MEDICAL PROPERTIES TRUST INC
Form 10-Q
May 10, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

o **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.
(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**20-0191742**
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of May 10, 2007, the registrant had 48,968,062 shares of common stock, par value $.001, outstanding.

MEDICAL PROPERTIES TRUST, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007
Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 440,251,031	$ 437,367,722
Construction in progress	20,663,922	57,432,264
Mortgage loans	225,000,000	105,000,000
Real estate held for sale		63,324,381
Gross investment in real estate assets	685,914,953	663,124,367
Accumulated depreciation and amortization	(12,595,219)	(12,056,422)
Net investment in real estate assets	673,319,734	651,067,945
Cash and cash equivalents	31,996,738	4,102,873
Interest and rent receivable	13,592,198	11,893,513
Straight-line rent receivable	13,370,926	12,686,976
Other loans	62,252,787	45,172,830
Other assets of discontinued operations	7,595,330	6,890,919
Other assets	11,821,647	12,941,689
Total Assets	**$ 813,949,360**	**$ 744,756,745**
Liabilities and Stockholders Equity		
Liabilities		
Debt	$ 274,167,107	$ 304,961,898
Debt real estate held for sale		43,165,650
Accounts payable and accrued expenses	35,676,865	30,386,858
Deferred revenue	17,244,367	14,615,609
Lease deposits and other obligations to tenants	7,768,823	6,853,759
Total liabilities	334,857,162	399,983,774
Minority interests	1,413,508	1,051,835
Stockholders equity		
Preferred stock, $0.001 par value. Authorized 10,000,000 shares; no shares outstanding		
Common stock, $0.001 par value. Authorized 100,000,000 shares; issued and outstanding - 48,915,842 shares at March 31, 2007, and 39,585,510 shares at December 31, 2006	48,916	39,586
Additional paid in capital	493,776,844	356,678,018

Distributions in excess of net income		(16,147,070)		(12,996,468)
Total stockholders equity		477,678,690		343,721,136
Total Liabilities and Stockholders Equity	**$**	**813,949,360**	**$**	**744,756,745**

See accompanying notes to condensed consolidated financial statements.

1

Table of Contents

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Revenues		
Rent billed	$ 11,937,716	$ 7,267,219
Straight-line rent	683,950	998,307
Interest income from loans	5,436,682	2,492,146
Total revenues	18,058,348	10,757,672
Expenses		
Real estate depreciation and amortization	2,539,865	1,434,562
General and administrative	4,637,681	2,516,171
Total operating expenses	7,177,546	3,950,733
Operating income	10,880,802	6,806,939
Other income (expense)		
Interest income	178,215	252,279
Interest expense	(5,013,234)	
Net other (expense) income	(4,835,019)	252,279
Income from continuing operations	6,045,783	7,059,218
Income from discontinued operations	4,158,169	918,392
Net income	**$ 10,203,952**	**$ 7,977,610**
Net income per common share basic		
Income from continuing operations	$ 0.14	$ 0.18
Income from discontinued operations	0.10	0.02
Net income	$ 0.24	$ 0.20
Weighted average shares outstanding basic	42,823,619	39,428,071
Net income per share diluted		
Income from continuing operations	$ 0.14	$ 0.18
Income from discontinued operations	0.10	0.02
Net income	$ 0.24	$ 0.20
Weighted average shares outstanding diluted	43,070,303	39,501,723

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31, 2007	2006
Operating activities		
Net income	$ 10,203,952	$ 7,977,610
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,672,133	1,792,462
Straight-line rent revenue	(683,950)	(1,301,457)
Share-based compensation	795,247	605,558
Gain on sale of real estate	(4,061,626)	
Other adjustments	1,193,375	3,415,461
Net cash provided by operating activities	10,119,131	12,489,634
Investing activities		
Real estate acquired	(7,740,920)	(7,003,377)
Principal received on loans receivable	7,730,359	
Proceeds from sale of real estate	69,801,411	
Investment in loans receivable	(94,563,502)	(310,000)
Construction in progress	(9,579,186)	(26,699,437)
Net cash used for investing activities	(34,351,838)	(34,012,814)
Financing activities		
Additions to debt	77,700,000	4,026,393
Payments of debt	(151,862,009)	(29,000,000)
Distributions paid	(10,894,247)	(7,194,432)
Sale of common stock	136,101,634	
Other financing activities	1,081,194	
Net cash provided by (used for) financing activities	52,126,572	(32,168,039)
Increase (decrease) in cash and cash equivalents for period	27,893,865	(53,691,219)
Cash and cash equivalents at beginning of period	4,102,873	59,115,832
Cash and cash equivalents at end of period	**$ 31,996,738**	**$ 5,424,613**
Interest paid, including capitalized interest of $967,303 in 2007 and $1,129,417 in 2006	$ 5,351,450	$ 1,419,040
Supplemental schedule of non-cash investing activities		
Real estate converted to mortgage loans receivable	$ 48,871,850	$
Construction in progress transferred to land and building	44,229,175	
Other non-cash investing activities	1,313,765	1,898,423
Supplemental schedule of non-cash financing activities:		

Distributions declared, unpaid	$ 13,343,279	$ 8,411,563
Other non-cash financing activities	212,935	219,775

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation (the Company), was formed on August 27, 2003 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in and owning commercial real estate. The Company s operating partnership subsidiary, MPT Operating Partnership, L.P. (the Operating Partnership) through which it conducts all of its operations, was formed in September 2003. Through another wholly owned subsidiary, Medical Properties Trust, LLC, the Company is the sole general partner of the Operating Partnership. The Company presently owns directly all of the limited partnership interests in the Operating Partnership.

The Company s 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. The Company manages its business as a single business segment as defined in Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

From the time of the Company s initial capitalization in April 2004 through completion of the follow-on offering in the first quarter of 2007, the Company has sold approximately 48.0 million shares of common stock and realized net proceeds of approximately $494.5 million. The Company has also issued $125.0 million in fixed rate term notes and $138.0 million in fixed rate exchangeable notes. At May 1, 2007, the Company has in place a $150.0 million secured revolving credit facility with an available borrowing base of approximately $85.6 million.

2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation: Property holding entities and other subsidiaries of which the Company owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which the Company owns less than 100% of the equity interest, the Company consolidates the property if it has the direct or indirect ability to make decisions about the entities activities based upon the terms of the respective entities ownership agreements. For entities in which the Company owns less than 100% and does not have the direct or indirect ability to make decisions but does exert significant influence over the entities activities, the Company records its ownership in the entity using the equity method of accounting.

The Company periodically evaluates all of its transactions and investments to determine if they represent variable interests in a variable interest entity as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) (FIN 46-R), *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. If the Company determines that it has a variable interest in a variable interest entity, the Company determines if it is the primary beneficiary of the variable interest entity. The Company consolidates each variable interest entity in which the Company, by virtue of its transactions with or investments in the entity, is considered to be the primary beneficiary. The Company re-evaluates its status as primary beneficiary when a variable interest entity or potential variable interest entity has a material change in its variable interests.

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 month period ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

New Accounting Pronouncements: In June 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109 *Accounting for Income Taxes* and prescribes a recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007. No amounts were recorded for unrecognized tax benefits or related interest expense and penalties as a result of the implementation of FIN No. 48. The taxable periods ending December 31, 2004 through December 31, 2006 remain open to examination by the Internal Revenue Service and the tax authorities of significant jurisdictions in which the Company does business.

Reclassifications: Certain reclassifications have been made to the consolidated financial statements to conform to the 2007 consolidated financial statement presentation. These reclassifications have no impact on stockholders equity or net income.

3. Real Estate and Lending Activities

In January, 2007, the Company completed the sale of a general acute care hospital and attached medical office building (MOB) located in Houston, TX for cash proceeds which were used to reduce debt. The Company has retained funds sufficient to pay the minority interest holders for their investment and earnings in the MOB partnership.

In the three months ended March 31, 2007, the Company sold two hospital properties leased to one operator. In conjunction with the sales, the Company made two mortgage loans totaling $120 million on the same properties to the same operator. In addition, the Company funded the remaining contingent purchase prices aggregating $20 million related to five other hospitals leased to the same operator. These amounts, which resulted in an aggregate investment in the five hospitals of approximately $110 million, were loaned to the operator pursuant to terms similar to the related lease terms. The loans require the payment of interest only during their 15 year terms with principal due in full at maturity. Interest is paid monthly and increases each year based on the annual change in the consumer price index. The loans may be prepaid under certain specified conditions.

For the three months ended March 31, 2007 and 2006, revenue from Vibra Healthcare, LLC accounted for 36.6% and 64.3%, respectively, of total revenue. For the three months ended March 31, 2007 and 2006, revenue from affiliates of Prime Healthcare Services, Inc. accounted for 19.6% and 18.8%, respectively, of total revenue.

4. Debt

The following is a summary of debt:

	As of March 31, 2007		As of December 31, 2006	
	Balance	**Interest Rate**	**Balance**	**Interest Rate**
Revolving credit facility	$ 15,015,897	7.670%	$ 45,996,359	7.800%
Senior unsecured notes fixed rate through July and October, 2011, due July and October, 2016	125,000,000	7.333% - 7.871%	125,000,000	7.333% -7.871%
Exchangeable senior notes due November, 2011	134,151,210	6.125%	133,965,539	6.125%

$ 274,167,107	$ 304,961,868

As of March 31, 2007, principal payments due for our senior unsecured and exchangeable notes were as follows:

2007	$
2008	
2009	
2010	
2011	134,151,210
Thereafter	125,000,000
Total	$ 259,151,210

5. Common Stock

In the three months ended March 31, 2007, the Company completed the sale of 12,217,900 shares of common stock at a price of $15.60 per share, less underwriting commissions. Of the 12 million shares sold, the underwriters borrowed from third parties and sold 3,000,000 shares of Company common stock in connection with forward sale agreements between the Company and affiliates of the underwriters (the forward purchasers). The Company expects to settle the forward sale agreements and receive proceeds, subject to certain adjustments, from the sale of those shares only upon one or more future physical settlements of the forward sale agreements on a date or dates specified by the Company by February 28, 2008. The Company may elect to settle the forward sale agreements in cash, in which case the Company may not receive any proceeds and may owe cash to the forward purchasers. Cash settlement is based on the difference between the then current forward price and the current market price of the total shares remaining to be settled under the forward sale agreements.

6. Stock Awards

The Company has adopted the Medical Properties Trust, Inc. 2004 Amended and Restated Equity Incentive Plan (the Equity Incentive Plan) which authorizes the issuance of options to purchase shares of common stock, restricted stock awards, restricted stock units, deferred stock units, stock appreciation rights and performance units. The Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. At March 31, 2007, the Company has 3,472,330 shares of common stock available for awards under the Equity Incentive Plan.

In the three month period ended March 31, 2007, the Compensation Committee of the Board of Directors awarded 134,000 shares of restricted stock to management and other employees of the Company. The awards vest over a five year period based on service criteria. The Company recorded non-cash expense for share based compensation of approximately $795,000 and $606,000 in the three month periods ended March 31, 2007 and 2006, respectively.

7. Discontinued Operations

In 2006, the Company terminated leases for a hospital and medical office building (MOB) complex and re-possessed the real estate. In January, 2007, the Company sold the hospital and MOB complex for a sales price of approximately $71.7 million and recorded a gain of approximately $4.1 million, which is reported in results from discontinued operations. During the period from the lease termination to the date of sale, the hospital was leased to and operated by a third party operator under contract to the hospital. The Company has substantially funded through loans the working capital requirements of the operator pending the operator s collection of patient receivables from Medicare and other third party payors. The accompanying financial statements include provisions to reduce such loans to their estimated net realizable value.

The following table presents the results of discontinued operations for the three months ended March 31, 2007 and 2006:

	For the Three Months Ended March 31,	
	2007	**2006**
Revenues	$ 254,116	$ 1,934,595
Net profit	4,158,169	918,392

Earnings per share basic and diluted	$ 0.10	$ 0.02

Table of Contents

7. Earnings Per Share

The following is a reconciliation of the weighted average shares used in net income per common share to the weighted average shares used in net income per common share assuming dilution for the three months ended March 31, 2007 and 2006, respectively:

	For the Three Months Ended March 31,	
	2007	2006
Weighted average number of shares issued and outstanding	42,781,098	39,404,454
Vested deferred stock units	42,521	23,617
Weighted average shares basic	42,823,619	39,428,071
Common stock warrants and options	246,684	73,652
Weighted average shares diluted	43,070,303	39,501,723

Table of Contents

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

The following discussion and analysis of the consolidated financial condition and consolidated results of operations should be read together with the consolidated financial statements of Medical Properties Trust, Inc. and notes thereto contained in this Form 10-Q and the financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

Forward-Looking Statements.

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or future performance, achievements or transactions or events to be materially different from those expressed or implied by such forward-looking statements, including, but not limited to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. Such factors include, among others, the following:

- National and local economic, business, real estate and other market conditions;
- The competitive environment in which the Company operates;
- The execution of the Company s business plan;
- Financing risks;
- Acquisition and development risks;
- Potential environmental and other liabilities;
- Other factors affecting real estate industry generally or the healthcare real estate industry in particular;
- Our ability to attain and maintain our status as a REIT for federal and state income tax purposes;
- Our ability to attract and retain qualified personnel; and,
- Federal and state healthcare regulatory requirements.

Overview

We were incorporated under Maryland law on August 27, 2003 primarily for the purpose of investing in and owning net-leased healthcare facilities across the United States. 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 our calendar year 2004 Federal income tax return. We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases. We also make mortgage loans to healthcare operators secured by their real estate assets. We selectively make loans to certain of our operators through our taxable REIT subsidiary, the proceeds of which are used for acquisitions and working capital.

At March 31, 2007, we owned 20 operating healthcare facilities and held five mortgage loans secured by five other properties. In addition, we were in the process of developing an additional healthcare facility that was not yet in operation. We had one acquisition loan outstanding, the proceeds of which our tenant used for the acquisition of six hospital operating companies. The 21 facilities we owned and the five facilities on which we had made mortgage loans were in ten states, had a carrying cost of approximately $685.9 million and comprised approximately 84.0% of our total assets. Our acquisition and other loans of approximately $62.3 million represented approximately 7.6% of our total assets. We do not expect such loan assets at any time to exceed 20% of our total assets.

At May 1, 2007, we had 20 employees. Over the next 12 months, we expect to add four to six additional employees as we acquire new properties and manage our existing properties and loans.

Key Factors that May Affect Our Operations

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

Key factors that we consider in underwriting prospective tenants and in monitoring the performance of existing tenants include the following:

- the historical and prospective operating margins (measured by a tenant s earnings before interest, taxes, depreciation, amortization and facility rent) of each tenant and at each facility;

- the ratio of our tenants operating earnings both to facility rent and to facility rent plus other fixed costs, including debt costs;

- trends in the source of our tenants revenue, including the relative mix of Medicare, Medicaid/MediCal, managed care, commercial insurance, and private pay patients; and

- the effect of evolving healthcare regulations on our tenants profitability.

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

- trends in the cost and availability of capital, including market interest rates, that our prospective tenants may use for their real estate assets instead of financing their real estate assets through lease structures;

- unforeseen changes in healthcare regulations that may limit the opportunities for physicians to participate in the ownership of healthcare providers and healthcare real estate;

- reductions in reimbursements from Medicare, state healthcare programs, and commercial insurance providers that may reduce our tenants profitability and our lease rates, and;

- competition from other financing sources.

CRITICAL ACCOUNTING POLICIES

In order to prepare financial statements in conformity with accounting principles generally accepted in the United States, we must make estimates about certain types of transactions and account balances. We believe that our estimates of the amount and timing of lease revenues, credit losses, fair values and periodic depreciation of our real estate assets, stock compensation expense, and the effects of any derivative and hedging activities will have significant effects on our financial statements. Each of these items involves estimates that require us to make subjective judgments. We rely on our experience, collect historical data and current market data, and develop relevant assumptions to arrive at what we believe to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. Our accounting estimates include the following:

Revenue Recognition. Our revenues, which are comprised largely of rental income, include rents that each tenant pays in accordance with the terms of its respective lease reported on a straight-line basis over the initial term of the lease. Since some of our leases provide for rental increases at specified intervals, straight-line basis accounting requires us to record as an asset, and include in revenues, straight-line rent that we will only receive if the tenant makes all rent payments required through the expiration of the term of the lease.

Accordingly, our management determines, in its judgment, to what extent the straight-line rent receivable applicable to each specific tenant is collectible. We review each tenant s straight-line rent receivable on a quarterly basis and take into consideration the tenant s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area in which the facility is located. In the event that the collectibility of straight-line rent with respect to any given tenant is in doubt, we are required to record an increase in our allowance for uncollectible accounts or record a direct write-off of the specific rent receivable, which would have an adverse effect on our net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease our total assets and stockholders equity. At that time, we stop accruing additional straight-line rent income.

Our development projects normally allow for us to earn what we term construction period rent . Construction period rent accrues to us during the construction period based on the funds which we invest in the facility. During the construction period, the unfinished facility does not generate any earnings for the lessee/operator which can be used to pay us for our funds used to build the facility. In such cases, the lessee/operator pays the accumulated construction period rent over the term of the lease beginning when the lessee/operator takes physical possession of the facility. We record the accrued construction period rent as deferred revenue during the construction period, and recognize earned revenue as the construction period rent is paid to us by the lessee/operator.

We make loans to our tenants and from time to time may make construction or mortgage loans to facility owners or other parties. We recognize interest income on loans as earned based upon the principal amount outstanding. These loans are generally secured by interests in real estate, receivables, the equity interests of a tenant, or corporate and individual guarantees and are usually cross-defaulted with their leases and/or other loans. As with straight-line rent receivables, our management must also periodically evaluate loans to determine what amounts may not be collectible. Accordingly, a provision for losses on loans receivable is recorded when it becomes probable that the loan will not be collected in full. The provision is an amount which reduces the loan to its estimated net receivable value based on a determination of the eventual amounts to be collected either from the debtor or from the collateral, if any. At that time, we discontinue recording interest income on the loan to the tenant.

Investments in Real Estate. We record investments in real estate at cost, and we capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. While our tenants are generally responsible for all operating costs at a facility, to the extent that we incur costs of repairs and maintenance, we expense those costs as incurred. We compute depreciation using the straight-line method over the estimated useful life of 40 years for buildings and improvements, three to seven years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We are required to make subjective assessments as to the useful lives of our facilities for purposes of determining the amount of depreciation expense to record on an annual basis with respect to our investments in real estate improvements. These assessments have a direct impact on our net income because, if we were to shorten the expected useful lives of our investments in real estate improvements, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

We have adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 requires that the operations related to facilities that have been sold, or that we intend to sell, be presented as discontinued operations in the statement of operations for all periods presented, and facilities we intend to sell be designated as held for sale on our balance sheet.

When circumstances such as adverse market conditions indicate a possible impairment of the value of a facility, we review the recoverability of the facility s carrying value. The review of recoverability is based on our estimate of the future undiscounted cash flows, excluding interest charges, from the facility s use and eventual disposition. Our forecast of these cash flows considers factors such as expected future operating income, market and other applicable trends, and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a facility, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the facility. We are required to make subjective assessments as to whether there are impairments in the values of our investments in real estate.

Purchase Price Allocation. We record above-market and below-market in-place lease values, if any, for the facilities we own which are based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market

lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We amortize any resulting capitalized below-market lease values as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. Because our strategy to a large degree involves the origination of long term lease arrangements at market rates at the same time we acquire the property, we do not expect the above-market and below-market in-place lease values to be significant for many of our anticipated transactions.

We measure the aggregate value of other intangible assets to be acquired based on the difference between (i) the property valued with existing leases adjusted to market rental rates and (ii) the property valued as if vacant. Management s estimates of value are made using methods similar to those used by independent appraisers (*e.g.*, discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to range primarily from three to 18 months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets to be acquired, if any, is further allocated to in-place lease values and customer relationship intangible values based on management s evaluation of the specific characteristics of each prospective tenant s lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality, and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We amortize the value of in-place leases to expense over the initial term of the respective leases, which range primarily from 10 to 15 years. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and customer relationship intangibles would be charged to expense.

Accounting for Derivative Financial Investments and Hedging Activities. We expect to account for our derivative and hedging activities, if any, using SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137 and SFAS No. 149, which requires all derivative instruments to be carried at fair value on the balance sheet.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We expect to formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. We plan to review periodically the effectiveness of each hedging transaction, which involves estimating future cash flows. Cash flow hedges, if any, will be accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in other comprehensive income within stockholders equity. Amounts will be reclassified from other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, which we expect to affect the Company primarily in the form of interest rate risk or variability of interest rates, are considered fair value hedges under SFAS No. 133. We are not currently a party to any derivatives contracts designated as cash flow hedges.

In 2006, we entered into derivative contracts as part of our offering of Exchangeable Senior Notes (the exchangeable notes). The contracts are generally termed capped call or call spread contracts. These contracts are financial instruments which are separate from the exchangeable notes themselves, but affect the overall potential number of shares which will be issued by us to satisfy the conversion feature in the exchangeable notes. The

exchangeable notes can be exchanged into shares of our common stock when our stock price exceeds $16.55 per share, which is the equivalent of 60.3346 shares per $1,000 note. The number of shares actually issued upon conversion will be equivalent to the amount by which our stock price exceeds $16.55 times the 60.3346 conversion rate. The capped call transaction allows us to effectively increase that exchange price from $16.55 to $18.94. Therefore, our shareholders will not experience dilution of their shares from any settlement or conversion of the exchangeable notes until the price of our stock exceeds $18.94 per share rather than $16.55 per share. When evaluating this transaction, we have followed the guidance in Emerging Issues Task Force (EITF) No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock.* EITF No. 00-19 requires that contracts such as this capped call which meet certain conditions must be accounted for as permanent adjustments to equity rather than periodically adjusted to their fair value as assets or liabilities. We have evaluated the terms of these contracts and recorded this capped call as a permanent adjustment to stockholders equity in 2006.

The exchangeable notes themselves also contain the conversion feature described above. SFAS No. 133 also states that certain embedded derivative contracts must follow the guidance of EITF No. 00-19 and be evaluated as though they also were a freestanding derivative contract. Embedded derivative contracts such the conversion feature in the notes should not be treated as a financial instrument separate from the note if it meets certain conditions in EITF No. 00-19. We have evaluated the conversion feature in the exchangeable notes and have determined that it should not be reported separately from the debt.

Variable Interest Entities. In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. In December 2003, the FASB issued a revision to FIN 46, which is termed FIN 46(R). FIN 46(R) clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and provides guidance on the identification of entities for which control is achieved through means other than voting rights, guidance on how to determine which business enterprise should consolidate such an entity, and guidance on when it should do so. This model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. An entity meeting either of these two criteria is a variable interest entity, or VIE. A VIE must be consolidated by any entity which is the primary beneficiary of the VIE. If an entity is not the primary beneficiary of the VIE, the VIE is not consolidated. We periodically evaluate the terms of our relationships with our tenants and borrowers to determine whether we are the primary beneficiary and would therefore be required to consolidate any tenants or borrowers that are VIEs. Our evaluations of our transactions indicate that we have loans receivable from two entities which we classify as VIEs. However, because we are not the primary beneficiary of these VIEs, we do not consolidate these entities in our financial statements.

Stock-Based Compensation. Prior to 2006, we used the intrinsic value method to account for the issuance of stock options under our equity incentive plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) became effective for our annual and interim periods beginning January 1, 2006, but had no material effect on the results of our operations. During the three month period ended March 31, 2007, we recorded $795,000 of expense for share based compensation, related to grants of restricted common stock. In 2006, we also granted performance based restricted share awards. Because these awards will vest based on the Company s performance, we must evaluate and estimate the probability of achieving those performance targets. Any changes in these estimates and probabilities must be recorded in the period when they are changed. During 2006, we awarded 105,375 shares of restricted stock which are based solely on performance criteria over the next five years. We expect that there may be additional share based awards which will vest based on the performance rather than service criteria.

LIQUIDITY AND CAPITAL RESOURCES

As of May 1, 2007, we have approximately $18.0 million in cash and cash equivalents.

From the time of our initial capitalization in April 2004 through completion of our 2007 follow-on offering, we have sold approximately 48.0 million shares of common stock and realized net proceeds of approximately

Table of Contents

$494.5 million. We have also issued $125.0 million in fixed rate term notes and $138.0 million in fixed rate exchangeable notes. At May 1, 2007, we have in place a $150.0 million secured revolving credit facility with an available borrowing base of approximately $85.6 million (with availability on May 1, 2007, of approximately $70 million).

We have substantially used this equity and debt capital to acquire and develop healthcare real estate, fund mortgage loans and fund other loans to healthcare operators. We believe our present capitalization provides sufficient liquidity and resources to continue executing our business plan for the foreseeable future.

Short-term Liquidity Requirements: We believe that our existing cash and temporary investments, funds available under our existing loan agreements, additional financing arrangements and cash from operations will be sufficient for us to acquire at least $200 million in additional assets, provide for working capital, and make required distributions to our stockholders through the remainder of 2007. We expect that such additional financing arrangements will include various types of new debt, including long-term, fixed-rate mortgage loans, variable-rate term loans, and construction financing facilities. Generally, we believe we will be able to finance up to approximately 50-60% of the cost of our healthcare facilities; however, there is no assurance that we will be able to obtain or maintain those levels of debt on our portfolio of real estate assets on favorable terms in the future.

Long-term Liquidity Requirements: We believe that cash flow from operating activities subsequent to 2007 will be sufficient to provide adequate working capital and make required distributions to our stockholders in compliance with our requirements as a REIT. However, in order to continue acquisition and development of healthcare facilities after 2007, we will require access to more permanent external capital, including equity capital. If equity capital is not available at a price that we consider appropriate, we may increase our debt, selectively dispose of assets, utilize other forms of capital, if available, or reduce our acquisition activity.

In the first quarter of 2007, we sold 9.2 million shares of common stock and realized net proceeds of $136.1 million. Concurrently, the underwriters borrowed from third parties and sold 3 million shares of our common stock in connection with forward sale agreements between us and affiliates of the underwriters. We did not receive any proceeds from the sale of shares of our common stock by the forward purchasers. We expect to settle the forward sale agreements and receive proceeds, subject to certain adjustments, from the sale of those shares upon one or more future physical settlements of the forward sale agreements on a date or dates specified by us by February 28, 2008. The forward sale arrangements allow us to take down the proceeds as needed at a pre-determined price, but without immediately diluting our existing shares.

Results of Operations

Three months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Net income for the three months ended March 31, 2007, was $10,203,952 compared to net income of $7,977,610 for the three months ended March 31, 2006, a 27.9% increase.

A comparison of revenues for the three month periods ended March 31, 2007 and 2006, is as follows, as adjusted in 2006 for discontinued operations:

	2007	% of Total	2006	% of Total	Year over Year Change
Base rents	$ 11,647,181	64.5%	$ 6,583,219	61.2%	76.9%
Straight-line rents	683,950	3.8%	998,307	9.3%	(31.5%)
Percentage rents	138,695	0.8%	640,708	6.0%	(78.4%)
Contingent rents	151,840	0.8%	43,292	0.4%	250.7%
Fee income	84,858	0.5%	54,756	0.5%	55.0%
Interest from loans	5,351,824	29.6%	2,437,390	22.6%	119.6%
Total revenue	$ 18,058,348	100.0%	$ 10,757,672	100.0%	67.9%

13

Revenue of $18,058,348 in the three months ended March 31, 2007, was comprised of rents (69.9%) and interest from loans and fee income (30.1%). In the first quarter of 2007, we owned 20 rent producing properties compared to 14 in the first quarter of 2006, which accounted for the increase in base rents. While minimum guaranteed base rent increases are included in straight-line rents, any amounts in excess of these minimums are recorded as contingent rent. The sale of the Victorville and Chino facilities and the related funding of mortgage loans in the first quarter of 2007 required the reversal of previously recorded non-cash straight-line rent receivable of approximately $1.25 million. During the first quarter of 2007, we received percentage rents of approximately $139,000 from Vibra, a $502,000 decrease from the first quarter of 2006, which is related to revisions and extensions of certain leases and loans with Vibra. Interest income from loans in the quarter ended March 31, 2007 compared to the same period in 2006 increased due to origination of four additional mortgage loans totaling $185,000,000 in the third quarter of 2006 and the first quarter of 2007. Vibra accounted for 36.6% and 64.3% of our gross revenues during the three months ended March 31, 2007 and 2006, respectively, and affiliates of Prime accounted for 19.6% and 18.8% of total revenue, respectively.

We expect our revenue to continue to increase in future quarters as a result of expected acquisitions and completion of projects currently under development. We also expect that the relative portion of our revenue that is paid by Vibra will continue to decline as a result of continued tenant diversification.

Depreciation and amortization during the first quarter of 2007, was $2,539,865, compared to $1,434,562, during first quarter of 2006, a 77.1% increase. All of this increase is related to an increase in the number of rent producing properties from 14 in the first quarter of 2006 to 20 in the first quarter 2007. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses in the first quarters of 2007 and 2006 totaled $4,637,681, and $2,516,171, respectively, an increase of 84.3%. During the first quarter of 2007, our Board s Compensation Committee established new criteria for annual and other compensation of executive officers to recognize our superior total return to shareholders since our July, 2005 initial public offering including total return in 2006 of approximately 69%. This resulted in total cash bonuses to our officers of approximately $2.1 million compared to zero that was recorded as expense in the first quarter of 2006. This difference represents all of the change from 2006 to 2007. Based on the Compensation Committee s new criteria, management estimates that expense for similar items will be approximately $525,000 in each of the second through fourth quarters of 2007.

Interest paid for the quarters ended March 31, 2007 and 2006, totaled $5,351,450 and $1,419,040, respectively. Capitalized interest for the quarters ended March 31, 2007 and 2006, totaled $967,303 and $1,129,417, respectively, resulting in interest expense (which includes amortized financing costs) for the quarter ended March 31, 2007 of $5,013,234. All interest expense for the quarter ended March 31, 2006 was capitalized as cost of development projects. Interest paid increased due to larger debt balances in 2007 compared to 2006. Capitalized interest decreased due to our one development under construction of $20.7 million at March 31, 2007, compared to three developments under construction totaling $72.6 million at March 31, 2006.

Discontinued Operations

In 2006, the Company terminated leases for a hospital and medical office building (MOB) complex and re-possessed the real estate. In January, 2007, the Company sold the hospital and MOB complex for a sales price of approximately $71.7 million and recorded a gain of approximately $4.1 million, which is reported in results from discontinued operations. During the period from the lease termination to the date of sale, the hospital was leased to and operated by a third party operator under contract to the hospital. The Company has substantially funded through loans the working capital requirements of the operator pending the operator s collection of patient receivables from Medicare and other third party payors. The accompanying financial statements include provisions to reduce such loans to their net realizable value.

Reconciliation of Non-GAAP Financial Measures

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. While we believe net income available to common stockholders, as defined by generally

Table of Contents

accepted accounting principles (GAAP), is the most appropriate measure, our management considers FFO an appropriate supplemental measure given its wide use by and relevance to investors and analysts. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation and amortization of real estate assets, which assume that the value of real estate diminishes predictably over time.

As defined by the National Association of Real Estate Investment Trusts, or NAREIT, FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO in accordance with the NAREIT definition. FFO should not be viewed as a substitute measure of the Company s operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs that could materially impact our results of operations.

The following table presents a reconciliation of FFO to net income for the three months ended March 31, 2007 and 2006:

	For the Three Months Ended March 31,	
	2007	2006
Net income	$ 10,203,952	$ 7,977,610
Depreciation and amortization	2,539,865	1,434,562
Gain on sale of real estate	(4,061,626)	
Funds from operations FFO	$ 8,682,191	$ 9,412,172

Per diluted share amounts:

	For the Three Months Ended March 31,	
	2007	2006
Net income	$ 0.24	$ 0.20
Depreciation and amortization	0.06	0.04
Gain on sale of real estate, net of discontinued health care operations and minority interests	(.10)	
Funds from operations FFO	$ 0.20	$ 0.24

Distribution Policy

We have elected to be taxed as a REIT commencing with our taxable year that began on April 6, 2004 and ended on December 31, 2004. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income, excluding net capital gain, to our stockholders.

The table below is a summary of our distributions paid or declared during the two year period ended March 31, 2007:

Declaration Date	Record Date	Date of Distribution	Distribution per Share
February 15, 2007	March 29, 2007	April 12, 2007	$ 0.27
November 16, 2006	December 14, 2006	January 11, 2007	$ 0.27
August 18, 2006	September 14, 2006	October 12, 2006	$ 0.26
May 18, 2006	June 15, 2006	July 13, 2006	$ 0.25
February 16, 2006	March 15, 2006	April 12, 2006	$ 0.21
November 18, 2005	December 15, 2005	January 19, 2006	$ 0.18
August 18, 2005	September 15, 2005	September 29, 2005	$ 0.17
May 19, 2005	June 20, 2005	July 14, 2005	$ 0.16
March 4, 2005	March 16, 2005	April 15, 2005	$ 0.11

We intend to pay to our stockholders, within the time periods prescribed by the Code, all or substantially all of our annual taxable income, including taxable gains from the sale of real estate and recognized gains on the sale of securities. It is our policy to make sufficient cash distributions to stockholders in order for us to maintain our status as a REIT under the Code and to avoid corporate income and excise tax on undistributed income.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business plan, we expect that the primary market risk to which we will be exposed is interest rate risk.

In addition to changes in interest rates, the value of our facilities will be subject to fluctuations based on changes in local and regional economic conditions and changes in the ability of our tenants to generate profits, all of which may affect our ability to refinance our debt if necessary. The changes in the value of our facilities would be reflected also by changes in cap rates, which is measured by the current base rent divided by the current market value of a facility.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $150,000 per year. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately $150,000 per year. This assumes that the amount outstanding under our variable rate debt remains approximately $15.0 million, the balance at May 1, 2007.

We currently have no assets denominated in a foreign currency, nor do we have any assets located outside of the United States. We also have no exposure to derivative financial instruments.

Our exchangeable notes are exchangeable into 60.3346 shares of our stock for each $1,000 note. This equates to a conversion price of $16.57 per share. This conversion price adjusts based on a formula which considers increases to our dividend subsequent to the issuance of the notes in November, 2006. Our dividends declared since the notes we issued have adjusted our conversion price to $16.55 per share. Future changes to the conversion price will depend on our level of dividends which cannot be predicted at this time. Any adjustments for dividend increases until the notes are settled in 2011 will affect the price of the notes and the number of shares for which they will eventually be settled.

At the time we issued the exchangeable notes, we also entered into a capped call or call spread transaction. The effect of this transaction was to increase the conversion price from $16.57 to $18.94. As a result, our shareholders will not experience any dilution until our share price exceeds $18.94. If our share price exceeds that price, the result would be that we would issue additional shares of common stock. At a price of $20 per share, we would be required to issue an additional 434,000 shares. At $25 per share, we would be required to issue an additional two million shares.

Table of Contents

Item 4. Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed by the company in the reports that the Company files with the SEC.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1.A. Risk Factors

There have been no material changes to the Risk Factors as presented in our Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the Commission on March 16, 2007.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits

The following exhibits are filed as a part of this report:

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting firm
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
99.1	Consolidated Financial Statements of Vibra Healthcare, LLC as of December 31, 2006 Since Vibra Healthcare, LLC leases more than 20% of our properties under triple net leases, the financial status of Vibra may be considered relevant to investors. The most recently available financial statements for Vibra are attached as Exhibit 99.1 to this Quarterly Report on Form 10-Q. We have not participated in the preparation of Vibra s financial statements nor do we have the right to dictate the form of any financial statements provided to us by Vibra.

Table of Contents

SIGNATURE

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

MEDICAL PROPERTIES TRUST, INC.

By: /s/ R. Steven Hamner

R. Steven Hamner
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as the Registrant s Principal Financial and Accounting Officer)

Date: May 10, 2007

Table of Contents

INDEX TO EXHIBITS

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