		
Depreciation and amortization	4,194	3,618
Property related	322	352
Acquisition related	108	66
Franchise, excise and other taxes	71	86
General and administrative	3,316	3,171
Total operating expenses	8,011	7,293
Operating income	8,705	6,989
Other income (expense)		
Interest and other income	7	1
Interest expense	(2,558)	(1,515)
	(2,551)	(1,514)
Net income	$ 6,154	$ 5,475
Less: Net income attributable to noncontrolling interest	(985)	(944)
Net income attributable to common stockholders	$ 5,169	$ 4,531
Net income attributable to common stockholders per share		
Basic and diluted	$ 0.16	$ 0.14
Weighted average shares outstanding		
Basic	31,550	31,415
Diluted	31,610	31,415
Dividends declared per common share	$ 0.21	$ 0.21

See accompanying notes to interim consolidated financial statements.

MEDEQUITIES REALTY TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$ 6,154	$ 5,475
Other comprehensive income:		
Increase in fair value of cash flow hedge	1,787	370
Total other comprehensive income	1,787	370
Comprehensive income	7,941	5,845
Less: comprehensive income attributable to noncontrolling interest	(985)	(944)
Comprehensive income attributable to MedEquities Realty Trust, Inc.	$ 6,956	$ 4,901

See accompanying notes to interim consolidated financial statements.

MEDEQUITIES REALTY TRUST, INC. AND SUBSIDIARIES
Consolidated Statement of Equity
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-In	Retained	Dividends	Accumulated Other Comprehensive	Non-controlling	
	Shares	Par Value	Capital	Earnings	Declared	Income	Interest	Total Equity
Balance at December 31, 2017	31,836	$ 314	$ 375,690	$ 44,196	$ (67,691)	$ 1,247	$ 2,997	$ 356,753
Grants of restricted stock	47	-	-	-	-	-	-	-
Vesting of restricted stock units	8	-	-	-	-	-	-	-
Shares surrendered for taxes upon vesting	(4)	-	(44)	-	-	-	-	(44)
Other comprehensive income	-	-	-	-	-	1,787	-	1,787
Distributions to noncontrolling interest	-	-	-	-	-	-	(1,050)	(1,050)
Stock-based compensation	-	-	1,056	-	-	-	-	1,056
Net income	-	-	-	5,169	-	-	985	6,154
Dividends to common stockholders	-	-	-	-	(6,834)	-	-	(6,834)
Balance at March 31, 2018	31,887	$ 314	$ 376,702	$ 49,365	$ (74,525)	$ 3,034	$ 2,932	$ 357,822

See accompanying notes to interim consolidated financial statements.

MEDEQUITIES REALTY TRUST, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating activities		
Net income	$ 6,154	$ 5,475
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,712	4,217
Stock-based compensation	1,056	956
Straight-line rent receivable	(1,702)	(1,243)
Straight-line rent liability	38	40
Construction mortgage interest income	(235)	-
Write-off of pre-acquisition costs	13	-
Changes in operating assets and liabilities		
Other assets	(602)	1,261
Accounts payable and accrued liabilities	(469)	(1,102)
Deferred revenues	(1,126)	(878)
Net cash provided by operating activities	7,839	8,726
Investing activities		
Acquisitions of real estate	(82)	-
Capital expenditures for real estate	(59)	(173)
Funding of mortgage notes and note receivable	(22,711)	(12,500)
Repayments of notes receivable	-	50
Capitalized pre-acquisition costs, net	(305)	(109)
Capital expenditures for corporate property	-	(4)
Net cash used in investing activities	(23,157)	(12,736)
Financing activities		
Net borrowings (repayments) on secured revolving credit facility	16,500	(112,500)
Dividends paid to common stockholders	(6,710)	(6,647)
Distributions to noncontrolling interest	(1,050)	(1,021)
Deferred loan costs	(65)	(2,711)
Taxes remitted upon vesting of restricted stock	(62)	-
Capitalized pre-offering costs	(18)	-
Proceeds from borrowings on term loan	-	125,000
Cancellation of restricted stock	-	(50)
Offering costs	-	(26)
Net cash provided by financing activities	8,595	2,045
Decrease in cash, cash equivalents, and restricted cash	(6,723)	(1,965)
Cash, cash equivalents and restricted cash at beginning of period	12,640	9,771
Cash, cash equivalents and restricted cash at end of period	$ 5,917	$ 7,806
Supplemental Cash Flow Information		
Interest paid	$ 2,359	$ 775
Accrued pre-acquisition costs	64	65
Accrued deferred loan costs	-	27

See accompanying notes to interim consolidated financial statements.

Note 1 - Organization and Nature of Business

MedEquities Realty Trust, Inc. (the “Company”), which was incorporated in the state of Maryland on April 23, 2014, is a self-managed and self-administered company that invests in a diversified mix of healthcare properties and healthcare-related real estate debt investments. As of March 31, 2018, the Company had investments of $559.0 million, net in 32 real estate properties and six mortgage notes receivable. The Company owns 100% of all of its properties and investments, other than Baylor Scott & White Medical Center - Lakeway (“Lakeway Hospital”), in which the Company owns a 51% interest through a consolidated partnership (the “Lakeway Partnership”). All of the Company’s assets are held by, and its operations conducted through, its operating partnership, MedEquities Realty Operating Partnership, LP, which is a 100% owned subsidiary of the Company. The Company has elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes.

Note 2 - Accounting Policies and Related Matters

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for a full year. The financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2017, included in the Company’s 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 21, 2018.

The interim consolidated financial statements include the accounts of the Company’s wholly owned subsidiaries and subsidiaries in which the Company has a controlling interest. All material intercompany transactions and balances have been eliminated in consolidation.

For information about significant accounting policies, refer to the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company’s 2017 Annual Report on Form 10-K filed with the SEC on February 21, 2018. During the three months ended March 31, 2018, there were no material changes to these policies except as noted below.

Recent Accounting Developments: On January 1, 2018, the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Update (“ASU”) No. 2016-18, “Statement of Cash Flows - Restricted Cash,” became effective for the Company. This guidance requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The consolidated statement of cash flows for the three months ended March 31, 2017 reflects an increase in the beginning of period cash, cash equivalents and restricted cash line item and a decrease in the change in other assets line item, each of approximately $0.3 million, as a result of the adoption of this new guidance.

On January 1, 2018, the FASB’s new revenue recognition standard included in Accounting Standards Codification (“ASC”) 606, *Revenue from Contacts with Customers*, became effective for the Company. This new revenue recognition standard superseded most of the existing revenue recognition guidance. 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. The Company’s revenues are comprised of rental income from leasing arrangements and interest from mortgage and other notes receivable, which are specifically excluded from the new revenue recognition guidance. Therefore, implementation of this new standard did not have a significant impact on the Company’s consolidated financial position, results of operations and cash flows.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities.” The purpose of this updated guidance is to align better a company’s financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning January 1, 2019. The Company adopted the new standard on January 1, 2018, which had no impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet and making targeted improvements to lessor accounting. The guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The guidance will be effective beginning January 1, 2019. Early adoption is permitted. The Company expects to adopt this standard on January 1, 2019. The Company does not anticipate significant changes in the timing of income from its leases with tenants. However, the Company will be required to recognize right of use assets and related lease liabilities on its consolidated balances sheets in circumstances where the Company is the lessee. As of March 31, 2018, the Company was the lessee under two leases, one ground lease and a lease for its corporate office space, which are expected to result in approximately $0.5 million in rent expense for the year ended December 31, 2018. The Company does not anticipate that the adoption of this standard will have a material effect on its financial condition or results of operations. The Company is in the process of determining the amount of the right of use assets and related lease liabilities that will be recognized upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326),” which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The standard also requires additional disclosures related to significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The amended guidance is effective for fiscal years, and interim periods within those years, beginning January 1, 2020, with early adoption permitted for the fiscal years, and interim periods within those fiscal years, beginning January 1, 2019. The Company is evaluating the impact of adopting this new accounting standard on the Company’s consolidated financial statements and currently expects that it will not have a material impact.

Note 3 – Investment Activity

During the three months ended March 31, 2018, the Company originated three mortgage notes receivable and funded additional principal under an existing mortgage note receivable for a total additional investment of $21.3 million. Additional details regarding these investments are described in more detail below.

On January 8, 2018, the Company closed on a construction mortgage receivable with a maximum principal amount of up to $19.0 million to Haven Behavioral Healthcare, Inc. to fund the purchase and conversion of an existing long-term acute care hospital to a 72-bed inpatient psychiatric hospital in Meridian, Idaho. The loan has a three-year term and an annual interest rate of 10.0%. Interest accrues monthly and is added to the outstanding balance of the mortgage note receivable. Upon completion of the planned renovation, the Company has the exclusive right to purchase the property, for a purchase price equal to the outstanding loan balance, in a sale-leaseback transaction with a 15-year triple-net master lease with an initial yield of 9.3%. The balance outstanding under this loan was approximately $7.9 million as of March 31, 2018.

On January 31, 2018, the Company originated a $5.4 million mortgage note receivable to Louisville Rehab LP to partially fund the construction of a 42-bed, 57,275 square foot inpatient rehabilitation facility in Clarksville, Indiana. The note is secured by a second lien on the facility. The three-year loan has an annual interest rate of 9.5%, which has a claw-back feature that would equate to a 15.0% rate from inception of the loan should the Company elect not to exercise its purchase option. The Company has the exclusive option to purchase the new facility upon completion for approximately $26.0 million that would be leased pursuant to a 20-year triple-net master lease guaranteed by Cobalt Medical Partners and Cobalt Rehabilitation Hospitals at an initial lease rate of 9.0%.

On February 16, 2018, the Company funded an additional $3.0 million under an existing mortgage note receivable with Medistar corporation, which is secured by land and an existing building in Webster, Texas that increased the total balance of the loan to $9.7 million. Effective with this additional funding, the interest rate under the loan increased from an annual interest rate of 10.0% to an annual interest rate of 12% and is payable upon maturity of the loan on December 31, 2018.

On March 29, 2018, the Company originated a $5.0 million mortgage note receivable with a subsidiary real estate entity of GruenePointe Holdings, LLC, which is secured by a second lien on a skilled nursing and assisted living facility (“Adora Midtown”) and a first lien on an additional parcel of land in Dallas, Texas. The loan has a two-year term and accrues interest at an annual rate of 10% that is payable on the maturity date of March 29, 2020. The Company has an existing purchase option on Adora Midtown for a gross purchase price not to exceed approximately $28.0 million, plus an earnout based on the facility’s earnings before interest, taxes, depreciation, amortization and rent expense during the three years following the closing date of the acquisition.

Construction Mortgage Notes Activity

The Company has two construction mortgage loans with funding commitments of up to $25.0 million, which are detailed in the table below (dollars in thousands):

Investment	Origination Date	Total Commitment	Outstanding Balance at March 31, 2018
Sequel Construction Mortgage Loan	October 2017	$ 6,000	$ 3,804
Haven Construction Mortgage Loan	January 2018	19,000	7,853
Total		$ 25,000	$ 11,657

Concentrations of Credit Risks

The following table contains information regarding tenant concentration in the Company's portfolio, based on the percentage of revenue for the three months ended March 31, 2018 and 2017, related to tenants, or affiliated tenants, that exceed 10% of revenues:

	% of Total Revenue for the three months ended March 31,	
	2018	2017
BSW Health	21.9%	25.8%
Texas Ten Tenant	21.4%	24.9%
Fundamental Healthcare	15.3%	14.2%
Life Generations Healthcare	12.9%	15.1%
Vibra Healthcare	11.4%	13.6%

The following table contains information regarding the geographic concentration of the properties in the Company's portfolio as of March 31, 2018, which includes percentage of rental income for the three months ended March 31, 2018 and 2017 (dollars in thousands):

State	Number of Properties	Gross Investment	% of Total Real Estate Property Investments	% of Rental Income Three months ended March 31, 2018	% of Rental Income Three months ended March 31, 2017
Texas	17	$ 300,259	53.3%	59.1%	63.1%
California	7	154,726	27.4%	21.6%	25.1%
Nevada	4	63,648	11.3%	12.1%	8.3%
South Carolina	1	20,000	3.5%	3.2%	3.5%
Indiana	2	15,039	2.7%	2.4%	-
Connecticut	1	10,133	1.8%	1.6%	-
	32	$ 563,805	100.0%	100.0%	100.0%

Note 4 – Debt

The table below details the Company's debt balance at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Term loan- secured	$ 125,000	$ 125,000
Revolving credit facility- secured	107,700	91,200
Unamortized deferred financing costs	(635)	(677)
	$ 232,065	$ 215,523

The Company's second amended and restated credit agreement (the "credit agreement") provides for a $300 million revolving credit facility that matures in February 2021 and a $125 million term loan that matures in February 2022. The revolving credit facility has one 12-month extension option, subject to certain conditions, including the payment of a 0.15% extension fee.

At March 31, 2018 and 2017, the weighted-average interest rate under the credit agreement was 3.8% and 2.6%, respectively.

Total costs related to the revolving credit facility at March 31, 2018 were $3.4 million, gross ($2.5 million, net). These costs are included in Other assets, net on the consolidated balance sheet at March 31, 2018 and will be amortized to interest expense through February 2021, the maturity date of the revolving credit facility. The total amount of deferred financing costs associated with the term loan at March 31, 2018 was $0.8 million, gross ($0.6 million, net). These costs are netted against the balance outstanding under the term loan on the Company's consolidated balance sheet and will be amortized to interest expense through February 2022, the maturity date of the term loan.

The Company recognized amortization expense of deferred financing costs, included in interest expense on the consolidated statements of income, of $0.3 million for both the three months ended March 31, 2018 and 2017.

The maximum available capacity under the credit facility was $276.7 million at March 31, 2018. At May 10, 2018, the Company had $239.7 million in borrowings outstanding, of which $114.7 million was outstanding under the revolving credit facility with a weighted-average interest rate of 3.91% and $125.0 million was outstanding on the term loan. As of May 10, 2018, the Company had $37.0 million in additional borrowing capacity under the revolving credit facility, based on its current borrowing base assets.

Interest Rate Swap Agreements

To mitigate exposure to interest rate risk, on February 10, 2017, the Company entered into four interest rate swap agreements, effective April 10, 2017, on the full $125 million term loan to fix the variable LIBOR interest rate at 1.84%, plus the LIBOR spread under the credit agreement, which was 2.00% at May 10, 2018.

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 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.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income. Those amounts reported in accumulated other comprehensive income related to these interest rate swaps will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next 12 months, the Company estimates that an additional $0.4 million will be reclassified from other comprehensive income as a decrease to interest expense.

The fair value of the Company's derivative financial instruments at March 31, 2018 and December 31, 2017 was an asset of $3.0 million and $1.2 million, respectively, and was included in Other assets, net on the consolidated balance sheets.

The table below details the location in the consolidated financial statements of the gain recognized on interest rate derivatives designated as cash flow hedges for the three months ended March 31, 2018 and 2017 (dollars in thousands):

	Three months ended March 31, 2018	Three months ended March 31, 2017
Amount of gain recognized in other comprehensive income	$ 1,709	$ 370
Amount of loss reclassified from accumulated other comprehensive income into interest expense	(78)	-
Total change in accumulated other comprehensive income	$ 1,787	$ 370

As of March 31, 2018, the Company did not have any derivatives in a net liability position including accrued interest but excluding any adjustments for nonperformance risk.

Covenants

The credit agreement contains customary financial and operating covenants, including covenants relating to the Company's total leverage ratio, fixed charge coverage ratio, tangible net worth, maximum distribution/payout ratio and restrictions on recourse debt, secured debt and certain investments. The credit agreement also contains customary events of default, in certain cases subject to customary cure periods, including among others, nonpayment of principal or interest, material breach of representations and warranties, and failure to comply with covenants. Any event of default, if not cured or waived, could result in the acceleration of any outstanding indebtedness under the credit agreement. The Company was in compliance with all financial covenants as of March 31, 2018.

Note 5 - Incentive Plan

The Company's Amended and Restated 2014 Equity Incentive Plan (the "Plan") provides for the grant of stock options, share awards (including restricted common stock and restricted stock units), stock appreciation rights, dividend equivalent rights, performance awards, annual incentive cash awards and other equity-based awards, including Long Term Incentive Plan ("LTIP") units, which are convertible on a one-for-one basis into units of limited partnership interest in the Company's operating partnership. As of March 31, 2018, the Plan had 3,356,723 shares authorized for issuance with 1,927,194 shares available for future issuance, subject to certain adjustments set forth in the Plan.

Restricted Stock

Awards of restricted stock are awards of the Company's common stock that are subject to restrictions on transferability and other restrictions as established by the Company's compensation committee on the date of grant that are generally subject to forfeiture if employment terminates prior to vesting. Upon vesting, all restrictions would lapse. Except to the extent restricted under the award agreement, a participant awarded restricted stock will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends on the shares. The awards generally cliff vest over three years or vest ratably over three years from the date of grant. The value of the awards is determined based on the market value of the Company's common stock on the date of grant. The Company expenses the cost of restricted stock ratably over the vesting period.

Restricted Stock Units

The Company's restricted stock unit ("RSU") awards represent the right to receive unrestricted shares of common stock based on the achievement of Company performance objectives as determined by the Company's compensation committee. Grants of RSUs prior to 2016 generally entitle recipients to shares of common stock equal to 0% up to 100% of the number of RSUs granted at the vesting date, based on two independent criteria measured over a three-year period: (i) the Company's absolute total stockholder return ("TSR") and (ii) the Company's TSR relative to the MSCI US REIT Index (symbol: RMS). Grants of RSUs during and subsequent to 2016 generally entitle recipients to shares of common stock equal to 0% up to 150% of the number of RSUs granted at the vesting date, based on four independent criteria measured over a three-year period: (i) the Company's growth in gross real estate investments, (ii) the Company's growth in Adjusted Funds From Operations ("AFFO") per share, (iii) the Company's absolute TSR and (iv) the Company's TSR relative to the FTSE NAREIT Equity Healthcare REIT Index.

RSUs are not eligible to vote or subject to receive dividend equivalents prior to vesting. Dividend equivalents are credited to the recipient and are paid only to the extent the applicable criteria are met, the RSUs vest, and the related common stock is issued.

The grant date fair value of RSUs subject to vesting based on the Company's absolute TSR and TSR relative to a REIT index is estimated using a Monte Carlo simulation that utilizes inputs such as expected future volatility of the Company's common stock, volatilities of certain peer companies included in the applicable indexes upon which the relative TSR performance is measured, estimated risk-free interest rate and the expected service periods of three years. The grant date fair value of RSUs subject to vesting based on the Company's growth in gross real estate investments and the Company's growth in AFFO per share is determined based on the market value of the Company's common stock on the date of grant. The Company assesses the probability of achievement of the growth in gross real estate investments and growth in AFFO per share and records expense for the awards based on the probable achievement of these metrics. The Company recognizes the cost of RSUs ratably over the vesting period.

The following table summarizes the stock-based award activity for the three months ended March 31, 2018 and 2017:

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value Per Restricted Stock Award	RSU Awards	Weighted-Average Grant Date Fair Value Per RSU
Outstanding as of December 31, 2017	313,819	$ 13.42	660,598	$ 9.52
Granted	46,788	11.14	937	11.13
Vested	(24,232)	13.27	(8,312)	9.35
Forfeited	-	-	-	-
Outstanding as of March 31, 2018	336,375	$ 13.11	653,223	$ 9.53

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value Per Restricted Stock Award	RSU Awards	Weighted-Average Grant Date Fair Value Per RSU
Outstanding as of December 31, 2016	352,793	$ 14.57	575,775	$ 8.51
Granted	33,780	11.10	-	-
Vested	(11,110)	15.00	-	-
Forfeited	(5,368)	15.00	-	-
Outstanding as of March 31, 2017	370,095	$ 14.24	575,775	$ 8.51

Of the restricted shares and RSUs that vested during the three months ended March 31, 2018, 3,936 shares were surrendered by certain employees to satisfy their tax obligations. RSUs are included in the preceding tables as if the participants earn shares equal to

100% of the units granted. The RSUs shown as granted during the three months ended March 31, 2018 represent the additional 50% RSUs from the 2016 grant that vested for one former employee.

The table below summarizes compensation expense related to share-based payments, included in general and administrative expenses, for the three months ended March 31, 2018 and 2017 (in thousands):

	For the three months ended March 31,	
	2018	2017
Restricted stock	$ 492	$ 548
Restricted stock units	564	408
Stock-based compensation	$ 1,056	$ 956

The remaining unrecognized cost from stock-based awards at March 31, 2018 was approximately $5.4 million and will be recognized over a weighted-average period of 2.0 years.

Note 6 - Commitments and Contingencies

Commitments

As detailed in Note 3 under the heading *"—Construction Mortgage Notes Activity,"* the Company has funding commitments of up to $25.0 million on two construction mortgage loans. As of May 10, 2018, approximately $12.2 million has been funded pursuant to these commitments.

In April 2017, the Company agreed to make available an aggregate amount of up to $11.0 million for the construction and equipping of certain new surgical suites at Mountain's Edge Hospital, subject to certain terms and conditions. The Company will provide advances as construction occurs, which is expected to occur through December 2018. The base rent associated with this property will be increased by an amount equal to 9.4% of the amount advanced, as advances are made. As of May 10, 2018, approximately $1.1 million has been funded pursuant to this commitment.

Contingencies

From time to time, the Company or its properties may be subject to claims and suits in the ordinary course of business. The Company's lessees and borrowers have indemnified, and are obligated to continue to indemnify, the Company against all liabilities arising from the operations of the properties and are further obligated to indemnify it against environmental or title problems affecting the real estate underlying such facilities. The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on its consolidated financial condition, results of operations or cash flows.

Note 7 - Equity

Common Stock Dividends

The following table reflects the common stock dividends paid during or related to 2018.

Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/Payable
4th Quarter 2017	$ 0.21	February 7, 2018	February 19, 2018	March 5, 2018
1st Quarter 2018	$ 0.21	May 8, 2018	May 22, 2018	June 5, 2018

Note 8 - Earnings per Share

The Company applies the two-class method for determining earnings per common share as its outstanding restricted shares of common stock with non-forfeitable dividend rights are considered participating securities. The following table sets forth the computation of earnings per common share for the three months ended March 31, 2018 and 2017 (amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
Numerator:	**2018**	**2017**
Net income	$ 6,154	$ 5,475
Less: Net income attributable to noncontrolling interest	(985)	(944)
Net income attributable to common stockholders	5,169	4,531
Less: Allocation to participating securities	(71)	(78)
Net income available to common stockholders	$ 5,098	$ 4,453
Denominator		
Basic weighted-average common shares	31,550	31,415
Dilutive potential common shares	60	-
Diluted weighted-average common shares	31,610	31,415
Basic and diluted earnings per common share	$ 0.16	$ 0.14

The effects of restricted shares of common stock and RSUs outstanding were excluded from the calculation of diluted earnings per common share for the three months ended March 31, 2017 because their effects were not dilutive.

Note 9 - Fair Value of Financial Instruments

Financial Assets and Liabilities Measured at Fair Value

The Company's financial assets and liabilities measured at fair value on a recurring basis currently include derivative financial instruments. These derivative financial instruments 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. The fair value of the Company's interest rate swaps asset, which is included in Other assets, net on the consolidated balance sheets, was $3.0 million and $1.2 million at March 31, 2018 and December 31, 2017, respectively. See Note 4 for further discussion regarding the Company's interest rate swap agreements.

Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of cash and cash equivalents, restricted cash, receivables and payables are reasonable estimates of their fair value as of March 31, 2018 due to their short-term nature (Level 1). The fair value of the Company's mortgage and other notes receivable as of March 31, 2018 is estimated by using Level 2 inputs such as discounting the estimated future cash flows using current market rates for similar loans that would be made to borrowers with similar credit ratings and for the same remaining maturities. As of March 31, 2018, the fair value of the Company's $41.8 million mortgage notes receivable was estimated to be approximately $41.5 million.

At March 31, 2018, the Company's indebtedness was comprised of borrowings under the credit facility that bear interest at LIBOR plus a margin (Level 2). The fair value of borrowings under the credit facility is considered to be equivalent to their carrying values as the debt is at variable rates currently available and resets on a monthly basis.

Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read together with the consolidated financial statements and notes thereto appearing elsewhere is this report. References to “we,” “our,” “us,” and “Company” refer to MedEquities Realty Trust, Inc., together with its consolidated subsidiaries.

Forward-Looking Statements

We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, discussion and analysis of our future financial condition, results of operations, funds from operations, adjusted funds from operations, our strategic plans and objectives, cost management, potential property acquisitions, anticipated capital expenditures (and access to capital), amounts of anticipated cash distributions to our stockholders in the future and other matters. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “might,” “should,” “result” and variations of these words and other similar expressions are intended to identify forward-looking statements. Such statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and/or could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. You are cautioned to not place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Factors that may impact forward-looking statements include, among others, the following:

- risks and uncertainties related to the national, state and local economies, particularly the economies of Texas, California, and Nevada, and the real estate and healthcare industries in general;
- availability and terms of capital and financing;
- the successful operations of our largest tenants;
- the ability of certain of our tenants to improve their operating results, which may not occur on the schedule or to the extent that we anticipate, or at all;
- the impact of existing and future healthcare reform legislation on our tenants, borrowers and guarantors;
- adverse trends in the healthcare industry, including, but not limited to, changes relating to reimbursements available to our tenants by government or private payors;
- our tenants’ ability to make rent payments, particularly those tenants comprising a significant portion of our portfolio and those tenants occupying recently developed properties;
- adverse effects of healthcare regulation and enforcement on our tenants, operators, borrowers, guarantors and managers and us;
- our guarantors’ ability to ensure rent payments;
- our possible failure to maintain our qualification as a real estate investment trust (“REIT”) and the risk of changes in laws governing REITs;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify and consummate attractive acquisitions and other investment opportunities, including different types of healthcare facilities and facilities in different geographic markets;
- our ability to source off-market and target-marketed deal flow;
- fluctuations in mortgage and interest rates;
- risks and uncertainties associated with property ownership and development;
- failure to integrate acquisitions successfully;
- potential liability for uninsured losses and environmental liabilities;
- the potential need to fund improvements or other capital expenditures out of operating cash flow; and
- potential negative impacts from the recent changes to the U.S. tax laws.

See Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion of these and other risks, as well as the risks, uncertainties and other factors discussed in this report and identified in other documents we file with the Securities and Exchange Commission from time to time. You should carefully consider these risks before making any investment decisions in the Company. New risks and uncertainties may also emerge from time to time that could materially and adversely affect us.

Overview and Background

We are a self-managed and self-administered company that invests in a diversified mix of healthcare properties and healthcare-related real estate debt investments. As of March 31, 2018, we had investments of $517.5 million, net in 32 real estate properties that contain a total of 2,632 licensed beds. Our properties as of March 31, 2018 were located in Texas, California, Nevada, South Carolina, Indiana and Connecticut and included 20 skilled nursing facilities, four behavioral health facilities, three acute care hospitals, two long-term acute care hospitals, one assisted living facility, one inpatient rehabilitation facility and one medical office building. In addition, we have six mortgage notes receivable totaling $41.8 million. As of March 31, 2018, our triple-net leased portfolio, which excludes the one medical office building, was 100% leased and had lease expirations ranging from March 2029 to November 2032.

Recent Developments

2018 Investments

During the three months ended March 31, 2018, we made the following investments:

On March 29, 2018, we originated a $5.0 million mortgage note receivable with a subsidiary real estate entity of GruenePointe Holdings, LLC, which is secured by a second lien on a skilled nursing and assisted living facility ("Adora Midtown") and a first lien on an additional parcel of land in Dallas, Texas. The loan has a two-year term and an annual interest rate of 10% that is payable on the maturity date of March 29, 2020. We have an existing purchase option on Adora Midtown for a gross purchase price not to exceed approximately $28.0 million, plus an earnout that we may pay based on the facility's earnings before interest, taxes, depreciation, amortization and rent expense ("EBITDAR") during the three years following the closing date of the acquisition.

On February 16, 2018, we funded an additional $3.0 million under an existing mortgage note receivable with Medistar Corporation, which is secured by land and an existing building in Webster, Texas (the "Medistar Gemini Mortgage Loan") that increased the total balance of the loan to $9.7 million. Effective with this additional funding, the interest rate under the loan increased from an annual interest rate of 10.0% to an annual interest rate of 12% and is payable upon the maturity date of the loan on December 31, 2018.

On January 31, 2018, we originated a $5.4 million mortgage note receivable to Louisville Rehab LP to partially fund the construction of a 42-bed, 57,275 square foot inpatient rehabilitation facility in Clarksville, Indiana. The note is secured by a second lien on the facility. The three-year loan has an annual interest rate of 9.5%, which has a claw-back feature that would equate to a 15.0% rate from inception of the loan should we elect not to exercise its purchase option. We have the exclusive option to purchase the new facility upon completion for approximately $26.0 million that would be leased pursuant to a 20-year triple net master lease guaranteed by Cobalt Medical Partners and Cobalt Rehabilitation Hospitals at an initial annual rate of 9.0%.

On January 8, 2018, we closed on a construction mortgage receivable with a maximum principal amount of up to $19.0 million to Haven Behavioral Healthcare for the purchase and conversion of an existing long-term acute care hospital to a 72-bed inpatient psychiatric hospital in Meridian, Idaho. The loan has a three-year term and an annual interest rate of 10.0%. Interest accrues monthly and is added to the outstanding balance of the mortgage note receivable. Upon completion of the planned renovation, we have the exclusive right to purchase the property, for a purchase price equal to the outstanding loan balance, in a sale-leaseback transaction with a 15-year triple-net master lease with an initial yield of 9.3%. The balance outstanding under this loan was approximately $7.9 million on May 10, 2018.

Mountain's Edge Hospital Expansion Funding

Pursuant to the Fundamental Healthcare master lease, in April 2017 we agreed to make available an aggregate amount of up to $11.0 million for the construction and equipping of certain new surgical suites at Mountain's Edge Hospital, subject to certain terms and conditions. We will provide advances as construction occurs, which is expected to be completed by December 31, 2018. The base rent under the master lease will be increased by an amount equal to 9.4% of the amount advanced, as advances are made. As of May 10, 2018, approximately $1.1 million has been funded pursuant to this commitment.

Portfolio Summary

At March 31, 2018, our portfolio was comprised of 32 healthcare facilities and six healthcare-related debt investments as presented in the tables below (dollars in thousands). We own 100% of all of our properties and investments, other than Baylor Scott & White Medical Center - Lakeway (“Lakeway Hospital”), in which we own a 51% interest through a consolidated partnership (the “Lakeway Partnership”).

Healthcare Facilities

Property	**Property Type (1)**	**Gross Investment**	**Lease Expiration(s)**
Texas SNF Portfolio (10 properties)	SNF	$ 145,142	July 2030
Life Generations Portfolio (6 properties)	SNF- 5; ALF- 1	96,696	March 2030
Lakeway Hospital (2)	ACH	75,056	August 2031
Kentfield Rehabilitation & Specialty Hospital	LTACH	58,030	December 2031
Mountain's Edge Hospital	ACH	30,070	March 2032
AAC Portfolio (4 properties)	BH	25,047	August 2032
Horizon Specialty Hospital of Henderson	LTACH	20,010	March 2032
Physical Rehabilitation and Wellness Center of Spartanburg	SNF	20,000	March 2029
Vibra Rehabilitation Hospital of Amarillo	IRF	19,399	September 2030
Advanced Diagnostics Hospital East	ACH	17,549	November 2032
Mira Vista Court	SNF	16,000	March 2029
North Brownsville Medical Plaza (3)	MOB	15,634	July 2018- December 2020
Magnolia Portfolio (2 properties)	SNF	15,039	July 2032
Woodlake at Tolland Nursing and Rehabilitation Center	SNF	10,133	June 2029
Total		$ 563,805	

(1) LTACH- Long-Term Acute Care Hospital; SNF- Skilled Nursing Facility; MOB- Medical Office Building; ALF- Assisted Living Facility; ACH- Acute Care Hospital; IRF- Inpatient Rehabilitation Facility; BH- Behavioral Health Facility.

(2) We own the facility through the Lakeway Partnership, a consolidated partnership which, based on total equity contributions of $2.0 million, is owned 51% by us.

(3) We are the lessee under a ground lease that expires in 2081, with two ten-year extension options, and provides for annual base rent of approximately $0.2 million in 2018.

Debt Investments

Loan	Borrower(s)	Principal Amount Outstanding	Maturity Date	Interest Rate	Collateral	Guarantors
Vibra Mortgage Loan	Vibra Healthcare, LLC and Vibra Healthcare II, LLC	$ 10,000	July 31, 2034 (1)	9.0%	Vibra Hospital of Western Massachusetts	Vibra Healthcare Real Estate Company II, LLC and Vibra Hospital of Western Massachusetts, LI
Medistar Gemini Mortgage Loan	Medistar Gemini, LLC	9,700	December 31, 2018(2)	12.0%	Land and building in Webster, Texas	Medistar Investme Inc. and Manfred (L.C.
Haven Construction Mortgage Loan	HBS of Meridian, LLC	7,853	July 8, 2021 (3)	10.0%	Inpatient psychiatric hospital under construction in Meridian, ID	CPIV Haven Holdi LLC
Cobalt Mortgage Loan	Louisville Rehab LP	5,414	January 17, 2021	9.5% (4)	Second lien on an inpatient rehabilitation facility under construction in Clarksville, IN	Executive persona guarantee
Adora Midtown Mortgage Loan	Adora 9 Realty, LLC	5,000	March 29, 2020	10.0%	Second lien on Adora Midtown and first lien on an additional parcel of land in Dallas, Texas	Adora Creekside F LLC, Personal gua of two executives
Sequel Construction Mortgage Loan	Sequel Schools, LLC	3,804	December 31, 2018(5)	8.3%	Land and building under construction in Andersonville, TN	Sequel Youth and Services, LLC
		$ 41,771				

(1) This loan was originated on August 1, 2014. Following the initial interest-only five-year term, this loan will automatically convert to a 15-year amortizing loan requiring payments of principal and interest unless prepaid. This loan may be prepaid during the initial five-year term only if Vibra Healthcare, LLC or Vibra Healthcare II, LLC, or one of their respective affiliates, enters into a replacement asset transaction with us equal to or exceeding $25.0 million in value.

(2) This loan was originated on August 1, 2017 with an additional funding on February 16, 2018. Effective with this additional funding, the interest rate under the loan increased from 10.0% per annum to 12.0% per annum. Mortgage interest accrues monthly but is not due until the maturity date of December 31, 2018.

(3) This construction loan of up to $19.0 million was originated on January 5, 2018. Mortgage interest accrues monthly but is not due until the maturity date of July 8, 2021.

(4) This loan has an annual interest rate of 9.5%, which has a claw-back feature that would equate to a 15.0% annual interest rate from inception of the loan should we elect not to exercise our purchase option.

(5) This construction mortgage loan of up to $6.0 million was originated on October 10, 2017 for the construction and development of a replacement psychiatric residential treatment facility for children and youth with neurodevelopmental disorders. Mortgage interest accrues monthly but is not due until the maturity date of December 31, 2018.

Summary of Investments by Type

The following table summarizes our investments in healthcare facilities and mortgage notes receivable by type as of and for the three months ended March 31, 2018 (dollars in thousands). Revenue includes rental income and interest on mortgage notes receivable.

	Properties/ Debt Investments	Gross Investment	% of Gross Investment	Revenue
Skilled nursing facilities (1)	21	$ 303,010	50.0%	$ 7,282
Acute care hospitals	3	122,675	20.3%	5,398
Long-term acute care hospitals	2	78,040	12.9%	1,798
Behavioral health facilities	4	25,047	4.1%	610
Inpatient rehabilitation facility	1	19,399	3.2%	399
Medical office building	1	15,634	2.6%	442
Mortgage notes receivable	6	41,771	6.9%	787
	38	$ 605,576	100.0%	$ 16,716

(1) Includes one assisted living facility connected to a skilled nursing facility.

Geographic Concentration

The following table contains information regarding the geographic concentration of the healthcare facilities in our portfolio as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 (dollars in thousands).

State	Number of Properties	Gross Investment	% of Total Real Estate Property Investments	% of Rental Income: Three months ended March 31, 2018	% of Rental Income: Three months ended March 31, 2017
Texas	17	$ 300,259	53.3%	59.1%	63.1%
California	7	154,726	27.4%	21.6%	25.1%
Nevada	4	63,648	11.3%	12.1%	8.3%
South Carolina	1	20,000	3.5%	3.2%	3.5%
Indiana	2	15,039	2.7%	2.4%	-
Connecticut	1	10,133	1.8%	1.6%	-
	32	$ 563,805	100.0%	100.0%	100.0%

Tenant Concentration

The following table contains information regarding the largest tenants, guarantors and borrowers in our portfolio as a percentage of total revenues for the three months ended March 31, 2018 and 2017 and as a percentage of total real estate assets (gross real estate properties and mortgage notes receivable) as of March 31, 2018 and December 31, 2017.

	% of Total Revenue for the three months ended March 31,		% of Total Real Estate Assets	
	2018	2017	March 31, 2018	December 31, 2017
BSW Health	21.9%	25.8%	12.4%	12.9%
Texas Ten Tenant	21.4%	24.9%	24.0%	24.9%
Fundamental Healthcare	15.3%	14.2%	14.2%	14.8%
Life Generations Healthcare	12.9%	15.1%	16.0%	16.6%
Vibra Healthcare	11.4%	13.6%	14.4%	15.0%

Critical Accounting Policies

Refer to our audited consolidated financial statements and notes thereto for the year ended December 31, 2017 for a discussion of our accounting policies, including the critical accounting policies of revenue recognition, real estate investments, asset impairment, stock-based compensation, and our accounting policy on consolidation, which are included in our 2017 Annual Report on Form 10-K, which was filed with the SEC on February 21, 2018. During the three months ended March 31, 2018, there were no material changes to these policies.

Factors That May Influence Future Results of Operations

Our revenues are derived from rents earned pursuant to the lease agreements entered into with our tenants and from interest income from loans that we make to other facility owners. Our tenants operate in the healthcare industry, generally providing medical, surgical, behavioral and rehabilitative care to patients. The capacity of our tenants/borrowers to pay our rents and interest is dependent upon their ability to conduct their operations at profitable levels. We believe that the business environment in which our tenants operate is generally positive for efficient operators. However, our tenants' operations are subject to economic, regulatory and market conditions that may affect their profitability, which could impact our results of operations. Accordingly, we actively monitor certain key factors, including changes in those factors that we believe may provide early indications of conditions that may affect the level of risk in our lease and loan portfolio.

Key factors that we consider in underwriting prospective tenants, borrowers and guarantors and in monitoring the performance of existing tenants, borrowers and guarantors include, but are not limited to, the following:

- the current, historical and projected cash flow and operating margins of each tenant and at each facility;
- the ratio of our tenants' operating earnings both to facility rent and to facility rent plus other fixed costs, including debt costs;
- the quality and experience of the tenant and its management team;
- construction quality, condition, design and projected capital needs of the facility;
- the location of the facility;
- local economic and demographic factors and the competitive landscape of the market;
- the effect of evolving healthcare legislation and other regulations on our tenants' profitability and liquidity; and
- the payor mix of private, Medicare and Medicaid patients at the facility.

We also actively monitor the credit risk of our tenants. The methods used to evaluate a tenant's liquidity and creditworthiness include reviewing certain periodic financial statements, operating data and clinical outcomes data of the tenant. Over the course of a lease, we also have regular meetings with the facility management teams. Through these means we are able to monitor a tenant's credit quality. Our approach to our investments in real estate-related debt investments is similar to our process when seeking to purchase the underlying property. We service our debt investments in-house and monitor both the credit quality of the borrower as well as the value of our collateral on an ongoing basis.

Certain business factors, in addition to those described above that directly affect our tenants and borrowers, will likely materially influence our future results of operations:

- the financial and operational performance of our tenants and borrowers, particularly those that account for a significant portion of the income generated by our portfolio, such as the Texas Ten Tenant (as defined below), BSW Health, Life Generations Healthcare, Fundamental Healthcare and Vibra Healthcare;
- trends in the cost and availability of capital, including market interest rates, that our prospective tenants may use for financing their real estate assets through lease structures;
- unforeseen changes in healthcare regulations that may limit the incentives for physicians to participate in the ownership of healthcare providers and healthcare real estate;
- reductions in reimbursements from Medicare, state healthcare programs and commercial insurance providers that may reduce our tenants' profitability impacting our lease rates; and
- competition from other financing sources.

Texas Ten Portfolio Update

For the reporting period ended December 31, 2017, the results of our tenant (the "Texas Ten Tenant") for our ten skilled nursing facilities in Texas were consistent with our expectations that coverage results would continue to decline throughout 2017, after which no further substantial decreases are expected. The Texas Ten Tenant reported that the rent and fixed charge coverage ratios were 0.73x and 0.66x, respectively, for the reporting period ended December 31, 2017. Rent coverage on an EBITDARM basis (which adds back to EBITDAR the management fees that are contractually subordinated to rent payments) for the same reporting period was 1.00x. While the Texas Ten Tenant has made all payments of monthly base rent, as previously disclosed, the Texas Ten Tenant reported to us that, starting in the second quarter of 2017, it was not in compliance with two financial covenants included in its master lease with us – a minimum rent coverage ratio (aggregate EBITDAR to aggregate base rent of the Texas Ten Tenant) of 1.2x and a minimum fixed charge coverage ratio (aggregate EBITDAR to aggregate fixed charges of the Texas Ten Tenant) of 1.1x, each of which is calculated on a trailing 12-month basis and reported one quarter in arrears and as such terms are defined in the master lease.

We continue to monitor closely the Texas Ten Tenant's operations and activities. Management of the Texas Ten Tenant has advised us that they continue to focus on increasing occupancy and quality measures (e.g., improved CMS star ratings, reduced survey deficiencies, and lower avoidable re-hospitalizations) and greater expense control through consolidation of various administrative functions and less reliance on contract labor. We believe these operational and financial points of focus will ultimately allow the Texas Ten Tenant to regain compliance with our lease coverage covenants although we expect the Texas Ten Tenant to remain out of compliance with these covenants through the remainder of 2018. As of May 10, 2018, the Texas Ten Tenant is in compliance with all other covenants and provisions of the master lease.

In April 2018, in connection with a restructuring that better aligns the ownership interests of the Texas Ten Tenant and OnPointe Health, the manager of our Texas skilled nursing facilities, GruenePointe Holdings, LLC ("GruenePointe") transferred all of the interests in the Texas Ten Tenant and one additional skilled nursing facility to a newly formed entity, TX 11 Holding, LLC (the "Texas Ten Guarantor"), which is wholly owned by two of GruenePointe's partners who own a majority interest in OnPointe Health. In connection with the transfer, the Texas Ten Guarantor fully assumed GruenePointe's guaranty of the master lease. This transaction did not impact the management team or operations of the Texas Ten Tenant or the terms of the master lease.

The master lease is unconditionally guaranteed by the Texas Ten Guarantor, and is guaranteed by an affiliate of OnPointe Health in an amount up to one year of its management fee received from our Texas skilled nursing facilities. In addition, the master lease is personally guaranteed by the owners of the Texas Ten Tenant in an amount up to $6.0 million and is further secured by (i) a first priority pledge of and security interest in the equity interests in the Texas Ten Tenant and (ii) an assignment and pledge of substantially all of the assets of the Texas Ten Tenant. The master lease also requires the Texas Ten Tenant to maintain security deposits in an amount equal to two months of rent.

As noted above, the Texas Ten Tenant has continued to make rental payments under the master lease and is taking actions to remedy what are considered to be the underlying causes identified by its management. However, if the operating results of the Texas Ten Tenant do not improve on the schedule or to the extent we anticipate, the Texas Ten Tenant or the Texas Ten Guarantor may default on the lease payments or other obligations to us, which could materially and adversely affect our business, financial condition and results of operations.

Results of Operations

Three Months Ended March 31, 2018 Compared to March 31, 2017 (dollars in thousands)

	For the three months ended		Change	
	March 31, 2018	March 31, 2017	$	%
Revenues				
Rental income	$ 15,929	$ 13,839	$ 2,090	15%
Interest on mortgage notes receivable	787	433	354	82%
Interest on notes receivable	-	10	(10)	(100%)
Total revenues	16,716	14,282	2,434	17%
Expenses				
Depreciation and amortization	4,194	3,618	576	16%
Property related	322	352	(30)	(9%)
Acquisition related	108	66	42	64%
Franchise, excise and other taxes	71	86	(15)	(17%)
General and administrative	3,316	3,171	145	5%
Total operating expenses	8,011	7,293	718	10%
Operating income	8,705	6,989	1,716	25%
Other income (expense)				
Interest and other income	7	1	6	600%
Interest expense	(2,558)	(1,515)	(1,043)	69%
	(2,551)	(1,514)	(1,037)	68%
Net income	$ 6,154	$ 5,475	$ 679	12%
Less: Net income attributable to noncontrolling interest	(985)	(944)	(41)	4%
Net income attributable to common stockholders	$ 5,169	$ 4,531	$ 638	14%

Total revenues for the three months ended March 31, 2018 increased approximately $2.4 million, or 17%, over the prior-year period as a result of an approximately $2.1 million increase in rental income and an approximately $0.4 million increase in interest on mortgage notes receivable. Rental income increased as a result of approximately $1.7 million in base rent from eight new properties acquired subsequent to March 31, 2017 and approximately $0.4 million in rent increases under existing leases. Interest on mortgage notes receivable increased approximately $0.6 million as a result of the origination of five mortgage notes receivable subsequent to March 31, 2017, partially offset by a decrease of $0.2 million related to the conversion of a $12.5 million mortgage loan to fee simple ownership in November 2017.

Total operating expenses for the three months ended March 31, 2018 increased approximately $0.7 million, or 10%, over the prior-year period, primarily from: (i) an increase in depreciation expense of approximately $0.6 million related to the eight properties acquired subsequent to March 31, 2017; and (ii) an increase in general and administrative expenses of approximately $0.1 million, mainly attributable to compensation and benefits, including stock-based compensation.

Interest expense for the three months ended March 31, 2018 increased approximately $1.0 million, or 69%, over the prior-year period. This increase was comprised of the following:

- An increase of approximately $1.1 million in interest and unused credit facility fees as a result of (i) a higher weighted-average outstanding balance under the credit facility of approximately $72.3 million for the three months ended March 31, 2018 compared to the prior-year period and (ii) a higher weighted-average interest rate under the credit facility, including the effect of the interest rate swap agreements, of 3.7% for the three months ended March 31, 2018, compared to 2.6% for the prior-year period; and

- A decrease of approximately $0.1 million in amortization of deferred financing costs, primarily associated with the amendment and restatement of the credit agreement in February 2017, which extended the maturity date of amounts due under the revolving credit facility to February 2021 and added the term loan with a maturity date in February 2022.

Liquidity and Capital Resources

Overview

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. Our primary sources of cash include operating cash flows, borrowings, including borrowings under our revolving credit facility and secured term loan, and net proceeds from equity issuances. Our primary uses of cash include funding acquisitions and investments consistent with our investment strategy, repaying principal and interest on outstanding borrowings, making distributions to our stockholders, funding our operations and paying accrued expenses. At March 31, 2018, we had $5.9 million of cash and cash equivalents.

Our long-term liquidity needs consist primarily of funds necessary to pay for the costs of acquiring additional healthcare properties and making additional loans and other investments, including funding potential future developments and redevelopments, and principal and interest payments on our debt. As of March 31, 2018, we had approximately $12.4 million of estimated contractual obligations during the remainder of the year ending December 31, 2018, excluding interest on our borrowings under our credit facility. We expect to fund these obligations, as well as any amounts drawn by the borrower under the Haven construction mortgage loan, with a combination of cash flows from operations and borrowings under our credit facility. In addition, although the terms of our net leases generally obligate our tenants to pay capital expenditures necessary to maintain and improve our net-leased properties, we from time to time may fund the capital expenditures for our net-leased properties through loans to the tenants or advances, some of which may increase the amount of rent payable with respect to the properties. We may also fund the capital expenditures for any multi-tenanted properties, which currently include our one medical office building. We expect to meet our long-term liquidity requirements through various sources of capital, including future equity issuances (including limited partnership units in our operating partnership) or debt offerings, net cash provided by operations, borrowings under our revolving credit facility, long-term mortgage indebtedness and other secured and unsecured borrowings.

We may utilize various types of debt to finance a portion of our acquisition and investment activities, including long-term, fixed-rate mortgage loans, variable-rate term loans, secured revolving lines of credit, such as those under our secured credit agreement, and construction financing facilities. Under our credit agreement, we are subject to continuing covenants and are required to make continuing representations and warranties, and future indebtedness that we may incur may contain similar provisions. In addition, borrowings under our credit agreement are secured by pledges of substantially all of our assets. In the event of a default, the lenders could accelerate the timing of payments under the debt obligations and we may be required to repay such debt with capital from other sources, which may not be available on attractive terms, or at all, which would have a material adverse effect on our liquidity, financial condition, results of operations and ability to make distributions to our stockholders.

Credit Agreement

Our second amended and restated credit agreement (the “credit agreement”) provides for a $300 million secured revolving credit facility that matures in February 2021 and a $125 million secured term loan that matures in February 2022. The revolving credit facility has one 12-month extension option, subject to certain conditions, including the payment of a 0.15% extension fee.

At March 31, 2018 and 2017, the weighted-average interest rate under our credit facility was 3.8% and 2.6%, respectively. The weighted-average balance outstanding under our credit facility was approximately $225.3 million and $153.0 million for the three months ended March 31, 2018 and 2017, respectively.

Amounts outstanding under our credit facility bear interest at LIBOR plus a margin between 1.75% and 3.00% or a base rate plus a margin between 0.75% and 2.00%, in each case depending on our leverage. In addition, the revolving credit facility includes an unused facility fee equal to 0.25% of the amount of the unused portion of the revolving credit facility if amounts borrowed are equal to or greater than 50% of the total commitments or 0.35% if amounts borrowed are less than 50% of such commitments.

The credit agreement also includes an accordion feature that allows the total borrowing capacity, including the term loan component, to be increased to up to $700 million, subject to certain conditions, including obtaining additional commitments from lenders. The amount available to borrow under the credit facility is limited according to a borrowing base valuation of assets owned by subsidiaries of our operating partnership. The credit facility is secured by a pledge of our operating partnership’s equity interests in its subsidiaries that own borrowing base assets, which is substantially all of our assets. The credit agreement includes the ability to convert to an unsecured credit facility when certain conditions are met, including our having a minimum gross asset value of $1.0 billion, a minimum borrowing base of $500 million, less than 50% leverage and continued compliance with the covenants under the credit agreement.

At May 10, 2018, we had $239.7 million outstanding under our credit facility, which was comprised of $114.7 million under the revolving credit facility and $125 million under the term loan, and we had $37.0 million in additional available borrowing capacity under the revolving credit facility, based on our current borrowing base assets. The interest rate on all borrowings under the credit facility was 3.87% as of May 10, 2018.

Our ability to borrow under the credit facility is subject to ongoing compliance with various customary restrictive covenants, including with respect to liens, indebtedness, investments, distributions, mergers and asset sales. In addition, the credit agreement requires us to satisfy certain financial covenants.

The credit agreement also contains customary events of default, in certain cases subject to customary periods to cure, including among others, nonpayment of principal or interest, material breach of representations and warranties and failure to comply with covenants. The occurrence of an event of default, following the applicable cure period, would permit the lenders to, among other things, declare the unpaid principal, accrued and unpaid interest and all other amounts payable under the credit facility to be immediately due and payable. We were in compliance with all covenants at March 31, 2018.

Our operating partnership is the borrower under the credit facility, and we and certain of our subsidiaries serve as guarantors under the credit facility.

Sources and Uses of Cash

The sources and uses of cash reflected in our consolidated statements of cash flows for the three months ended March 31, 2018 and 2017 are summarized below (dollars in thousands):

	For the three months ended March 31,		
	2018	2017	Change
Cash, cash equivalents and restricted cash at beginning of period	$ 12,640	$ 9,771	$ 2,869
Net cash provided by operating activities	7,839	8,726	(887)
Net cash used in investing activities	(23,157)	(12,736)	(10,421)
Net cash provided by financing activities	8,595	2,045	6,550
Cash, cash equivalents and restricted cash at end of period	$ 5,917	$ 7,806	$ (1,889)

Operating Activities- Cash flows from operating activities decreased by $0.9 million during the three months ended March 31, 2018 compared to the same period in 2017. Operating cash flows were primarily impacted by (i) a net decrease in cash of $1.2 million related to other operating assets and liabilities, (ii) a $0.2 million net decrease in deferred revenues based on the timing of rents collected, partially offset by (iii) an increase in cash of $0.6 million primarily from acquisitions completed subsequent to March 31, 2017.

Investing Activities- Cash used in investing activities during the three months ended March 31, 2018 increased by $10.4 million compared to the same period in 2017. This increase was primarily related to the origination and funding of mortgage notes receivable totaling $22.7 million during the three months ended March 31, 2018, compared to one $12.5 million mortgage note receivable that was originated during the three months ended March 31, 2017.

Financing Activities- Cash provided by financing activities for the three months ended March 31, 2018 increased by $6.6 million compared to the same period in 2017. The change resulted primarily from additional borrowings under the credit facility during the three months ended March 31, 2018 of $4.0 million, net to fund new real estate investments and lower deferred loan costs paid of $2.6 million.

Off-Balance Sheet Arrangements

As of March 31, 2018, we had no off-balance sheet arrangements.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: funds from operations attributable to common stockholders (“FFO”) and adjusted fund from operations attributable to common stockholders (“AFFO”).

Funds from Operations

FFO is a non-GAAP measure used by many investors and analysts that follow the real estate industry. FFO, as defined by the National Association of Real Estate Investment Trusts (“NAREIT”), represents net income (computed in accordance with GAAP), excluding gains (losses) on sales of real estate and impairments of real estate assets, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Noncontrolling interest amounts represent adjustments to reflect only our share of real estate-related depreciation and amortization. We compute FFO in accordance with NAREIT’s definition, which may differ from the methodology for calculating FFO, or similarly titled measures, used by other companies.

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company's operations. We believe that the presentation of FFO provides useful information to investors regarding our operating performance by excluding the effect of real-estate related depreciation and amortization, gains or losses from sales for real estate, including impairments, extraordinary items and the portion of items related to unconsolidated entities, all of which are based on historical cost accounting, and that FFO can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common stockholders.

Our calculation of FFO may not be comparable to measures calculated by other companies that do not use the NAREIT definition of FFO or do not calculate FFO per diluted share in accordance with NAREIT guidance. FFO should not be considered as an alternative to net income (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

Adjusted Funds from Operations

AFFO is a non-GAAP measure used by many investors and analysts to measure a real estate company's operating performance by removing the effect of items that do not reflect ongoing property operations. To calculate AFFO, we further adjust FFO for certain items that are not added to net income in NAREIT's definition of FFO, such as acquisition expenses, non-real estate-related depreciation and amortization (including amortization of lease incentives, tenant allowances and leasing costs), stock-based compensation expenses, and any other non-comparable or non-operating items, that do not relate to the operating performance of our properties. To calculate AFFO, we also adjust FFO to remove the effect of straight-line rent revenue, which represents the recognition of net unbilled rental income expected to be collected in future periods of a lease agreement that exceeds the actual contractual rent due periodically from tenants for their use of the leased real estate under each lease. Noncontrolling interest amounts represent adjustments to reflect only our share of straight line rent revenue.

Our calculation of AFFO may differ from the methodology used for calculating AFFO by certain other REITs and, accordingly, our AFFO may not be comparable to AFFO reported by other REITs. AFFO should not be considered as an alternative to net income (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

The table below reconciles net income attributable to common stockholders, the most directly comparable GAAP metric, to FFO and AFFO attributable to common stockholders for the three months ended March 31, 2018 and 2017 and is presented using the weighted-average common shares as determined in our computation of earnings per share. The effects of restricted shares of common stock were included in the dilutive weighted-average common shares outstanding for the calculation of FFO and AFFO per common share for the three months ended March 31, 2017 as their effects were dilutive. These shares were excluded from the calculation of diluted net income attributable to common stockholders per share for the three months ended March 31, 2017 because their effects were not dilutive.

FFO attributable to common stockholders and AFFO attributable to common stockholders for the three months ended March 31, 2018 as compared to the same period in the prior year benefited from the new investment activities, net of the effects of additional interest expense resulting from the incremental borrowings under the credit facility to fund the investment activities and a higher weighted-average interest rate on borrowings.

The amounts presented below are in thousands, except per share amounts.

	For the three months ended March 31,	
	2018	2017
Net income attributable to common stockholders	$ 5,169	$ 4,531
Real estate depreciation and amortization, net of noncontrolling interest	4,112	3,536
FFO attributable to common stockholders	9,281	8,067
Stock-based compensation expense	1,056	956
Deferred financing costs amortization	258	322
Non-real estate depreciation and amortization	133	152
Straight-line rent expense	38	40
Straight-line rent revenue, net of noncontrolling interest	(1,429)	(969)
AFFO attributable to common stockholders	$ 9,337	$ 8,568
Weighted-average shares outstanding- earnings per share		
Basic	31,550	31,415
Diluted	31,610	31,415
Net income attributable to common stockholders per share		
Basic and diluted	$ 0.16	$ 0.14
Weighted-average common shares outstanding- FFO and AFFO		
Basic	31,550	31,415
Diluted	31,610	31,566
FFO per common share		
Basic and diluted	$ 0.29	$ 0.26
AFFO per common share		
Basic and diluted	$ 0.30	$ 0.27

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary market risk to which we are exposed is interest rate risk. As of March 31, 2018, we had $107.7 million outstanding under our revolving credit facility and $125.0 million outstanding under our term loan, all of which bear interest at a variable rate, and no other outstanding debt. We entered into interest rate swaps on the term loan that effectively converted it into fixed-rate debt. At March 31, 2018, LIBOR on our outstanding borrowings was 1.69%. Assuming no increase in the amount of our variable-rate debt, if LIBOR increased 100 basis points, our cash flow would decrease by approximately $1.1 million annually. Assuming no increase in the amount of our variable rate debt, if LIBOR were reduced by 100 basis points, our cash flow would increase by approximately $1.1 million annually.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report identified in connection with the evaluation of our disclosure controls and procedures described above 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

We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our financial condition or results of operations if determined adversely to us. We may be party from time to time to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. There can be no assurance that these matters that arise in the future, individually or in aggregate, will not have a material adverse effect on our financial condition or results of operations in any future period.

Item 1A. Risk Factors

There have been no material changes to the risk factors that were disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Company Purchases of Equity Securities

During the three months ended March 31, 2018, certain of our employees surrendered shares of common stock owned by them to satisfy their minimum statutory federal and state tax obligations associated with the vesting of restricted shares of common stock issued under our Amended and Restated 2014 Equity Incentive Plan (the "Plan"). The following table summarizes all of these repurchases during the three months ended March 31, 2018.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
January 1 through January 31, 2018	1,297	$ 11.13	N/A	N/A
February 1 through February 28, 2018	-	-	N/A	N/A
March 1 through March 31, 2018	-	-	N/A	N/A
Total	1,297			

(1) The number of shares purchased represents shares of common stock surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted shares of common stock issued under the Plan. With respect to these shares, the price paid per share is based on the fair value at the time of surrender.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1†	Indemnification Agreement by and between MedEquities Realty Trust, Inc. and each of its directors and officers listed on Schedule A thereto
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

†Management contract or compensatory plan or arrangement.

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.

MedEquities Realty Trust, Inc.

Date: May 10, 2018

By: /s/ John W. McRoberts
John W. McRoberts
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2018

By: /s/ Jeffery C. Walraven
Jeffery C. Walraven
Chief Financial Officer
(Principal Financial Officer)

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

FORM OF INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (this **"Agreement"**) is entered into as of [●], 201[●], by and among MEDEQUITIES REALTY TRUST, INC., a Maryland corporation (the **"Company"** or the **"Indemnitor"**) and [ ] (the **"Indemnitee"**).

WHEREAS, the Indemnitee is an officer [or][and] a member of the Board of Directors of the Company and in such [capacity][capacities] is performing a valuable service for the Company;

WHEREAS, Maryland law permits the Company to enter into contracts with its officers or members of its Board of Directors with respect to indemnification of, and advancement of expenses to, such persons;

WHEREAS, the Articles of Amendment and Restatement of the Company (the **"Charter"**) provide that the Company shall indemnify and advance expenses to its directors and officers to the maximum extent permitted by Maryland law in effect from time to time;

WHEREAS, the Amended and Restated Bylaws of the Company (the **"Bylaws"**) provide that each director and officer of the Company shall be indemnified by the Company to the maximum extent permitted by Maryland law in effect from time to time and shall be entitled to advancement of expenses consistent with Maryland law; and

WHEREAS, to induce the Indemnitee to provide services to the Company as an officer [or][and] a member of the Board of Directors, and to provide the Indemnitee with specific contractual assurance that indemnification will be available to the Indemnitee regardless of, among other things, any amendment to or revocation of the Charter or the Bylaws, or any acquisition transaction relating to the Company, the Indemnitor desires to provide the Indemnitee with protection against personal liability as set forth herein.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Indemnitor and the Indemnitee hereby agree as follows:

1. **DEFINITIONS.**

For purposes of this Agreement:

(a) **"Change in Control"** shall have the meaning ascribed to it by the Company's 2014 Equity Incentive Plan or any equity incentive or stock compensation plan adopted by the Board of Directors and approved by the stockholders of the Company that may later replace the Company's 2014 Equity Incentive Plan.

(b) **"Corporate Status"** describes the status of a person who is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, partner (limited or general), member, director, employee or agent of any other foreign or domestic corporation, partnership, joint venture, limited liability company, trust, other enterprise (whether conducted for profit or not for profit) or employee benefit plan. The Company shall be deemed to have requested the Indemnitee to serve an employee benefit plan where the performance of the Indemnitee's duties to the Company also imposes or imposed duties on, or otherwise involves or involved services by, the Indemnitee to the plan or participants or beneficiaries of the plan.

(c) **“Expenses”** shall include all attorneys’ and paralegals’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

(d) **“Proceeding”** includes any action, suit, arbitration, alternate dispute resolution mechanism, investigation (including any internal investigation), administrative hearing, or any other proceeding, including appeals therefrom, whether civil, criminal, administrative, or investigative, except one initiated by the Indemnitee pursuant to paragraph 8 of this Agreement to enforce such Indemnitee’s rights under this Agreement.

(e) **“Special Legal Counsel”** means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, or in the past two years has been, retained to represent (i) the Indemnitor or the Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder.

2. **INDEMNIFICATION.**

The Indemnitee shall be entitled to the rights of indemnification provided in this paragraph 2 and under applicable law, the Charter, the Bylaws, any other agreement, a vote of stockholders or resolution of the Board of Directors or otherwise if, by reason of such Indemnitee’s Corporate Status, such Indemnitee is, or is threatened to be made, a party to any threatened, pending, or completed Proceeding, including a Proceeding by or in the right of the Company. Unless prohibited by paragraph 13 hereof and subject to the other provisions of this Agreement, the Indemnitee shall be indemnified hereunder, to the maximum extent permitted by Maryland law in effect from time to time, against judgments, penalties, fines, liabilities, and settlements and reasonable Expenses actually incurred by or on behalf of such Indemnitee in connection with such Proceeding or any claim, issue or matter therein; provided, however, that if such Proceeding was initiated by or in the right of the Company, indemnification may not be made in respect of such Proceeding if the Indemnitee shall have been finally adjudged to be liable to the Company. For purposes of this paragraph 2, excise taxes assessed on the Indemnitee with respect to an employee benefit plan pursuant to applicable law shall be deemed fines.

3. **EXPENSES OF A SUCCESSFUL PARTY.**

Without limiting the effect of any other provision of this Agreement, including the rights provided for in paragraphs 2 and 4 hereof, and without regard to the provisions of paragraph 6 hereof, to the extent that the Indemnitee is, by reason of such Indemnitee’s Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding pursuant to a final non-appealable order, such Indemnitee shall be indemnified against all reasonable Expenses actually incurred by or on behalf of such Indemnitee in connection therewith. If the Indemnitee is not wholly successful in such Proceeding pursuant to a final non-appealable order but is successful, on the merits or otherwise, as to one or more but less than all claims, issues, or matters in such Proceeding pursuant to a final non-appealable order, the Indemnitor shall indemnify the Indemnitee against all reasonable Expenses actually incurred by or on behalf of such Indemnitee in connection with each successfully resolved claim, issue or matter. For purposes of this paragraph and without limitation, the termination of any claim, issue or matter in such Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

4. **ADVANCEMENT OF EXPENSES.**

Notwithstanding anything in this Agreement to the contrary, but subject to paragraph 13 hereof, if the Indemnitee is or was or becomes a party to or is otherwise involved in any Proceeding (including as a witness), or is or was threatened to be made a party to or a participant (including as a witness) in any such Proceeding, by reason of the Indemnitee's Corporate Status, or by reason of (or arising in part out of) any actual or alleged event or occurrence related to the Indemnitee's Corporate Status, or by reason of any actual or alleged act or omission on the part of the Indemnitee taken or omitted in or relating to the Indemnitee's Corporate Status, then the Indemnitor shall advance all reasonable Expenses incurred by the Indemnitee in connection with any such Proceeding within twenty (20) days after the receipt by the Indemnitor of a statement from the Indemnitee requesting such advance from time to time, whether prior to or after final disposition of such Proceeding; provided that, such statement shall reasonably evidence the Expenses incurred or to be incurred by the Indemnitee and shall include or be preceded or accompanied by (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Indemnitor as authorized by this Agreement has been met and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amounts advanced if it should ultimately be determined that the standard of conduct has not been met. The undertaking required by clause (ii) of the immediately preceding sentence shall be an unlimited general obligation of the Indemnitee but need not be secured and may be accepted without reference to financial ability to make the repayment.

5. **WITNESS EXPENSES.**

Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee is, by reason of such Indemnitee's Corporate Status, a witness for any reason in any Proceeding to which such Indemnitee is not a named defendant or respondent, such Indemnitee shall be indemnified by the Indemnitor against all Expenses actually incurred by or on behalf of such Indemnitee in connection therewith.

6. **DETERMINATION OF ENTITLEMENT TO AND AUTHORIZATION OF INDEMNIFICATION.**

(a) To obtain indemnification under this Agreement, the Indemnitee shall submit to the Indemnitor a written request, including therewith such documentation and information reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification.

(b) Indemnification under this Agreement may not be made unless authorized for a specific Proceeding after a determination has been made in accordance with this paragraph 6(b) that indemnification of the Indemnitee is permissible in the circumstances because the Indemnitee has met the following standard of conduct: the Indemnitor shall indemnify the Indemnitee in accordance with the provisions of paragraph 2 hereof, unless it is established that: (a) the act or omission of the Indemnitee was material to the matter giving rise to the Proceeding and (x) was committed in bad faith or (y) was the result of active and deliberate dishonesty; (b) the Indemnitee actually received an improper personal benefit in money, property or services; or (c) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. Upon receipt by the Indemnitor of the Indemnitee's written request for indemnification pursuant to subparagraph 6(a), a determination as to whether the applicable standard of conduct has been met shall be made within the period specified in paragraph 6(e): (i) if a Change in Control shall have occurred, by Special Legal Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee, with Special Legal Counsel selected by the Indemnitee (the Indemnitee shall give prompt written notice to the Indemnitor advising the Indemnitor of the identity of the Special Legal Counsel so selected); or (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of directors not, at the time, parties to the Proceeding, or, if such quorum cannot be obtained, then by a majority vote of a committee of the Board of Directors consisting solely of two or more directors not, at the time, parties to such Proceeding and who were duly designated to act in the matter by a majority vote of the full Board of Directors in which the designated directors who are parties may participate, (B) if the requisite quorum of the full Board of Directors cannot be obtained therefor and the committee cannot be established (or, even if such quorum is obtainable or such committee can be established, if such quorum or committee so directs), by Special Legal Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, with Special Legal Counsel selected by the Board of Directors or a committee of the Board of Directors by vote as set forth in clause (ii)(A) of this paragraph 6(b) (or, if the requisite quorum of the full Board of Directors cannot be obtained therefor and the committee cannot be established, by a majority of the full Board of Directors in which directors who are parties to the Proceeding may participate) (if the Indemnitor selects Special Legal Counsel to make the determination under this clause (ii), the Indemnitor shall give prompt written notice to the Indemnitee advising him or her of the identity of the Special Legal Counsel so selected) or (C) if so directed by a majority of the members of the Board of Directors, by the stockholders of the Company. If it is so determined that the Indemnitee is entitled to indemnification, payment to the Indemnitee shall be made within ten (10) days after such determination. Authorization of indemnification and determination as to reasonableness of Expenses shall be made in the same manner as the determination that indemnification is permissible. However, if the determination that indemnification is permissible is made by Special Legal Counsel under clause (ii)(B) above, authorization of indemnification and determination as to reasonableness of Expenses shall be made in the manner specified under clause (ii)(B) above for the selection of such Special Legal Counsel.

(c) The Indemnitee shall cooperate with the person or entity making such determination with respect to the Indemnitee's entitlement to indemnification, including providing upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to the Indemnitee and reasonably necessary to such determination. Any reasonable costs or expenses (including reasonable attorneys' fees and disbursements) incurred by the Indemnitee in so cooperating shall be borne by the Indemnitor (irrespective of the determination as to the Indemnitee's entitlement to indemnification) and the Indemnitor hereby indemnifies and agrees to hold the Indemnitee harmless therefrom.

(d) In the event the determination of entitlement to indemnification is to be made by Special Legal Counsel pursuant to paragraph 6(b) hereof, the Indemnitee, or the Indemnitor, as the case may be, may, within seven days after such written notice of selection shall have been given, deliver to the Indemnitor or to the Indemnitee, as the case may be, a written objection to such selection. Such objection may be asserted only on the grounds that the Special Legal Counsel so selected does not meet the requirements of "Special Legal Counsel" as defined in paragraph 1 of this Agreement. If such written objection is made, the Special Legal Counsel so selected may not serve as Special Legal Counsel until a court has determined that such objection is without merit. If, within twenty (20) days after submission by the Indemnitee of a written request for indemnification pursuant to paragraph 6(a) hereof, no Special Legal Counsel shall have been selected or, if selected, shall have been objected to, either the Indemnitor or the Indemnitee may petition a court for resolution of any objection which shall have been made by the Indemnitor or the Indemnitee to the other's selection of Special Legal Counsel and/or for the appointment as Special Legal Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Special Legal Counsel under paragraph 6(b) hereof. The Indemnitor shall pay all reasonable fees and expenses of Special Legal Counsel incurred in connection with acting pursuant to paragraph 6(b) hereof, and all reasonable fees and expenses incident to the selection of such Special Legal Counsel pursuant to this paragraph 6(d). In the event that a determination of entitlement to indemnification is to be made by Special Legal Counsel and such determination shall not have been made and delivered in a written opinion within ninety (90) days after the receipt by the Indemnitor of the Indemnitee's request in accordance with paragraph 6(a), upon the due commencement of any judicial proceeding in accordance with paragraph 8(a) of this Agreement, Special Legal Counsel shall be discharged and relieved of any further responsibility in such capacity.

(e) If the person or entity making the determination whether the Indemnitee is entitled to indemnification shall not have made a determination within forty-five (45) days after receipt by the Indemnitor of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and the Indemnitee shall be entitled to such indemnification, absent: (i) a misstatement by the Indemnitee of a material fact, or an omission of a material fact necessary to make the Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law. Such 45-day period may be extended for a reasonable time, not to exceed an additional fifteen (15) days, if the person or entity making said determination in good faith requires additional time for the obtaining or evaluating of documentation and/or information relating thereto. The foregoing provisions of this paragraph 6(e) shall not apply: (i) if the determination of entitlement to indemnification is to be made by the stockholders and if within fifteen (15) days after receipt by the Indemnitor of the request for such determination the Board of Directors resolves to submit such determination to the stockholders for consideration at an annual or special meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made at such meeting, or (ii) if the determination of entitlement to indemnification is to be made by Special Legal Counsel pursuant to paragraph 6(b) of this Agreement.

7. **PRESUMPTIONS.**

(a) In making a determination with respect to entitlement or authorization of indemnification hereunder, the person or entity making such determination shall presume that the Indemnitee is entitled to indemnification under this Agreement and the Indemnitor shall have the burden of proof to overcome such presumption.

(b) The termination of any Proceeding by conviction, or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

8. **REMEDIES.**

(a) In the event that: (i) a determination is made in accordance with the provisions of paragraph 6 that the Indemnitee is not entitled to indemnification under this Agreement, or (ii) advancement of reasonable Expenses is not timely made pursuant to this Agreement, or (iii) payment of indemnification due the Indemnitee under this Agreement is not timely made, the Indemnitee shall be entitled to an adjudication in an appropriate court of competent jurisdiction of such Indemnitee's entitlement to such indemnification or advancement of Expenses.

(b) In the event that a determination shall have been made pursuant to paragraph 6 of this Agreement that the Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this paragraph 8 shall be conducted in all respects as a de novo trial on the merits. The fact that a determination had been made earlier pursuant to paragraph 6 of this Agreement that the Indemnitee was not entitled to indemnification shall not be taken into account in any judicial proceeding commenced pursuant to this paragraph 8 and the Indemnitee shall not be prejudiced in any way by reason of that adverse determination. In any judicial proceeding commenced pursuant to this paragraph 8, the Indemnitor shall have the burden of proving that the Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made or deemed to have been made pursuant to this Agreement that the Indemnitee is entitled to indemnification, the Indemnitor shall be bound by such determination in any judicial proceeding commenced pursuant to this paragraph 8, absent: (i) a misstatement by the Indemnitee of a material fact, or an omission of a material fact necessary to make the Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Indemnitor shall be precluded from asserting in any judicial proceeding commenced pursuant to this paragraph 8 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Indemnitor is bound by all the provisions of this Agreement.

(e) In the event that the Indemnitee, pursuant to this paragraph 8, seeks a judicial adjudication of such Indemnitee’s rights under, or to recover damages for breach of, this Agreement, if successful on the merits or otherwise as to all or less than all claims, issues or matters in such judicial adjudication, the Indemnitee shall be entitled to recover from the Indemnitor, and shall be indemnified by the Indemnitor against, any and all reasonable Expenses actually incurred by such Indemnitee in connection with each successfully resolved claim, issue or matter.

9. **NOTIFICATION AND DEFENSE OF CLAIMS.**

The Indemnitee agrees promptly to notify the Indemnitor in writing upon being served with any summons, citation, subpoena, complaint, indictment, information, or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder, but the failure so to notify the Indemnitor will not relieve the Indemnitor from any liability that the Indemnitor may have to Indemnitee under this Agreement unless the Indemnitor is materially prejudiced thereby. With respect to any such Proceeding as to which Indemnitee notifies the Indemnitor of the commencement thereof:

(a) The Indemnitor will be entitled to participate therein at its own expense.

(b) Except as otherwise provided below, the Indemnitor will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After notice from the Indemnitor to Indemnitee of the Indemnitor’s election so to assume the defense thereof, the Indemnitor will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ Indemnitee’s own counsel in such Proceeding, but the fees and disbursements of such counsel incurred after notice from the Indemnitor of the Indemnitor’s assumption of the defense thereof shall be at the expense of Indemnitee unless (a) the employment of counsel by Indemnitee has been authorized by the Indemnitor, (b) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Indemnitor and the Indemnitee in the conduct of the defense of such action, (c) such Proceeding seeks penalties or other relief against the Indemnitee with respect to which the Indemnitor could not provide monetary indemnification to the Indemnitee (such as injunctive relief or incarceration) or (d) the Indemnitor shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and disbursements of counsel shall be at the expense of the Indemnitor. The Indemnitor shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Indemnitor, or as to which Indemnitee shall have reached the conclusion specified in clause (b) above, or which involves penalties or other relief against Indemnitee of the type referred to in clause (c) above.

(c) The Indemnitor shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without the Indemnitor's written consent. The Indemnitor shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Indemnitor nor Indemnitee will unreasonably withhold or delay consent to any proposed settlement.

10. **NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE SUBROGATION.**

(a) The rights of indemnification and to receive advancement of reasonable Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Charter, the Bylaws, any other agreement, a vote of stockholders, a resolution of the Board of Directors or otherwise, except that any payments otherwise required to be made by the Indemnitor hereunder shall be offset by any and all amounts received by the Indemnitee from any other indemnitor or under one or more liability insurance policies maintained by an indemnitor or otherwise and shall not be duplicative of any other payments received by an Indemnitee from the Indemnitor in respect of the matter giving rise to the indemnity hereunder. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to the Indemnitee with respect to any action taken or omitted by the Indemnitee prior to such amendment, alteration or repeal.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors and officers of the Company, the Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available and upon any Change in Control the Company shall use commercially reasonable efforts to obtain or arrange for continuation and/or "tail" coverage for the Indemnitee to the maximum extent obtainable at such time.

(c) In the event of any payment under this Agreement, the Indemnitor shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and take all actions necessary to secure such rights, including execution of such documents as are necessary to enable the Indemnitor to bring suit to enforce such rights.

(d) The Indemnitor shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that the Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement, or otherwise.

(e) [The Company hereby acknowledges that Indemnitee may have certain rights to indemnification, advancement of expenses and/or insurance provided by BlueMountain Capital Management, LLC and certain of its affiliates (collectively, the "BlueMountain Indemnitors"). The Company hereby agrees (i) that, as between the Company and the BlueMountain Indemnitors, the Company is the indemnitor of first resort (i.e., its obligations to Indemnitee are primary and any obligation of the BlueMountain Indemnitors to advance Expenses or to provide indemnification for the same Expenses or liabilities incurred by Indemnitee are secondary), (ii) that the Company shall be required to advance the full amount of expenses incurred by Indemnitee and shall be liable for the full amount of all Expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of this Agreement and the charter or Bylaws of the Company (or any other agreement between the Company and Indemnitee), without regard to any rights Indemnitee may have against the BlueMountain Indemnitors, and, (iii) that the Company irrevocably waives, relinquishes and releases the BlueMountain Indemnitors from any and all claims against the BlueMountain Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by the BlueMountain Indemnitors on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing and the BlueMountain Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and Indemnitee agree that the BlueMountain Indemnitors are express third party beneficiaries of the terms of this Section 10.]

11. **CONTINUATION OF INDEMNITY.**

(a) All agreements and obligations of the Indemnitor contained herein shall continue during the period the Indemnitee is an officer or a member of the Board of Directors of the Company and shall continue thereafter so long as the Indemnitee shall be subject to any threatened, pending or completed Proceeding by reason of such Indemnitee's Corporate Status and during the period of statute of limitations for any act or omission occurring during the Indemnitee's term of Corporate Status. This Agreement shall be binding upon the Indemnitor and its respective successors and assigns and shall inure to the benefit of the Indemnitee and such Indemnitee's heirs, executors and administrators.

(b) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance reasonably satisfactory to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

12. **SEVERABILITY.**

If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality, and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provisions held invalid, illegal or unenforceable.

13. **EXCEPTIONS TO RIGHT OF INDEMNIFICATION OR ADVANCEMENT OF EXPENSES.**

Notwithstanding any other provisions of this Agreement, the Indemnitee shall not be entitled to indemnification or advancement of reasonable Expenses under this Agreement with respect to (i) any Proceeding initiated by such Indemnitee against the Indemnitor other than a proceeding commenced pursuant to paragraph 8 hereof, or (ii) to the extent applicable, any Proceeding for an accounting of profits arising from the purchase and sale by Indemnitee of securities of the Company in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, rules and regulations promulgated thereunder, or any similar provisions of any federal, state or local statute.

14. **NOTICE TO THE COMPANY STOCKHOLDERS.**

Any indemnification of, or advancement of reasonable Expenses, to an Indemnitee in accordance with this Agreement, if arising out of a Proceeding by or in the right of the Company, shall be reported in writing to the stockholders of the Company with the notice of the next Company stockholders' meeting or prior to the meeting.

15. **HEADINGS.**

The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

16. **MODIFICATION AND WAIVER.**

No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by each of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. **NOTICES.**

All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, if so delivered or mailed, as the case may be, to the following addresses:

If to the Indemnitee, to the address set forth in the records of the
Company.
If to the Indemnitor, to:

MedEquities Realty Trust, Inc.
3100 West End Avenue
Suite 1000
Nashville, Tennessee 37203
Attention: Chief Executive Officer

with a copy (which shall not constitute notice) to:
Morrison & Foerster LLP
2000 Pennsylvania Avenue
Suite 6000
Washington, DC 20006
Attention:
Fax:
Email:

or to such other address as may have been furnished to the Indemnitee by the Indemnitor or to the Indemnitor by the Indemnitee, as the case may be.

18. **GOVERNING LAW.**

The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without application of the conflict of laws principles thereof.

19. **NO ASSIGNMENTS.**

The Indemnitee may not assign its rights or delegate obligations under this Agreement without the prior written consent of the Indemnitor. Any assignment or delegation in violation of this paragraph 19 shall be null and void.

20. **NO THIRD-PARTY RIGHTS.**

Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions are for the sole and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

21. **COUNTERPARTS.**

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together constitute an agreement binding on all of the parties hereto.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MEDEQUITIES REALTY TRUST, INC.

By: ____________________________
Name:
Title:

INDEMNITEE:

By: ____________________________
Name:
Title:

Signature Page to Indemnification Agreement

Schedule A

Indemnitee	Date
John W. McRoberts	July 31, 2014
William C. Harlan	July 31, 2014
Jeffery C. Walraven	July 31, 2014
Randall L. Churchey	July 31, 2014
John N. Foy	July 31, 2014
Stuart C. McWhorter	July 31, 2014
Elliott Mandelbaum	July 8, 2015
Steven I. Geringer	August 13, 2015
Stephen L. Guillard	August 13, 2015
Todd W. Mansfield	February 7, 2018

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John W. McRoberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant, MedEquities Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

By: /s/ John W. McRoberts
John W. McRoberts
Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffery C. Walraven, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant, MedEquities Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

By: /s/ Jeffery C. Walraven
Jeffery C. Walraven
Executive Vice President and Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, for the purposes of 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Quarterly Report on Form 10-Q of MedEquities Realty Trust, Inc. ("Company") for the period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2018

By: /s/ John W. McRoberts
John W. McRoberts
Chief Executive Officer

By: /s/ Jeffery C. Walraven

Jeffery C. Walraven
Executive Vice President and Chief Financial Officer

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