MEDICAL PROPERTIES TRUST INC
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 001-32559

MEDICAL PROPERTIES TRUST, INC.

MPT OPERATING PARTNERSHIP, L.P.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**20-0191742**
DELAWARE	**20-0242069**
(State or other jurisdiction of incorporation or organization)	**(I. R. S. Employer Identification No.)**
1000 URBAN CENTER DRIVE, SUITE 501 BIRMINGHAM, AL	**35242**
(Address of principal executive offices)	**(Zip Code)**

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (205) 969-3755

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

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

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

Large accelerated filer	x (Medical Properties Trust, Inc. only)	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company) (MPT Operating Partnership, L.P. only)	Smaller reporting company	¨

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

As of November 7, 2011, the registrant had 111,700,249 shares of common stock, par value $.001, outstanding.

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MEDICAL PROPERTIES TRUST, INC. AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2011

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 1,258,288	$ 1,032,369
Mortgage loans	165,000	165,000
Gross investment in real estate assets	1,423,288	1,197,369
Accumulated depreciation and amortization	(100,772)	(76,094)
Net investment in real estate assets	1,322,516	1,121,275
Cash and cash equivalents	114,368	98,408
Interest and rent receivable	28,822	26,176
Straight-line rent receivable	34,603	28,912
Other loans	56,131	50,985
Other assets	39,249	23,058
Total Assets	**$ 1,595,689**	**$ 1,348,814**
Liabilities and Equity		
Liabilities		
Debt, net	$ 649,013	$ 369,970
Accounts payable and accrued expenses	57,666	35,974
Deferred revenue	23,576	23,137
Lease deposits and other obligations to tenants	27,770	20,157
Total liabilities	758,025	449,238
Equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding		
Common stock, $0.001 par value. Authorized 150,000 shares; issued and outstanding 110,647 shares at September 30, 2011, and 110,225 shares at December 31, 2010	111	110
Additional paid in capital	1,054,040	1,051,785
Distributions in excess of net income	(204,343)	(148,530)
Accumulated other comprehensive loss	(11,982)	(3,641)
Treasury shares, at cost	(262)	(262)
Total Medical Properties Trust, Inc. stockholders equity	837,564	899,462
Non-controlling interests	100	114
Total equity	837,664	899,576
Total Liabilities and Equity	**$ 1,595,689**	**$ 1,348,814**

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)	For the Three Months Ended September 30, 2011	2010	For the Nine Months Ended September 30, 2011	2010
Revenues				
Rent billed	$ 30,738	$ 23,472	$ 88,519	$ 69,032
Straight-line rent	1,802	(1,124)	5,606	469
Interest and fee income	5,251	6,296	15,812	20,594
Total revenues	37,791	28,644	109,937	90,095
Expenses				
Real estate depreciation and amortization	8,430	6,209	24,678	18,100
Impairment charge			564	12,000
Property-related	312	600	629	2,055
General and administrative	5,736	5,849	20,428	20,532
Acquisition expenses	530	364	3,186	1,314
Total operating expenses	15,008	13,022	49,485	54,001
Operating income	22,783	15,622	60,452	36,094
Other income (expense)				
Interest income and other	51	1,475	58	1,488
Debt refinancing costs	(10,425)	(342)	(14,214)	(6,556)
Interest expense	(11,935)	(8,092)	(32,462)	(26,106)
Net other expense	(22,309)	(6,959)	(46,618)	(31,174)
Income from continuing operations	474	8,663	13,834	4,920
Income (loss) from discontinued operations	(6)	301	141	7,463
Net income	468	8,964	13,975	12,383
Net income attributable to non-controlling interests	(43)	(45)	(131)	(63)
Net income attributable to MPT common stockholders	**$ 425**	**$ 8,919**	**$ 13,844**	**$ 12,320**
Earnings per common share basic and diluted				
Income from continuing operations attributable to MPT common stockholders	$	$ 0.08	$ 0.12	$ 0.04
Income from discontinued operations attributable to MPT common stockholders				0.08
Net income attributable to MPT common stockholders	$	$ 0.08	$ 0.12	$ 0.12
Weighted average shares outstanding:				
Basic	110,714	110,046	110,568	97,573
Diluted	110,719	110,046	110,576	97,575
Dividends declared per common share	**$ 0.20**	**$ 0.20**	**$ 0.60**	**$ 0.60**

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
Operating activities		
Net income	$ 13,975	$ 12,383
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	25,254	19,634
Straight-line rent revenue	(5,606)	(587)
Share-based compensation	5,293	5,250
Gain on sale of real estate	(5)	(7,693)
Impairment	564	12,000
Increase (decrease) in accounts payable and accrued liabilities	13,317	2,899
Amortization and write-off of deferred financing costs and debt discount	8,523	4,961
Premium paid on extinguishment of debt	13,091	3,834
Other adjustments	(7,278)	(5,188)
Net cash provided by operating activities	67,128	47,493
Investing activities		
Real estate acquired	(196,511)	(73,851)
Principal received on loans receivable	2,898	46,532
Proceeds from sale of real estate		75,000
Investment in loans receivable and other investments	(16,800)	(9,626)
Construction in progress and other	(12,297)	(15,578)
Net cash (used for) provided by investing activities	(222,710)	22,477
Financing activities		
Revolving credit facilities, net	39,600	(137,200)
Additions to term debt	450,000	148,500
Payments of term debt	(237,810)	(216,325)
Distributions paid	(67,194)	(54,761)
Sale of common stock, net		288,470
Lease deposits and other obligations to tenants	7,613	2,233
Debt issuance costs paid and other financing activities	(20,667)	(9,713)
Net cash provided by financing activities	171,542	21,204
Increase in cash and cash equivalents for period	15,960	91,174
Cash and cash equivalents at beginning of period	98,408	15,307
Cash and cash equivalents at end of period	**$ 114,368**	**$ 106,481**
Interest paid	18,761	20,846
Supplemental schedule of non-cash investing activities:		
Real estate acquired via assumption of mortgage loan	(14,592)	
Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	22,407	22,326
Assumption of mortgage loan (as part of real estate acquired)	14,592	

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands)	September 30, 2011 (Unaudited)	December 31, 2010 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 1,258,288	$ 1,032,369
Mortgage loans	165,000	165,000
Gross investment in real estate assets	1,423,288	1,197,369
Accumulated depreciation and amortization	(100,772)	(76,094)
Net investment in real estate assets	1,322,516	1,121,275
Cash and cash equivalents	114,368	98,408
Interest and rent receivable	28,822	26,176
Straight-line rent receivable	34,603	28,912
Other loans	56,131	50,985
Other assets	39,249	23,058
Total Assets	**$ 1,595,689**	**$ 1,348,814**
Liabilities and Capital		
Liabilities		
Debt, net	$ 649,013	$ 369,970
Accounts payable and accrued expenses	35,308	13,658
Deferred revenue	23,576	23,137
Lease deposits and other obligations to tenants	27,770	20,157
Payable due to Medical Properties Trust, Inc.	21,923	21,943
Total liabilities	757,590	448,865
Capital		
General Partner issued and outstanding 1,106 units at September 30, 2011 and 1,102 units at December 31, 2010	8,500	9,035
Limited Partners:		
Common units issued and outstanding 109,541 units at September 30, 2011 and 109,123 units at December 31, 2010	841,481	894,441
LTIP units issued and outstanding 94 units at September 30, 2011 and 94 units at December 31, 2010		
Accumulated other comprehensive loss	(11,982)	(3,641)
Total MPT Operating Partnership capital	837,999	899,835
Non-controlling interests	100	114
Total capital	838,099	899,949
Total Liabilities and Capital	**$ 1,595,689**	**$ 1,348,814**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands, except per unit amounts)	**2011**	**2010**	**2011**	**2010**
Revenues				
Rent billed	$ 30,738	$ 23,472	$ 88,519	$ 69,032
Straight-line rent	1,802	(1,124)	5,606	469
Interest and fee income	5,251	6,296	15,812	20,594
Total revenues	37,791	28,644	109,937	90,095
Expenses				
Real estate depreciation and amortization	8,430	6,209	24,678	18,100
Impairment charge			564	12,000
Property-related	312	600	629	2,055
General and administrative	5,718	5,858	20,366	20,458
Acquisition expenses	530	364	3,186	1,314
Total operating expenses	14,990	13,031	49,423	53,927
Operating income	22,801	15,613	60,514	36,168
Other income (expense)				
Interest income and other	51	1,475	58	1,488
Debt refinancing costs	(10,425)	(342)	(14,214)	(6,556)
Interest expense	(11,935)	(8,092)	(32,462)	(26,106)
Net other expense	(22,309)	(6,959)	(46,618)	(31,174)
Income (loss) from continuing operations	492	8,654	13,896	4,994
Income (loss) from discontinued operations	(6)	301	141	7,463
Net income	486	8,955	14,037	12,457
Net income attributable to non-controlling interests	(43)	(45)	(131)	(63)
Net income attributable to MPT Operating Partnership partners	**$ 443**	**$ 8,910**	**$ 13,906**	**$ 12,394**
Earnings per units basic and diluted				
Income (loss) from continuing operations attributable to MPT Operating Partnership partners	$	$ 0.08	$ 0.12	$ 0.04
Income from discontinued operations attributable to MPT Operating Partnership partners				0.08
Net income attributable to MPT Operating Partnership Partners	$	$ 0.08	$ 0.12	$ 0.12
Weighted average units outstanding:				
Basic	110,714	110,046	110,568	97,573
Diluted	110,719	110,046	110,576	97,575
Dividends declared per unit	**$ 0.20**	**$ 0.20**	**$ 0.60**	**$ 0.60**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
Operating activities		
Net income	$ 14,037	$ 12,457
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	25,254	19,634
Straight-line rent revenue	(5,606)	(587
Unit-based compensation	5,293	5,250
Gain on sale of real estate	(5)	(7,693)
Impairment	564	12,000
Increase (decrease) in accounts payable and accrued liabilities	13,254	2,825
Amortization and write-off of deferred financing costs and debt discount	8,523	4,961
Premium paid on extinguishment of debt	13,091	3,834
Other adjustments	(7,277)	(5,188)
Net cash provided by operating activities	67,128	47,493
Investing activities		
Real estate acquired	(196,511)	(73,851)
Principal received on loans receivable	2,898	46,532
Proceeds from sale of real estate		75,000
Investment in loans receivable and other investments	(16,800)	(9,626)
Construction in progress and other	(12,297)	(15,578)
Net cash (used for) provided by investing activities	(222,710)	22,477
Financing activities		
Revolving credit facilities, net	39,600	(137,200)
Additions to term debt	450,000	148,500
Payments of term debt	(237,810)	(216,325)
Distributions paid	(67,194)	(54,761)
Sale of common units, net		288,470
Lease deposits and other obligations to tenants	7,613	2,233
Debt issuance costs paid and other financing activities	(20,667)	(9,713)
Net cash provided by financing activities	171,542	21,204
Increase in cash and cash equivalents for period	15,960	91,174
Cash and cash equivalents at beginning of period	98,408	15,307
Cash and cash equivalents at end of period	**$ 114,368**	**$ 106,481**
Interest paid	18,761	20,846
Supplemental schedule of non-cash investing activities:		
Real estate acquired via assumption of mortgage loan	(14,592)	
Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	22,407	22,326
Assumption of mortgage loan (as part of real estate acquired)	14,592	

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC., AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in, owning, and leasing commercial real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P. (the Operating Partnership), through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis except where material differences exist.

We have operated as a real estate investment trust (REIT) since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will not be subject to U.S. federal income tax, provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income. Certain activities we undertake must be conducted by entities which we elected to be treated as a taxable REIT subsidiaries (TRS). Our TRSs are subject to both federal and state income taxes.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We manage our business as a single business segment.

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, including rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2010 along with updates (if needed) provided in our Form 10-Qs filed in 2011.

3. Real Estate and Lending Activities

Acquisitions

On January 4, 2011, we acquired the real estate of the 19-bed, 4-year old Gilbert Hospital in a suburb of Phoenix, Arizona area for $17.1 million. Gilbert Hospital is operated by affiliates of Visionary Health, LLC, the same group that we expect will also operate the hospital that we are currently developing in Florence, Arizona. We acquired this asset subject to an existing lease that expires in May 2022.

On January 31, 2011, we acquired for $23.5 million the real estate of the 60-bed Atrium Medical Center at Corinth in the Dallas area, a long-term acute care hospital that was completed in 2009 and is subject to a lease that expires in June 2024. In addition, through one of our affiliates, we invested $1.3 million to acquire approximately 19% of a joint venture arrangement with an affiliate of Vibra Healthcare, LLC

(Vibra) that will manage and has acquired a 51% interest in the operations of the facility. We also made a $5.2 million working capital loan to the joint venture. The former operators of the hospital, comprised primarily of local physicians, retained ownership of 49% of the operating entity.

On February 4, 2011, we purchased for $58 million the real estate of Bayonne Medical Center, a 6-story, 278-bed acute care hospital in the New Jersey area of metropolitan New York, and leased the facility to the operator under a 15-year lease, with six 5-year extension options. The operator is an affiliate of a private hospital operating company that acquired the hospital in 2008.

On February 9, 2011, we acquired the real estate of the 306-bed Alvarado Hospital in San Diego, California for $70 million from Prime Healthcare Services, Inc. (Prime). Prime is the operator of the facility and will lease the facility under a 10-year lease that provides, under certain conditions for lease extensions.

On February 14, 2011, we completed the acquisition of the Northland LTACH Hospital located in Kansas City, a 35-bed hospital that opened in April 2008 and has a lease that expires in 2028. This hospital was part of a three property acquisition announced in

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December 2010 and is currently being operated by Kindred Healthcare Inc. (formerly RehabCare). The purchase price of this hospital was $19.5 million, which included the assumption of a $16 million existing mortgage loan that matures in January 2018.

On July 18, 2011, we acquired the real estate of the 40-bed Vibra Specialty Hospital of DeSoto in Desoto, Texas for $13.0 million. Vibra Specialty Hospital of DeSoto is a new long-term acute care hospital that is currently ramping up its operations. This facility will be leased to a subsidiary of Vibra for a fixed term of 15 years with options to extend. In addition, we have made a $2.5 million equity investment in the operator of this facility for a 25% equity ownership.

On September 30, 2011, we purchased the real estate of a 40-bed long-term acute care facility in New Braunfels, Texas for $10.0 million. This facility will be leased to an affiliate of Post Acute Medical, LLC for a fixed term of 15 years with options to extend. In addition, we have made a $1.4 million equity investment for a 25% equity ownership in the operator of this facility and funded a $2.0 million working capital loan.

On June 17, 2010, we acquired three inpatient rehabilitation hospitals in Texas for an aggregate purchase price of $74 million. The properties acquired had existing leases in place, which we assumed, that have initial terms expiring in 2033. Each lease may, subject to conditions, be renewed by the operator for two additional ten-year terms.

As part of these acquisitions, we purchased the following assets: (dollar amounts in thousands)

	2011	2010
Land	$ 17,218	$ 6,264
Building	178,535	61,893
Intangible lease assets subject to amortization (weighted average useful life of 13.5 years in 2011 and 23.1 years in 2010)	15,351	5,694
Total	$ 211,104	$ 73,851

The purchase price allocations attributable to the identifiable assets acquired and liabilities assumed related to the acquisitions made in 2011 are final except for the New Braunfels property. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be retrospectively adjusted to reflect new information obtained about the facts and circumstances that existed as of the respective acquisition date that, if known, would have affected the measurement of the amounts recognized.

From the respective acquisition dates, the seven hospitals acquired in 2011 contributed $5.5 million and $14.0 million of revenue and $3.7 million and $9.1 million of income (excluding related acquisition expenses) for the three and nine months ended September 30, 2011, respectively. In addition, we incurred $0.5 million and $3.2 million of acquisition related costs on consummated and non-consummated deals for the three and nine months ended September 30, 2011.

From the respective acquisition dates, the three hospitals acquired in 2010 contributed $1.9 million and $2.2 million of revenue and $1.4 million and $1.7 million of income (excluding related acquisition expenses) for the three and nine months ended September 30, 2010, respectively. In addition, we incurred $0.4 million and $1.3 million of acquisition related costs during the three and nine months ended September 30, 2010.

The results of operations for each of the properties acquired are included in our consolidated results from the effective date of each acquisition. The following table sets forth certain unaudited pro forma consolidated financial data for 2011 and 2010, as if each acquisition in 2011 and 2010 was consummated on the same terms at the beginning of 2010. Supplemental pro forma earnings were adjusted to exclude acquisition-related costs on consummated deals incurred in the three and nine months ended September 30, 2011 and 2010 (dollar amounts in thousands except per share/unit data).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Total revenues	$ 38,115	$ 34,986	$ 113,467	$ 109,522

Net income	446	11,551	17,161	12,710
Net income per share/unit diluted	$	$ 0.10	$ 0.15	$ 0.12

Disposals

In April 2010, we sold the real estate of our Centinela Hospital, a 369-bed acute care medical center located in Inglewood, California, to Prime, for $75 million resulting in a gain of approximately $6 million. Due to this sale, operating results of our Inglewood facility have been included in discontinued operations for all prior periods.

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Leasing Operations

As noted in our second quarter filing, the operator of our Denham Springs facility in Louisiana has not made all the payments required by the real estate lease agreement, and thus, the tenant is in default. During the second quarter of 2011, we evaluated alternative strategies for the recovery of our advances and accruals and at that time determined that the future cash flows of the current tenant and/or related collateral would, more likely than not, result in less than a full recovery of our receivables. As a result, we fully reserved for all outstanding receivables (including $1.5 million in billed rent, $0.2 million of unbilled rent, and $0.1 million of other receivables) with the exception of the $0.7 million promissory note that we expect is recoverable from existing collateral. In addition, we recorded a $0.6 million impairment charge against the real estate during the second quarter of 2011. We have not recorded any rental revenue or reversed previously established reserves during the third quarter, except for $0.2 million, which represents payments received from the tenant subsequent to the second quarter. At September 30, 2011, we continue to believe, based on existing collateral and the current real estate market, that the $0.7 million loan and the $4.4 million of real estate are fully recoverable; however, no assurances can be made that future reserves will not be needed.

As of September 30, 2011, we have advanced $28.8 million to the operator/lessee of Monroe Hospital in Bloomington, Indiana pursuant to a working capital loan agreement, including $0.6 million advanced in the 2011 third quarter related to a project at Monroe designed to increase revenue at the facility. In addition, as of September 30, 2011, we have $14.6 million of rent, interest and other charges owed to us by the operator, of which $5.5 million of interest receivables are significantly more than 90 days past due. Because the operator has not made all payments required by the working capital loan agreement and the related real estate lease agreement, we consider the loan to be impaired. During the first quarter of 2010, we evaluated alternative strategies for the recovery of our advances and accruals and at that time determined that the future cash flows of the current tenant or related collateral would, more likely than not, result in less than a full recovery of our loan advances. Accordingly, we recorded a $12 million charge in the 2010 first quarter to recognize the estimated impairment of the working capital loan. During the third quarter of 2010, we determined that it was reasonably likely that the existing tenant would be unable to make certain lease payments that become due in future years. Accordingly, we recorded a valuation allowance for unbilled straight-line rent in the amount of $2.5 million. At September 30, 2011, our net investment (exclusive of the related real estate) of $31.4 million is our maximum exposure to Monroe and the amount is deemed collectible/recoverable. In making this determination, we considered our first priority secured interest in approximately (i) $7 million in hospital patient receivables, (ii) cash balances of approximately $4 million, (iii) 100% of the membership interests of the operator/lessee and our assessment of the realizable value of our other collateral and (iv) continued improvement in operational revenue statistics compared to previous years.

We continue to evaluate possible strategies for the Monroe hospital. We have entered into a forbearance agreement with the operator whereby we have generally agreed, under certain conditions, not to fully exercise our rights and remedies under the lease and loan agreements during limited periods. We have not committed to the adoption of a plan to transition ownership or management of the Monroe hospital to any new operator, and there is no assurance that any such plan will be completed. Moreover, there is no assurance that any plan that we ultimately pursue will not result in additional charges for further impairment of our working capital loan. We have not recognized any interest income on the Monroe loan since it was considered impaired in the 2010 first quarter.

In September 2010, we exchanged properties with one of our tenants. In exchange for our acute care facility in Cleveland, Texas, we received a similar acute care facility in Hillsboro, Texas. The lease that was in place on our Cleveland facility was carried over to the new facility with no change in lease term or lease rate. This exchange was accounted for at fair value, resulting in a gain of $1.3 million (net of $0.2 million from the write-off of straight-line rent receivables).

In March 2010, we re-leased our Covington facility, located in Covington, Louisiana. The lease has a fixed term of 15 years with an option, at the lessee s discretion, to extend the term for three additional periods of five years each. Under the terms of the lease, rent during 2010 was based on an annual rate of $1.4 million, and on January 1, 2011, rent began increasing annually by 2%. At the end of each term, the tenant has the right to purchase the facility at a price generally equivalent to the greater of our undepreciated cost and fair market value. Separately, we also obtained an interest in the operations of the tenant whereby we may receive additional consideration based on the profitability of such operations.

In the 2010 second quarter, Prime paid us $12 million in additional rent related to our Shasta property, and we terminated our agreements with Prime concerning the additional rent, which could have paid us up to $20 million over the 10 year lease life. Of this $12 million in additional rent, $3.5 million has been recognized in income from lease inception through September 30, 2011, and we expect to recognize the other $8.5 million into income over the remainder of the lease life.

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Loans

In April 2010, Prime repaid $40 million in other loans plus accrued interest.

Concentrations of Credit Risk

For the three months ended September 30, 2011 and 2010, revenue from affiliates of Prime (including rent and interest from loans) accounted for 30.9% and 33.8%, respectively, of total revenue. For the three months ended September 30, 2011 and 2010, revenue from Vibra (including rent and interest from working capital loans) accounted for 12.4% and 15.4%, respectively, of total revenue.

For the nine months ended September 30, 2011 and 2010, revenue from affiliates of Prime (including rent and interest from loans) accounted for 31.1% and 33.4%, respectively, of total revenue. For the nine months ended September 30, 2011 and 2010, revenue from Vibra (including rent and interest from working capital loans) accounted for 12.6% and 14.7%, respectively, of total revenue.

4. Debt

The following is a summary of debt, net of discounts (dollar amounts in thousands):

	As of September 30, 2011		As of December 31, 2010	
	Balance	**Interest Rate**	**Balance**	**Interest Rate**
Revolving credit facilities	$ 39,600	Variable	$	Variable
2006 senior unsecured notes	125,000	Various	125,000	7.333% 7.871%
2011 senior unsecured notes	450,000	6.875%		
Exchangeable senior notes:				
Principal amount	20,175	6.125% 9.250%	91,175	6.125% 9.250%
Unamortized discount	(248)		(2,585)	
	19,927		88,590	
Term loans:				
Principal amount	14,486	6.200%	157,683	Various
Unamortized discount			(1,303)	
	14,486		156,380	
	$ 649,013		$ 369,970	

As of September 30, 2011, principal payments due for our debt (which exclude the effects of any discounts recorded) are as follows:

2011	$ 9,232
2012	39,832
2013	11,249
2014	265
2015	283
Thereafter	588,400
Total	$ 649,261

To fund the acquisitions disclosed in Note 3, we used cash on-hand, borrowed on our revolving credit facilities, used a portion of the proceeds from the sale of the 2011 senior unsecured notes, and assumed a $16 million mortgage loan. This mortgage loan requires monthly principal and

interest payments based on a 30-year amortization period. The mortgage loan has a fixed rate at 6.2%, matures on January 1, 2018 and can be prepaid after January 1, 2013, subject to a certain prepayment premium.

In April 2011, our Operating Partnership and a wholly-owned subsidiary of our Operating Partnership closed on a private offering of $450 million unsecured senior notes. These notes mature in 2021 and the interest rate is fixed at 6.875% per year. Contemporaneously with the closing of the notes, we repaid and terminated our $150 million term loan facility (which was part of the credit facility entered into in 2010) and our $9 million collateralized term loan facility. In connection with the notes offering, we amended our existing credit agreement, which now provides for a $330 million unsecured revolving credit facility that matures in October 2015. As part of this amendment, we also lowered our interest rate to (1) the higher of the prime rate or federal funds rate plus 0.5%, plus a

spread initially set at 1.60%, but that is adjustable from 1.60% to 2.40% based on current total leverage, or (2) LIBOR plus a spread initially set at 2.60%, but that is adjustable from 2.60% to 3.40% based on current total leverage. We paid down in full this revolving credit facility s outstanding balance with the proceeds from the notes offering.

In the 2011 third quarter, we used proceeds from our 2011 senior unsecured notes offering to repurchase 86.6% of the outstanding 9.25% exchangeable senior notes due 2013 at a weighted average price of 118.4% of the principal amount (or $84.1 million) plus accrued and unpaid interest pursuant to a cash tender offer. The interest savings from the retirement of this debt will offset the majority of the premium paid to retire it, and the potential dilution effect from the convertible aspect of these notes is removed.

In connection with these 2011 refinancing activities, we recognized charges of $10.4 million and $14.2 million for the three and nine months ended September 30, 2011, respectively, related to the write-off of previously deferred loan costs and discounts associated with the payoff of the debt instruments noted above.

In April 2010, we completed a public offering of common stock (the Offering) resulting in net proceeds, after underwriting discount and commissions, of approximately $279 million. See Note 5 to our condensed consolidated financial statements for further information. We used the net proceeds from the Offering to repurchase 93% of the outstanding 6.125% exchangeable senior notes due 2011 at a price of 103% of the principal amount plus accrued and unpaid interest (or $136.3 million) pursuant to a cash tender offer. In addition, we paid off a $30 million term loan. Finally, in May 2010, we closed on a $450 million credit facility, and the proceeds of such along with the Offering were used to repay in full all outstanding obligations under the previous credit facility. These refinancing activities resulted in a charge of $0.3 million and $6.6 million for the three and nine months ended September 30, 2010, respectively.

At September 30, 2011, $65 million of our 2006 senior unsecured notes carried a variable rate of 2.67%, while the remaining $60 million was fixed at rates ranging from 7.333% to 7.715%. During the second quarter 2010, we entered into an interest rate swap to fix $65 million of our $125 million senior unsecured notes, which started July 31, 2011 (date on which the interest rate turned variable) and will run through maturity date (or July 2016), at a rate of 5.507%. We also entered into an interest rate swap to fix $60 million of our senior notes starting October 31, 2011 (date on which the related interest rate is scheduled to turn variable) through the maturity date (or October 2016) at a rate of 5.675%. At September 30, 2011, the fair value of the interest rate swaps is $12.0 million, which is reflected in accounts payable and accrued expenses on the condensed consolidated balance sheet.

We account for our interest rate swaps as cash flow hedges. Accordingly, the effective portion of changes in the fair value of our swaps is recorded as a component of accumulated other comprehensive income/loss on the balance sheet until the underlying debt matures while the ineffective portion is recorded through earnings. We estimate the fair value of interest rate swaps using the market standard methodology of netting the discounted fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of interest rates derived from observable market interest rate curves. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk, both our own nonperformance risk and the respective counterparty s nonperformance risk. We did not have any hedge ineffectiveness in the periods; therefore, there was no income statement effect recorded during the three and nine month periods ended September 30, 2011 or 2010.

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; grant liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate; and change our business. In addition, the agreements governing our debt facilities limit the amount of dividends we can pay to 95% of normalized adjusted funds from operations, as defined in the agreements, on a rolling four quarter basis starting for the fiscal quarter ending March 31, 2012 and thereafter. Prior to March 31, 2012, a similar dividend restriction exists but at a higher percentage for transitional purposes. These agreements also contain provisions for the mandatory prepayment of outstanding borrowings under these facilities from the proceeds received from the sale of properties, except a portion may be reinvested subject to certain limitations, as defined in the credit facility agreement.

In addition to these restrictions, the amended credit facility contains customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, mortgage secured leverage ratio, recourse mortgage secured leverage ratio, consolidated adjusted net worth, facility leverage ratio, and borrowing base interest coverage ratio. This facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the facility, the entire outstanding balance may become immediately due and payable. At September 30, 2011, we were in compliance with all such financial and operating covenants.

5. Common Stock

In April 2010, we completed a public offering of 26 million shares of common stock at $9.75 per share. Including the underwriters purchase of 3.9 million additional shares to cover over allotments, net proceeds from the Offering, after underwriting discount and commissions, approximated $279 million. We used the net proceeds from the Offering to fund the tender offer as discussed in Note 4 with any remaining proceeds to be used for general corporate purposes including funding the acquisition in June 2010.

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During the first quarter of 2010, we sold 0.9 million shares of our common stock under our at-the-market equity offering program, at an average price of $10.77 per share, for total proceeds, net of a 2% sales commission, of $9.5 million.

6. Stock Awards

Our Second Amended and Restated Medical Properties Trust, Inc. 2004 Equity Incentive Plan (the Equity Incentive Plan) authorizes the issuance of common stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance units and awards of interests in our Operating Partnership. The Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. We have reserved 7,441,180 shares of common stock for awards under the Equity Incentive Plan for which 2,642,597 shares remain available for future stock awards as of September 30, 2011. We awarded the following during 2011 and 2010:

Time-based awards - We granted 269,085 and 277,680 shares in 2011 and 2010, respectively, of time-based restricted stock to management, independent directors, and certain employees. These awards vest quarterly based on service, over three years, in equal amounts.

Performance-based awards - Our management team and certain employees (2011 only) were awarded 229,938 and 182,600 performance based awards in 2011 and 2010, respectively. These awards vest ratably over a three year period based on the achievement of certain total shareholder return measures, with a carry-back and carryforward provision through December 31, 2014 (for the 2010 awards) and December 31, 2015 (for the 2011 awards). Dividends on these awards are paid only upon achievement of the performance measures.

Multi-year Performance-based awards - We awarded 600,000 shares in 2011 of multi-year performance-based awards to management and certain employees. These shares are subject to three-year cumulative performance hurdles based on total shareholder return. At the end of the three-year performance period, any earned shares will be subject to an additional two years of ratable time-based vesting on an annual basis. Dividends are paid on these shares only upon achievement of the performance measures.

7. Partner s Capital

The Operating Partnership is made up of a general partner, Medical Properties Trust, LLC (General Partner) and limited partners including the Company (which owns 100% of the General Partner) and three other partners who are employees. By virtue of its ownership of the General Partner, the Company has a 99.9% ownership interest in Operating Partnership via its ownership of all the common units. The remaining ownership interest is held by the three employees via their ownership of LTIP units. These LTIP units were issued to the employees pursuant to the 2007 Multi-Year Incentive Plan, which is part of the Equity Incentive Plan and once vested in accordance with their award agreement, may be converted to common units per the Second Amended and Restated Agreement of Limited Partnership of MPT Operating Partnership, L.P. (Operating Partnership Agreement)

In regards to distributions, the Operating Partnership shall distribute cash at such times and in such amounts as are determined by the General Partner in its sole and absolute discretion, to common unit holders who are common unit holders on the record date. However, per the Operating Partnership Agreement, the General Partner shall use its reasonable efforts to cause the Operating Partnership to distribute amounts sufficient to enable the Company to pay stockholder dividends that will allow the Company to (i) meet its distribution requirement for qualification as a REIT and (ii) avoid any federal income or excise tax liability imposed by the Internal Revenue Code, other than to the extent the Company elects to retain and pay income tax on its net capital gain. In accordance with the Operating Partnership Agreement, LTIP units are treated as common units for distribution purposes.

The Operating Partnership s net income will generally be allocated first to the General Partner to the extent of any cumulative losses and then to the limited partners in accordance with their respective percentage interests in the common units issued by the Operating Partnership. Any losses of the Operating Partnership will generally be allocated first to the limited partners until their capital account is zero and then to the General Partner. In accordance with the Operating Partnership Agreement, LTIP units are treated as common units for purposes of income and loss allocations.

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units. It is at the Operating Partnership s discretion to redeem such common units for cash based on the fair market value of an equivalent number of shares of the Company s common stock at the time of redemption, or alternatively, redeem the common units for shares of the Company s common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, or similar events. In order for LTIP units to be redeemed, they must first be converted to common units and then must wait two years from the issuance of the LTIP units to be redeemed.

8. Fair Value of Financial Instruments

We have various assets and liabilities that are considered financial instruments. We estimate that the carrying value of cash and cash equivalents, and accounts payable and accrued expenses approximate their fair values. Included in our accounts payable and accrued expenses are our interest rate swaps, which are recorded at fair value based on Level 2 observable market assumptions using

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standardized derivative pricing models. We estimate the fair value of our loans, interest, and other receivables by discounting the estimated future cash flows using the current rates at which similar receivables would be made to others with similar credit ratings and for the same remaining maturities. We determine the fair value of our exchangeable notes based on quotes from securities dealers and market makers. We estimate the fair value of our senior notes, revolving credit facilities, and term loans based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

The following table summarizes fair value information for our financial instruments (dollar amounts in thousands):

	September 30, 2011		December 31, 2010	
Asset (Liability)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Interest and rent receivables	$ 28,822	$ 22,418	$ 26,176	$ 20,265
Loans	221,131	223,556	215,985	209,126
Debt, net	(649,013)	(597,802)	(369,970)	(359,910)

9. Discontinued Operations

In December 2010, we sold the real estate of our Montclair Hospital, an acute care medical center, to Prime for proceeds of $20.0 million. We realized a gain on the sale of $2.2 million.

In October 2010, we sold the real estate of our Sharpstown hospital in Houston, Texas to a third party for proceeds of $3.0 million resulting in a gain of $0.7 million.

In April 2010, we sold the real estate of our Centinela Hospital, a 369-bed acute care medical center located in Inglewood, California, to Prime for $75 million resulting in a gain of approximately $6 million.

The following table presents the results of discontinued operations, which include the revenue and expenses of the three previously-owned facilities noted above, for the three and nine months ended September 30, 2011 and 2010 (dollar amounts in thousands except per share/unit amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues	$	$ 572	$	$ 4,264
Gain on sale			5	6,178
Income (loss)	(6)	301	141	7,463
Earnings per share/unit diluted	$	$	$	$ 0.08

10. Earnings Per Share/Common Unit

Medical Properties Trust, Inc.

Our earnings per share were calculated based on the following (amounts in thousands):

	$(000,000)	$(000,000)
	For the Three Months Ended September 30,	
	2011	**2010**
Numerator:		
Income (loss) from continuing operations	$ 474	$ 8,663
Non-controlling interests share in continuing operations	(43)	(45)

Participating securities share in earnings		(264)		(316)
Income (loss) from continuing operations, less participating securities share in earnings		167		8,302
Income (loss) from discontinued operations attributable to MPT common stockholders		(6)		301
Net income, less participating securities share in earnings	$	161	$	8,603

	$(000,000)	$(000,000)
	For the Three Months Ended September 30,	
	2011	2010
Denominator		
Basic weighted-average common shares	110,714	110,046
Dilutive share options	5	
Dilutive weighted-average common shares	110,719	110,046
	$(000,000)	$(000,000)