MEDICAL PROPERTIES TRUST INC
Form 10-Q
August 09, 2012
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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 June 30, 2012

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 August 6, 2012 Medical Properties Trust, Inc. had 135,572,192 shares of common stock, par value $.001, outstanding.

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EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three and six months ended June 30, 2012 of Medical Properties Trust, Inc., a Maryland corporation, and MPT Operating Partnership, L.P., a Delaware limited partnership, through which Medical Properties Trust, Inc. conducts substantially all of its operations. Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our, our company, Medical Properties, MPT, or the company refer to Medical Properties Trust, Inc. together with its consolidated subsidiaries, including MPT Operating Partnership, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to our operating partnership or the operating partnership refer to MPT Operating Partnership, L.P. together with its consolidated subsidiaries.

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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 June 30, 2012

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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)	June 30, 2012 (Unaudited)	December 31, 2011 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 1,275,846	$ 1,255,876
Real estate held for sale		17,637
Mortgage loans	265,000	165,000
Net investment in direct financing leases	201,156	
Gross investment in real estate assets	1,742,002	1,438,513
Accumulated depreciation and amortization	(119,271)	(101,851)
Net investment in real estate assets	1,622,731	1,336,662
Cash and cash equivalents	127,639	102,726
Interest and rent receivable	38,038	29,862
Straight-line rent receivable	36,973	33,993
Other loans	159,718	74,839
Other assets	53,432	43,792
Total Assets	**$ 2,038,531**	**$ 1,621,874**
Liabilities and Equity		
Liabilities		
Debt, net	$ 900,204	$ 689,849
Accounts payable and accrued expenses	59,087	51,125
Deferred revenue	22,496	23,307
Lease deposits and other obligations to tenants	29,161	28,778
Total liabilities	1,010,948	793,059
Equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding		
Common stock, $0.001 par value. Authorized 250,000 shares; issued and outstanding 134,591 shares at June 30, 2012, and 110,786 shares at December 31, 2011	134	111
Additional paid in capital	1,279,029	1,055,256
Distributions in excess of net income	(238,541)	(214,059)
Accumulated other comprehensive loss	(12,777)	(12,231)
Treasury shares, at cost	(262)	(262)
Total equity	1,027,583	828,815
Total Liabilities and Equity	**$ 2,038,531**	**$ 1,621,874**

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 June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Revenues				
Rent billed	$ 32,723	$ 27,642	$ 64,370	$ 54,556
Straight-line rent	1,428	2,045	2,877	3,756
Income from direct financing leases	5,371		7,206	
Interest and fee income	11,548	5,269	19,490	10,550
Total revenues	51,070	34,956	93,943	68,862
Expenses				
Real estate depreciation and amortization	8,788	7,915	17,420	15,346
Real estate impairment charge		564		564
Property-related	639	212	871	236
General and administrative	6,697	7,818	14,289	14,693
Acquisition expenses	279	616	3,704	2,656
Total operating expenses	16,403	17,125	36,284	33,495
Operating income	34,667	17,831	57,659	35,367
Other income (expense)				
Interest and other income (expense)	(17)	19	(32)	(64)
Earnings from equity and other interests	879	2	879	70
Debt refinancing costs		(3,789)		(3,789)
Interest expense	(14,889)	(12,387)	(27,684)	(20,526)
Net other expense	(14,027)	(16,155)	(26,837)	(24,309)
Income from continuing operations	20,640	1,676	30,822	11,058
Income (loss) from discontinued operations	(1,280)	1,007	(855)	2,449
Net income	19,360	2,683	29,967	13,507
Net income attributable to non-controlling interests	(44)	(43)	(87)	(88)
Net income attributable to MPT common stockholders	**$ 19,316**	**$ 2,640**	**$ 29,880**	**$ 13,419**
Earnings per common share basic and diluted				
Income from continuing operations attributable to MPT common stockholders	$ 0.15	$ 0.01	$ 0.23	$ 0.10
Income (loss) from discontinued operations attributable to MPT common stockholders	(0.01)	0.01		0.02
Net income attributable to MPT common stockholders	$ 0.14	$ 0.02	$ 0.23	$ 0.12
Weighted average shares outstanding:				
Basic	134,715	110,589	129,810	110,495
Diluted	134,715	110,600	129,810	110,504
Dividends declared per common share	**$ 0.20**	**$ 0.20**	**$ 0.40**	**$ 0.40**

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Net income	$ 19,360	$ 2,683	$29,967	$ 13,507
Other comprehensive income (loss):				
Unrealized loss on interest rate swap	(1,045)	(3,586)	(546)	(3,069)
Total comprehensive income (loss)	18,315	(903)	29,421	10,438
Comprehensive income attributable to non-controlling interests	(44)	(43)	(87)	(88)
Comprehensive income (loss) attributable to MPT common stockholders	$ 18,271	$ (946)	$29,334	$ 10,350

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 Six Months Ended June 30,	
	2012	**2011**
	(In thousands)	
Operating activities		
Net income	$ 29,967	$ 13,507
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17,937	16,629
Straight-line rent revenue	(2,877)	(3,805)
Direct financing lease interest accretion	(1,156)	
Share-based compensation	3,637	3,661
Loss (gain) on sale of real estate	1,446	(5)
Real estate impairment		564
Amortization and write-off of deferred financing costs and debt discount	1,711	5,572
Other adjustments	(708)	(3,229)
Changes in:		
Interest and rent receivable	(8,176)	(501)
Accounts payable and accrued expenses	2,642	7,299
Net cash provided by operating activities	44,423	39,692
Investing activities		
Cash paid for acquisitions and other related investments	(396,500)	(179,987)
Principal received on loans receivable	7,966	1,469
Proceeds from sale of real estate	16,000	
Investment in loans receivable	(1,293)	(229)
Construction in progress and other	(20,655)	(7,976)
Net cash used for investing activities	(394,482)	(186,723)
Financing activities		
Revolving credit facilities, net	(89,600)	39,600
Additions to term debt	300,000	450,000
Payments of term debt	(114)	(157,736)
Distributions paid	(49,589)	(44,784)
Sale of common stock, net	220,160	
Lease deposits and other obligations to tenants	383	4,328
Debt issuance costs paid and other financing activities	(6,268)	(14,879)
Net cash provided by financing activities	374,972	276,529
Increase in cash and cash equivalents for period	24,913	129,498
Cash and cash equivalents at beginning of period	102,726	98,408
Cash and cash equivalents at end of period	**$ 127,639**	**$ 227,906**
Interest paid	$ 21,784	$ 13,739
Supplemental schedule of non-cash investing activities:		
Loan conversion to equity interest	$ 1,648	$
Real estate acquired via assumption of mortgage loan		(14,592)

Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	$ 27,181	$ 22,409
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)	June 30, 2012 (Unaudited)	December 31, 2011 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 1,275,846	$ 1,255,876
Real estate held for sale		17,637
Mortgage loans	265,000	165,000
Net investment in direct financing leases	201,156	
Gross investment in real estate assets	1,742,002	1,438,513
Accumulated depreciation and amortization	(119,271)	(101,851)
Net investment in real estate assets	1,622,731	1,336,662
Cash and cash equivalents	127,639	102,726
Interest and rent receivable	38,038	29,862
Straight-line rent receivable	36,973	33,993
Other loans	159,718	74,839
Other assets	53,432	43,792
Total Assets	**$ 2,038,531**	**$ 1,621,874**
Liabilities and Capital		
Liabilities		
Debt, net	$ 900,204	$ 689,849
Accounts payable and accrued expenses	31,969	28,780
Deferred revenue	22,496	23,307
Lease deposits and other obligations to tenants	29,161	28,778
Payable due to Medical Properties Trust, Inc.	26,728	21,955
Total liabilities	1,010,558	792,669
Capital		
General Partner issued and outstanding 1,345 units at June 30, 2012 and 1,107 units at December 31, 2011	10,411	8,418
Limited Partners:		
Common units issued and outstanding 133,246 units at June 30, 2012 and 109,679 units at December 31, 2011	1,030,339	833,018
LTIP units issued and outstanding 150 units at June 30, 2012 and at December 31, 2011		
Accumulated other comprehensive loss	(12,777)	(12,231)
Total capital	1,027,973	829,205
Total Liabilities and Capital	**$ 2,038,531**	**$ 1,621,874**

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)

(In thousands, except per share amounts)	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Revenues				
Rent billed	$ 32,723	$ 27,642	$ 64,370	$ 54,556
Straight-line rent	1,428	2,045	2,877	3,756
Income from direct financing leases	5,371		7,206	
Interest and fee income	11,548	5,269	19,490	10,550
Total revenues	51,070	34,956	93,943	68,862
Expenses				
Real estate depreciation and amortization	8,788	7,915	17,420	15,346
Real estate impairment charge		564		564
Property-related	639	212	871	236
General and administrative	6,697	7,791	14,289	14,649
Acquisition expenses	279	616	3,704	2,656
Total operating expenses	16,403	17,098	36,284	33,451
Operating income	34,667	17,858	57,659	35,411
Other income (expense)				
Interest and other income (expense)	(17)	19	(32)	(64)
Earnings from equity and other interests	879	2	879	70
Debt refinancing costs		(3,789)		(3,789)
Interest expense	(14,889)	(12,387)	(27,684)	(20,526)
Net other expense	(14,027)	(16,155)	(26,837)	(24,309)
Income from continuing operations	20,640	1,703	30,822	11,102
Income from discontinued operations	(1,280)	1,007	(855)	2,449
Net income	19,360	2,710	29,967	13,551
Net income attributable to non-controlling interests	(44)	(43)	(87)	(88)
Net income attributable to MPT Operating Partnership partners	**$ 19,316**	**$ 2,667**	**$ 29,880**	**$ 13,463**
Earnings per units basic and diluted				
Income from continuing operations attributable to MPT Operating Partnership partners	$ 0.15	$ 0.01	$ 0.23	$ 0.10
Income (loss) from discontinued operations attributable to MPT Operating Partnership partners	(0.01)	0.01		0.02
Net income attributable to MPT Operating Partnership Partners	$ 0.14	$ 0.02	$ 0.23	$ 0.12
Weighted average units outstanding:				
Basic	134,715	110,589	129,810	110,495
Diluted	134,715	110,600	129,810	110,504

Dividends declared per unit	**$ 0.20**	**$ 0.20**	**$ 0.40**	**$ 0.40**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011
Net income	$ 19,360	$ 2,710	$29,967	$ 13,551
Other comprehensive income (loss):				
Unrealized loss on interest rate swap	(1,045)	(3,586)	(546)	(3,069)
Total comprehensive income (loss)	18,315	(876)	29,421	10,482
Comprehensive income attributable to non-controlling interests	(44)	(43)	(87)	(88)
Comprehensive income (loss) attributable to MPT Operating Partnership partners	$ 18,271	$ (919)	$29,334	$ 10,394

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

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(Unaudited)

	For the Six Months Ended June 30,	
	2012	**2011**
	(In thousands)	
Operating activities		
Net income	$ 29,967	$ 13,551
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17,937	16,629
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Revolving credit facilities, net	(89,600)	39,600
Additions to term debt	300,000	450,000
Payments of term debt	(114)	(157,736)
Distributions paid	(49,589)	(44,784)
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Cash and cash equivalents at beginning of period	102,726	98,408
Cash and cash equivalents at end of period	**$ 127,639**	**$ 227,906**
Interest paid	$ 21,784	$ 13,739
Supplemental schedule of non-cash investing activities:		
Loan conversion to equity interest	$ 1,648	$
Real estate acquired via assumption of mortgage loan		(14,592)

Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	$ 27,181	$ 22,409
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., 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 taxable REIT subsidiaries (TRSs). 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 also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. 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 six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The condensed consolidated balance sheet at December 31, 2011 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, 2011. During the three and six months ended June 30, 2012, there were no material changes to these policies, except we began using direct finance lease (DFL) accounting with the acquisition and lease of the real estate of Ernest Health, Inc. (Ernest). Under DFL

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accounting, future minimum lease payments are recorded as a receivable. Unearned income, which represents the net investment in the DFL less the sum of minimum lease payments receivable and the estimated residual values of the leased properties, is deferred and amortized to income over the lease term to provide a constant yield when collectability of the lease payments is reasonably assured. Investments in DFLs are presented net of unamortized and unearned income. DFLs are placed on non-accrual status when management determines that the collectability of contractual amounts is not reasonably assured. While on non-accrual status, DFLs are accounted for on a cash basis, in which income is recognized only upon receipt of cash.

For our equity interest in Ernest and related loans (as more fully described in Note 3), we have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interests or loans made prior to 2012.

Variable Interest Entities

In regard to the Ernest Transaction (defined in Note 3), we have determined that Ernest is a variable interest entity (VIE); however, we are not the primary beneficiary as we lack the ability to direct the activities of Ernest that most significantly impact the entity s economic performance. At June 30, 2012, we had loans to and/or equity investments in several VIEs for which we are not the primary beneficiary. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at June 30, 2012 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset Type Classification	Carrying Amount(2)
Loans, net	$ 272,383	Mortgage and other loans	$ 231,646
Equity investments	$ 13,560	Other assets	$ 3,017

(1) Our maximum loss exposure related to loans with VIEs represents our current aggregate gross carrying value of the loan plus accrued interest and any other related assets (such as rents receivable), less any liabilities. Our maximum loss exposure related to our equity investment in VIEs represents the current carrying values of such investment plus any other related assets (such as rent receivables) less any liabilities.

(2) Carrying amount reflects the net book value of our loan or equity interest only in the VIE.

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrower or investee) that most significantly impact the VIE s economic performance. As of June 30, 2012, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

Typically, our loans are collateralized by assets of the borrower (some assets of which are on the premises of facilities owned by us) and further supported by limited guarantees made by certain principals of the borrower.

See Note 3 for additional description of the nature, purpose and activities of our more significant VIEs and interests therein.

3. Real Estate and Lending Activities

Acquisitions

2012 Activity

On February 29, 2012, we made loans to and acquired assets from Ernest for a combined purchase price and investment of $396.5 million, consisting of $200 million to purchase real estate assets, a first mortgage loan of $100 million, an acquisition loan for $93.2 million and a capital contribution of $3.3 million (Ernest Transaction).

Real Estate Acquisition and Mortgage Loan Financing

Pursuant to a definitive real property asset purchase agreement (the Purchase Agreement), we acquired from Ernest and certain of its subsidiaries (i) a portfolio of five rehabilitation facilities (including a ground lease interest relating to a community-based acute rehabilitation facility in Wyoming), (ii) seven long-term acute care facilities located in seven states and (iii) undeveloped land in Provo, Utah (collectively, the Acquired Facilities) for an aggregate purchase price of $200 million, subject to certain adjustments. The Acquired Facilities are leased to subsidiaries of Ernest pursuant to a master lease agreement. The master lease agreement has a 20-year term with three five-year extension options and provides for an initial rental rate of 9%, with consumer price-indexed increases, limited to a 2% floor and 5% ceiling annually thereafter. In addition, we made Ernest a $100 million loan secured by a first mortgage interest in four subsidiaries of Ernest, which has terms similar to the leasing terms described above.

Acquisition Loan and Equity Contribution

Through an affiliate of one of our TRSs, we made investments of approximately $96.5 million in Ernest Health Holdings, LLC (Ernest Holdings), which is the owner of Ernest. These investments, which are structured as a $93.2 million loan and a $3.3 million equity contribution generally provide that we will receive a preferential return of 15% of the loan amount and approximately 79% of the remaining earnings of Ernest. Ernest is required to pay us a minimum of 6% and 7% of the loan amount in years one and two, respectively, and 10% thereafter, although there are provisions in the loan agreement that are expected to result in full payment of the 15% preference when funds are sufficient. Any of the 15% in excess of the minimum that is not paid may be accrued and paid upon the occurrence of a capital or liquidity event and is payable at maturity. The loan may be prepaid without penalty at any time.

Financing of Ernest Transaction

To finance the Ernest Transaction, we completed equity and senior unsecured notes offerings in February 2012. See Notes 4 and 5 for more information on these financing activities.

2011 Activity

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. 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.

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 is currently being operated by Kindred Healthcare Inc. The purchase price of this hospital was $19.5 million, which included the assumption of a mortgage loan.

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

	2012	2011
Assets Acquired		
Land	$	$ 16,151
Building		157,834
Intangible lease assets subject to amortization (weighted average useful life of 13.3 years in 2011)		14,093
Net investments in direct financing leases	200,000	
Mortgage loans	100,000	
Other loans	93,200	5,233
Equity investments	3,300	1,268
Total assets acquired	$ 396,500	$ 194,579
Total liabilities assumed		(14,592)
Net assets acquired	$ 396,500	$ 179,987

From the acquisition date, the Ernest Transaction contributed $11.1 million and $15.0 million of revenue and income (excluding related acquisition expenses) for the three and six month periods ended June 30, 2012, respectively. In addition, we incurred $0.3 million and $3.7 million of acquisition related costs on the Ernest Transaction for the three and six months ended June 30, 2012.

The purchase price allocation attributable to the Ernest Transaction is preliminary as we are waiting on additional information to perform our final analysis. 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 as of that date.

From the respective acquisition dates, the five hospitals acquired in 2011 contributed $5.3 million and $8.5 million of revenue and $3.4 million and $5.4 million of income (excluding related acquisition expenses) for the three and six months ended June 30, 2011, respectively. In addition, we incurred $0.6 million and $2.7 million of acquisition related costs for the three and six months ended June 30, 2011, of which $0.1 million and $1.7 million, respectively, related to acquisitions consummated as of June 30, 2011.

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 2012 and 2011, as if each acquisition in 2012 and 2011 were consummated on the same terms at the beginning of 2011 and 2010, respectively. Supplemental pro forma earnings were adjusted to exclude acquisition-related costs on consummated deals incurred in the three and six months ended June 30, 2012 and 2011 (dollar amounts in thousands except per share/unit data).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Total revenues	$ 51,070	$ 48,671	$ 101,287	$ 98,250
Net income	19,672	10,825	39,401	32,133
Net income per share/unit diluted	$ 0.14	$ 0.08	$ 0.29	$ 0.23

Development Activities

On June 13, 2012, we entered into an agreement with Ernest to develop and lease a 40-bed rehabilitation hospital in Lafayette, Indiana. Total development cost is estimated to be $16.6 million and the facility is expected to be completed in early 2013. We have funded $2.4 million through the second quarter of 2012.

On May 4, 2012, we amended the current lease on our Victoria, Texas facility with Post Acute Medical to extend the current lease term into 2028, and we agreed to develop and lease a 26-bed facility next to the current facility. Total development cost of the new facility is estimated to be $9.4 million and it is expected to be completed in June 2013.

On March 1, 2012, we received a certificate of occupancy for our recently constructed Florence acute care facility near Phoenix, Arizona. With this, we started recognizing rent on this facility in March 2012. During the construction period, we accrued and deferred rent based on the cost paid during the construction period. In March 2012, we began recognizing a portion of the accrued construction period rent along with interest on the unpaid amount. This accrued construction period rent will be recognized in our income statement and paid over the 25 year lease term. Land and building costs associated with this property approximates $30 million.

In addition to the new development projects, our other three development projects, which will be leased to Emerus Holding, Inc., are expected to be completed in the 2012 fourth quarter. Estimated total development cost for these three facilities is $30 million. We have funded $11.7 million through the second quarter of 2012. In regard to our River Oaks facility, re-development efforts continue and we currently expect this facility to be completed in the first quarter of 2013.

Disposals

On June 15, 2012, we sold the HealthSouth Rehabilitation Hospital of Fayetteville in Fayetteville, Arkansas for $16 million, resulting in a loss of $1.4 million. Due to this sale, the operating results of this facility for the current and all prior periods have been included in discontinued operations, and we have reclassified the related real estate to Real Estate Held for Sale. In connection with this sale, HealthSouth Corporation agreed to extend the lease on our Wichita, Kansas property, which is now set to end in March 2022.

Leasing Operations

Denham Springs facility

For the six months ended June 30, 2012, there have been no significant developments to our Denham Springs facility or its operator. We have not recorded any rental revenue or reversed previously established reserves during the first or second quarters. At June 30, 2012, we continue to believe, based on existing collateral and the current real estate market, that the $0.7 million loan and the $4.1 million of real estate are fully recoverable; however, no assurances can be made that future reserves will not be needed.

Ernest

We are accounting for the master lease of 12 facilities to Ernest as a DFL. The components of our net investment in DFL consisted of the following (dollars in thousands):

	As of June 30, 2012
Minimum lease payments receivable	$ 896,900
Estimated residual values	200,000
Less unearned income	(895,744)
Net investment in direct financing leases	$ 201,156

Monroe facility

As of June 30, 2012, we have advanced $29.9 million to the operator/lessee of Monroe Hospital in Bloomington, Indiana pursuant to a working capital loan agreement, including additional advances of $1.3 million during the second quarter of 2012. In addition, as of June 30, 2012, we have $18.0 million of rent, interest and other charges owed to us by the operator, of which $5.6 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 2010, we recorded a $12 million impairment charge on the working capital loan and recorded a valuation allowance for unbilled straight-line rent in the amount of $2.5 million. We have not recognized any interest income on the Monroe loan since it was considered impaired and have not recorded any unbilled rent since 2010.

At June 30, 2012, our net investment (exclusive of the related real estate) of $35.9 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) $5 million in hospital patient receivables, (ii) cash balances of approximately $1 million, (iii) our assessment of the realizable value of our other collateral and (iv) continued improvement in operational revenue statistics compared to previous years. However, no assurances can be made that we will not have additional charges for further impairment of our working capital loan in the future.

Loans

On March 1, 2012, pursuant to our convertible note agreement, we converted $1.7 million of our $5.0 million convertible note into a 9.9% equity interest in the operator of our Hoboken University Medical Center facility. At June 30, 2012, $3.3 million remains outstanding on the convertible note, and we retain the option, through November 2014, to convert this remainder into a 15.1% of equity interest in the operator.

Concentrations of Credit Risk

For the three and six months ended June 30, 2012, revenue from affiliates of Ernest (including rent and interest from mortgage and acquisition loans) accounted for 21.8% and 16.0%, respectively, of total revenue. However, from an investment concentration perspective, Ernest represented 19.4% of our total assets at June 30, 2012.

For the three months ended June 30, 2012 and 2011, revenue from affiliates of Prime (including rent and interest from mortgage loans) accounted for 22.1% and 31.7%, respectively, of total revenue. For the six months ended June 30, 2012 and 2011, revenue from affiliates of Prime (including rent and interest from mortgage loans) accounted for 24.1% and 31.0%, respectively, of total revenue. However, from an investment concentration perspective, Prime represented 20.1% and 25.6% of our total assets at June 30, 2012 and 2011, respectively.

On an individual property basis, we had no investment of any single property greater than 5% of our total assets as of June 30, 2012.

From a geographic perspective, all of our properties are located in the United States with 24.0% of our total assets at June 30, 2012 located in Texas.

4. Debt

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

	As of June 30, 2012		As of December 31, 2011	
	Balance	Interest Rate	Balance	Interest Rate
Revolving credit facilities (A)	$	Variable	$ 89,600	Variable
2006 Senior Unsecured Notes	125,000	Various	125,000	Various
2011 Senior Unsecured Notes	450,000	6.875%	450,000	6.875%
2012 Senior Unsecured Notes	200,000	6.375%		
Exchangeable senior notes:				
Principal amount	11,000	9.250%	11,000	9.250%
Unamortized discount	(111)		(180)	
	10,889		10,820	
Term loans	114,315	Various	14,429	6.200%
	$ 900,204		$ 689,849	

(A) Our $42 million collateralized revolving credit facility expired in June 2012.

As of June 30, 2012, principal payments due for our debt (which exclude the effects of any discounts recorded) are as follows:

2012	$ 117
2013	11,249
2014	266
2015	283
2016	225,299

Thereafter	663,101
Total	$ 900,315

To help fund the 2012 acquisitions disclosed in Note 3, on February 17, 2012, we completed a $200 million offering of senior unsecured notes (2012 Senior Unsecured Notes), resulting in net proceeds, after underwriting discount, of $196.5 million. These 2012 senior unsecured notes accrue interest at a fixed rate of 6.375% per year and mature on February 15, 2022. The 2012 Senior Unsecured Notes include covenants substantially consistent with our 2011 Senior Unsecured Notes.

In addition, on March 9, 2012, we closed on a $100 million senior unsecured term loan facility (2012 Term Loan) and exercised the $70 million accordion feature on our revolving credit facility, increasing its capacity from $330 million to $400 million. The 2012 Term Loan facility has an interest rate option of (1) LIBOR plus an initial spread of 2.25% or (2) the higher of the prime rate , federal funds rate plus 0.5%, or Eurodollar rate plus 1.0%, plus an initial spread of 1.25%. The 2012 Term Loan facility is scheduled to mature on March 9, 2016, but we have the option to extend the facility one year to March 9, 2017.

During the second quarter 2010, we entered into an interest rate swap to fix $65 million of our 2006 Senior Unsecured Notes, which started July 31, 2011 (date on which the interest rate turned variable) 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 2006 Senior Unsecured Notes which started October 31, 2011 (date on which the related interest rate turned variable) through the maturity date (or October 2016) at a rate of 5.675%. At June 30, 2012 and December 31, 2011, the fair value of the interest rate swaps was $12.8 million and $12.2 million, respectively, which is reflected in accounts payable and accrued expenses on the condensed consolidated balance sheets.

We designated 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 and reclassified into earnings in the same period, or periods, during which the hedged transactions effect earnings, while any ineffective portion is recorded through earnings immediately. We did not have any hedge ineffectiveness in the periods; therefore, there was no income statement effect recorded during the three and six month periods ended June 30, 2012 or 2011. We do not expect any of the current losses included in accumulated other comprehensive loss to be reclassified into earnings in the next 12 months. At June 30, 2012 and December 31, 2011, we had $6.7 million and $6.3 million, respectively, posted as collateral, which is currently reflected in other assets on our consolidated balance sheets.

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; create or incur 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 or other assets; and change our business. In addition, the credit agreements governing our revolving credit facility and 2012 Term Loan limit the amount of dividends we can pay to 120% of normalized adjusted funds from operations, as defined in the agreements, on a rolling four quarter basis. Thereafter, a similar dividend restriction exists but the percentage drops each quarter (115% for quarter ending September 30, 2012) until reaching 95% at June 30, 2013. The indenture governing our 2011 and 2012 Senior Unsecured Notes also limits the amount of dividends we can pay based on the sum of 95% of funds from operations, proceeds of equity issuances and certain other net cash proceeds. Finally, our 2011 and 2012 Senior Unsecured Notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the credit facility and 2012 Term Loan contain 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 June 30, 2012, we were in compliance with all such financial and operating covenants.

5. Common Stock/Partner s Capital

Medical Properties Trust, Inc.

To help fund the 2012 acquisitions disclosed in Note 3, on February 7, 2012, we completed an offering of 23,575,000 shares of our common stock (including 3,075,000 shares sold pursuant to the exercise in full of the underwriters overallotment option) at a price of $9.75 per share, resulting in net proceeds (after underwriting discount) of $220.2 million.

MPT Operating Partnership, L.P.

At June 30, 2012, the Company has a 99.8% ownership interest in Operating Partnership with the remainder owned by three other partners, two of which are employees and one of which is a director. During the six months ended June 30, 2012, the partnership issued 23,575,000 units in direct response to the common stock offering by Medical Properties Trust, Inc.

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 1,457,430 shares remain available for future stock awards as of June 30, 2012. We awarded the following during 2012 and 2011:

Time-based awards We granted 275,464 and 292,803 shares in 2012 and 2011, respectively, of time-based restricted stock to management, independent directors, and certain employees (2011 only). 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 252,566 and 253,655 performance based awards in 2012 and 2011, 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, 2015 (for the 2011 awards) and December 31, 2016 (for the 2012 awards). Dividends on these awards are paid only upon achievement of the performance measures.

Multi-year Performance-based awards We awarded 649,793 and 600,000 shares in 2012 and 2011, respectively, 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. 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

standardized derivative pricing models. We estimate the fair value of our interest and rent receivables using Level 2 inputs such as 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. The fair value of our mortgage loans and working capital loans is generally estimated by using Level 2 and Level 3 inputs such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our exchangeable notes and 2011 and 2012 Senior Unsecured Notes, using Level 2 inputs such as quotes from securities dealers and market makers. We estimate the fair value of our 2006 Senior Unsecured Notes, revolving credit facilities, and term loans using Level 2 inputs based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision. The following table summarizes fair value estimates for our financial instruments (dollar amounts in thousands):

	June 30, 2012		December 31, 2011	
Asset (Liability)	Book Value	Fair Value	Book Value	Fair Value
Interest and rent receivables	$ 38,038	$ 30,345	$ 29,862	$ 22,866
Loans (1)	231,518	231,434	239,839	243,272
Debt, net	(900,204)	(921,587)	(689,849)	(688,032)

(1) Excludes loans related to the Ernest Transaction since they are recorded at fair value and discussed below.

Items Measured at Fair Value on a Recurring Basis

As discussed in Note 2, our equity interest in Ernest and related loans are being measured at fair value on a recurring basis. At June 30, 2012, these amounts were as follows (in thousands):

Asset Type	Fair Value	Cost	Asset Type Classification
Mortgage loans	$ 100,000	$ 100,000	Mortgage loans
Acquisition loan	93,200	93,200	Other loans
Equity investments	3,300	3,300	Other assets
	$ 196,500	$ 196,500	

Our mortgage loans with Ernest are recorded at fair value based on Level 3 inputs by discounting the estimated cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our acquisition loan and equity investments are recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which requires significant estimates of our investee such as projected revenue and expenses and appropriate discount rates based on the risk profile of comparable companies. We classify these loans and equity investments as Level 3, as we use certain unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices. For these cash flow models, our observable inputs include capitalization rates and market interest rates, and our unobservable input includes our adjustment for minority discount, which was 500 basis points at June 30, 2012.

For the quarter and six month period ended June 30, 2012, we had no gains/losses from fair value adjustments in our income statement. However, we recorded $5.7 million and $7.7 million of interest on these loans during the three and six months ended June 30, 2012, respectively.

8. Discontinued Operations

As disclosed in Note 3, we sold HealthSouth Rehabilitation Hospital of Fayetteville in Fayetteville, Arkansas during the 2012 second quarter.

On December 30, 2011, we sold Mountain View Regional Rehabilitation Hospital in Morgantown, West Virginia to HealthSouth Corporation for $21.1 million, resulting in a gain of $2.3 million. We also sold Sherman Oaks Hospital in Sherman Oaks, California to Prime, on December 30, 2011 for $20.0 million, resulting in a gain of $3.1 million. Due to this sale, we wrote-off $1.2 million in straight-line rent receivables.

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 six months ended June 30, 2012 and 2011 (dollar amounts in thousands except per share/unit amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$ 598	$ 1,492	$ 1,237	$ 3,284
Gain (loss) on sale	(1,446)		(1,446)	5
Income (loss)	(1,280)	1,007	(855)	2,449
Earnings (loss) per share/unit diluted	$ (0.01)	$ 0.01	$	$ 0.02

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9. Earnings Per Share/Common Unit

Medical Properties Trust, Inc.

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

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011
Numerator:		
Income from continuing operations	$ 20,640	$ 1,676
Non-controlling interests share in continuing operations	(44)	(43)
Participating securities share in earnings	(238)	(281)
Income from continuing operations, less participating securities share in earnings	20,358	1,352
Income (loss) from discontinued operations attributable to MPT common stockholders	(1,280)	1,007
Net income, less participating securities share in earnings	$ 19,078	$ 2,359

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011
Denominator		
Basic weighted-average common shares	134,715	110,589
Dilutive share options		11
Dilutive weighted-average common shares	134,715	110,600

	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Numerator:		
Income from continuing operations	$ 30,822	$ 11,058
Non-controlling interests share in continuing operations	(87)	(88)
Participating securities share in earnings	(490)	(597)
Income from continuing operations, less participating securities share in earnings	30,245	10,373
Income (loss) from discontinued operations attributable to MPT common stockholders	(855)	2,449
Net income, less participating securities share in earnings	$ 29,390	$ 12,822
Denominator		
Basic weighted-average common shares	129,810	110,495
Dilutive share options		9
Dilutive weighted-average common shares	129,810	110,504

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MPT Operating Partnership, L.P.

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

	For the Three Months Ended June 30,	
	2012	**2011**
Numerator:		
Income from continuing operations	$ 20,640	$ 1,703
Non-controlling interests share in continuing operations	(44)	(43)
Participating securities share in earnings	(238)	(281)
Income from continuing operations, less participating securities share in earnings	20,358	1,379
Income (loss) from discontinued operations attributable to MPT Operating Partnership partners	(1,280)	1,007
Net income, less participating securities share in earnings	$ 19,078	$ 2,386
Denominator		
Basic weighted-average units	134,715	110,589
Dilutive options		11
Dilutive weighted-average units	134,715	110,600

	For the Six Months Ended June 30,	
	2012	**2011**
Numerator:		
Income from continuing operations	$ 30,822	$ 11,102
Non-controlling interests share in continuing operations	(87)	(88)
Participating securities share in earnings	(490)	(597)
Income from continuing operations, less participating securities share in earnings	30,245	10,417
Income (loss) from discontinued operations attributable to MPT Operating Partnership partners	(855)	2,449
Net income, less participating securities share in earnings	$ 29,390	$ 12,866
Denominator		
Basic weighted-average units	129,810	110,495
Dilutive options		9
Dilutive weighted-average units	129,810	110,504

For the three and six months ended June 30, 2012 and 2011, 0.1 million of options were excluded from the diluted earnings per share/unit calculation as they were not determined to be dilutive. Shares/units that may be issued in the future in accordance with our exchangeable senior notes were excluded from the diluted earnings per share/unit calculation as they were not determined to be dilutive.

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10. Contingencies

We are a party to various legal proceedings incidental to our business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect our financial position, results of operations or cash flows.

11. Subsequent Events

On July 3, 2012, we entered into master lease agreements with certain subsidiaries of Prime, which replace the current leases with the same tenants covering the same properties. The master lease agreements with Prime cover 10 properties with a total lease base of $251 million. The master leases are for 10 years and contain two renewal options of five years each. The initial lease rate is generally consistent with the blended average rate of the prior lease agreements, which generated annual cash rents of $26 million. However, the annual escalators, which in the prior leases were limited, have been increased to reflect 100% of CPI increases, along with a minimum floor. The master leases include repurchase options substantially similar to those in the prior leases, including provisions establishing minimum repurchase prices equal to our total investment.

In addition, we funded a new $100 million mortgage loan secured by the real property of Centinela Hospital Medical Center. The mortgage loan, the master lease agreements discussed above and two other hospitals previously mortgaged to us are all cross-defaulted with one another.

12. Condensed Consolidating Financial Information

The following tables present the condensed consolidating financial information for (a) Medical Properties Trust, Inc. (Parent and a guarantor to our 2011 and 2012 Senior Unsecured Notes), (b) MPT Operating Partnership, L.P. and MPT Finance Corporation (Subsidiary Issuer), (c) on a combined basis, the guarantors of our 2011 and 2012 Senior Unsecured Notes (Subsidiary Guarantors), and (d) on a combined basis, the non-guarantor subsidiaries (Non-Guarantor Subsidiaries). Separate financial statements of the Subsidiary Guarantors are not presented because the guarantee by each 100% owned Subsidiary Guarantor is joint and several, and we believe separate financial statements and other disclosures regarding the Subsidiary Guarantors are not material to investors. Furthermore, there are no significant legal restrictions on the Parent s ability to obtain funds from its subsidiaries by dividend or loan.

The guarantees by the Subsidiary Guarantors may be released and discharged upon: (1) any sale, exchange or transfer of all of the capital stock of a Subsidiary Guarantor; (2) the merger or consolidation of a Subsidiary Guarantor with a Subsidiary Issuer or any other Subsidiary Guarantor; (3) the proper designation of any Subsidiary Guarantor by the Subsidiary Issuers as unrestricted for covenant purposes under the indenture governing the 2011 and 2012 Senior Unsecured Notes; (4) the legal defeasance or covenant defeasance or satisfaction and discharge of the indenture; (5) a liquidation or dissolution of a Subsidiary Guarantor permitted under the indenture governing the 2011 and 2012 Senior Unsecured Notes; or (6) the release or discharge of the Subsidiary Guarantor from its guarantee obligations under our revolving credit facility.

Subsequent to December 31, 2011, certain of our subsidiaries were re-designated as guarantors of our 2011 and 2012 Senior Unsecured Notes (such subsidiaries were non-guarantors in 2011), while another subsidiary has been re-designated as a non-guarantor as the underlying property was sold in 2012 (such subsidiary was a guarantor during 2011). With these re-designations, we have restated the 2011 condensed consolidating financial information below to reflect these changes.

Condensed Consolidated Balance Sheet

June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Assets						
Real estate assets						
Land, buildings and improvements and intangible lease assets	$	$ 69	$ 1,209,831	$ 65,946	$	$ 1,275,846

Mortgage loans		165,000	100,000	265,000
Net investment in direct financing leases			201,156	201,156
Gross investment in real estate assets	69	1,374,831	367,102	1,742,002
Accumulated depreciation and amortization		(113,670)	(5,601)	(119,271)
Net investment in real estate assets	69	1,261,161	361,501	1,622,731
Cash & cash equivalents	125,655	1,565	419	127,639
Interest and rent receivable	513	25,677	11,848	38,038

Straight-line rent receivable			31,164	5,809		36,973
Other loans		177		159,541		159,718
Net intercompany receivable (payable)	26,728	1,229,630	(846,533)	(409,825)		
Investment in subsidiaries	1,027,973	554,473	42,912		(1,625,358)	
Other assets		32,800	1,520	19,112		53,432
Total Assets	$ 1,054,701	$ 1,943,317	$ 517,466	$ 148,405	$ (1,625,358)	$ 2,038,531
Liabilities and Equity						
Liabilities						
Debt, net	$	$ 885,889	$	$ 14,315	$	$ 900,204
Accounts payable and accrued expenses	27,118	28,931	2,362	676		59,087
Deferred revenue		524	20,830	1,142		22,496
Lease deposits and other obligations to tenants			28,125	1,036		29,161
Total liabilities	27,118	915,344	51,317	17,169		1,010,948
Total equity	1,027,583	1,027,973	466,149	131,236	(1,625,358)	1,027,583
Total Liabilities and Equity	$ 1,054,701	$ 1,943,317	$ 517,466	$ 148,405	$ (1,625,358)	$ 2,038,531

Condensed Consolidated Statements of Income

For the Three Months Ended June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Revenues						
Rent billed	$	$	$ 30,701	$ 4,153	$ (2,131)	$ 32,723
Straight-line rent			1,053	375		1,428
Income from direct financing leases			4,839	5,371	(4,839)	5,371
Interest and fee income		5,034	6,530	7,007	(7,023)	11,548
Total revenues		5,034	43,123	16,906	(13,993)	51,070
Expenses						
Real estate depreciation and amortization			8,363	425		8,788
Property-related		130	420	7,059	(6,970)	639
General and administrative		6,773		(76)		6,697
Acquisition expenses		279				279
Total operating expenses		7,182	8,783	7,408	(6,970)	16,403
Operating income (expense)		(2,148)	34,340	9,498	(7,023)	34,667
Other income (expense)						
Interest and other income (expense)		(16)	(2)	1		(17)
Earnings from equity and other interests			453	426		879
Interest expense		(14,913)	254	(7,253)	7,023	(14,889)
Net other income (expense)		(14,929)	705	(6,826)	7,023	(14,027)
Income (loss) from continuing operations		(17,077)	35,045	2,672		20,640
Income (loss) from discontinued operations				(1,280)		(1,280)

Equity in earnings of consolidated subsidiaries net of income taxes	19,360	36,437	1,117		(56,914)	
Net income (loss)	19,360	19,360	36,162	1,392	(56,914)	19,360
Net income (loss) attributable to non-controlling interests	(44)	(44)			44	(44)
Net income (loss) attributable to MPT common stockholders	$ 19,316	$ 19,316	$ 36,162	$ 1,392	$ (56,870)	$ 19,316

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Condensed Consolidated Statements of Income

For the Six Months Ended June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Revenues						
Rent billed	$	$	$ 60,677	$ 8,284	$ (4,591)	$ 64,370
Straight-line rent			2,133	744		2,877
Income from direct financing leases			6,492	7,206	(6,492)	7,206
Interest and fee income		7,978	11,744	10,414	(10,646)	19,490
Total revenues		7,978	81,046	26,648	(21,729)	93,943
Expenses						
Real estate depreciation and amortization			16,570	850		17,420
Property-related		261	522	11,171	(11,083)	871
General and administrative		13,736		553		14,289
Acquisition expenses		3,704				3,704
Total operating expenses		17,701	17,092	12,574	(11,083)	36,284
Operating income (expense)		(9,723)	63,954	14,074	(10,646)	57,659
Other income (expense)						
Interest and other income (expense)		(28)	(2)	(2)		(32)
Earnings from equity and other interests			453	426		879
Interest expense		(27,702)	478	(11,106)	10,646	(27,684)
Net other income (expense)		(27,730)	929	(10,682)	10,646	(26,837)
Income (loss) from continuing operations		(37,453)	64,883	3,392		30,822
Income (loss) from discontinued operations				(855)		(855)
Equity in earnings of consolidated subsidiaries net of income taxes	29,967	67,420	2,238		(99,625)	
Net income (loss)	29,967	29,967	67,121	2,537	(99,625)	29,967
Net income (loss) attributable to non-controlling interests	(87)	(87)			87	(87)
Net income (loss) attributable to MPT common stockholders	$ 29,880	$ 29,880	$ 67,121	2,537	$ (99,538)	$ 29,880

Condensed Consolidated Statements of Comprehensive Income (Loss)

For the Three Months Ended June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated

Net income	$ 19,360	$ 19,360	$ 36,162	$ 1,392	$ (56,914)	$ 19,360
Other comprehensive income:						
Unrealized loss on interest rate swap	(1,045)	(1,045)			1,045	(1,045)
Total comprehensive income	18,315	18,315	36,162	1,392	(55,869)	18,315
Comprehensive income attributable to non-controlling interests	(44)	(44)			44	(44)
Comprehensive income attributable to MPT common stockholders	$ 18,271	$ 18,271	$ 36,162	$ 1,392	$ (55,825)	$ 18,271

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Condensed Consolidated Statements of Comprehensive Income (Loss)

For the Six Months Ended June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Net income	$ 29,967	$ 29,967	$ 67,121	$ 2,537	$ (99,625)	$ 29,967
Other comprehensive income:						
Unrealized loss on interest rate swap	(546)	(546)			546	(546)
Total comprehensive income	29,421	29,421	67,121	2,537	(99,079)	29,421
Comprehensive income attributable to non-controlling interests	(87)	(87)			87	(87)
Comprehensive income attributable to MPT common stockholders	$ 29,334	$ 29,334	$ 67,121	$ 2,537	$ (98,992)	$ 29,334

Condensed Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2012

(in thousands)

	Parent	Subsidiary Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Operating Activities						
Net cash provided by (used in) operating activities	$	$ (30,512)	$ 75,358	$ (423)	$	$ 44,423
Investing Activities						
Cash paid for acquisitions and other related investments			(200,000)	(196,500)		(396,500)
Principal received on loans receivable			5,491	2,475		7,966
Proceeds from sales of real estate				16,000		16,000
Investments in and advances to subsidiaries	(170,705)	(359,319)	179,010	180,309	170,705	
Investments in loans receivable				(1,293)		(1,293)
Construction in progress and other		(47)	(19,970)	(638)		(20,655)
Net cash provided by (used in) investing activities	(170,705)	(359,366)	(35,469)	353	170,705	(394,482)
Financing Activities						
Revolving credit facilities, net		(50,000)	(39,600)			(89,600)
Additions to term debt		300,000				300,000
Payments of term debt				(114)		(114)
Distributions paid	(49,455)	(49,589)			49,455	(49,589)
Sale of common stock, net	220,160	220,160			(220,160)	220,160
Lease deposits and other obligations to tenants			(133)	516		383

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Debt issuance costs paid and other financing activities		(6,268)				(6,268)
Net cash provided by (used in) financing activities	170,705	414,303	(39,733)	402	(170,705)	374,972
Increase in cash and cash equivalents for period		24,425	156	332		24,913
Cash and cash equivalents at beginning of period		101,230				