MEDICAL PROPERTIES TRUST INC
Form 10-Q
August 07, 2009

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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 June 30, 2009

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

As of August 7, 2009, the registrant had 80,166,013 shares of common stock, par value $.001, outstanding.

MEDICAL PROPERTIES TRUST, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009
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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, 2009 (Unaudited)	December 31, 2008 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, and intangible lease assets	$ 992,266	$ 996,965
Mortgage loans	185,000	185,000
Gross investment in real estate assets	1,177,266	1,181,965
Accumulated depreciation and amortization	(47,712)	(40,334)
Net investment in real estate assets	1,129,554	1,141,631
Cash and cash equivalents	7,922	11,748
Interest and rent receivable	17,645	13,837
Straight-line rent receivable	21,678	19,003
Other loans	109,433	108,523
Assets of discontinued operations	1,185	2,385
Other assets	13,797	14,246
Total Assets	**$ 1,301,214**	**$ 1,311,373**
Liabilities and Equity		
Liabilities		
Debt	$ 562,692	$ 630,557
Accounts payable and accrued expenses	26,085	24,718
Deferred revenue	13,258	16,110
Lease deposits and other obligations to tenants	15,764	13,645
Total liabilities	617,799	685,030
Medical Properties Trust, Inc. stockholders equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding		
Common stock, $0.001 par value. Authorized 150,000 shares; issued and outstanding 78,614 shares at June 30, 2009, and 65,056 shares at December 31, 2008	78	65
Additional paid in capital	756,974	686,238
Distributions in excess of net income	(73,597)	(59,941)
Treasury shares, at cost	(262)	(262)
Total Medical Properties Trust, Inc. stockholders equity	683,193	626,100
Non-controlling interests	222	243
Total equity	683,415	626,343

Total Liabilities and Equity	**$**	**1,301,214**	**$**	**1,311,373**

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 share and per share amounts)	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Revenues				
Rent billed	$ 23,598	$ 21,346	$ 46,684	$ 36,317
Straight-line rent	748	2,280	2,612	3,940
Interest and fee income	7,168	7,545	14,591	14,254
Total revenues	31,514	31,171	63,887	54,511
Expenses				
Real estate depreciation and amortization	6,708	5,337	12,954	8,865
Property-related	1,191	151	2,110	207
General and administrative	5,800	4,621	11,477	8,979
Total operating expenses	13,699	10,109	26,541	18,051
Operating income	17,815	21,062	37,346	36,460
Other income (expense)				
Interest income	54	15	54	117
Interest expense	(9,431)	(12,879)	(18,894)	(20,334)
Net other expense	(9,377)	(12,864)	(18,840)	(20,217)
Income from continuing operations	8,438	8,198	18,506	16,243
Income (loss) from discontinued operations	(580)	5,186	69	8,040
Net income	7,858	13,384	18,575	24,283
Net income attributable to non-controlling interests	(12)	(18)	(19)	(19)
Net income attributable to MPT common stockholders	**$ 7,846**	**$ 13,366**	**$ 18,556**	**$ 24,264**
Earnings per common share basic				
Income from continuing operations attributable to MPT common stockholders	$ 0.10	$ 0.12	$ 0.23	$ 0.26
Income (loss) from discontinued operations attributable to MPT common stockholders	(0.01)	0.08		0.13
Net income attributable to MPT common stockholders	$ 0.09	$ 0.20	$ 0.23	$ 0.39
Weighted average shares outstanding basic	78,615,795	64,995,854	77,524,107	58,993,905
Earnings per share diluted				
	$ 0.10	$ 0.12	$ 0.23	$ 0.26

Income from continuing operations attributable to MPT common stockholders								
Income (loss) from discontinued operations attributable to MPT common stockholders		(0.01)		0.08				0.13
Net income attributable to MPT common stockholders	$	0.09	$	0.20	$	0.23	$	0.39
Weighted average shares outstanding diluted		78,615,795		65,009,497		77,524,107		59,005,497
Dividends declared per common share	**$**	**0.20**	**$**	**0.27**	**$**	**0.40**	**$**	**0.54**

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,	
	2009	2008
Operating activities		
Net income	$ 18,575	$ 24,283
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,151	9,621
Straight-line rent revenue	(3,723)	(5,379)
Share-based compensation	2,896	3,668
Gain on sale of real estate		(9,328)
Straight-line rent write off/reserve	1,111	9,549
Increase (decrease) in accounts payable and accrued liabilities	(1,401)	3,144
Amortization and write-off of deferred financing costs and debt discount	2,753	5,263
Other adjustments	(4,196)	1,475
Net cash provided by operating activities	29,166	42,296
Investing activities		
Real estate acquired	(499)	(345,180)
Principal received on loans receivable	3,025	8,927
Proceeds from sale of real estate		89,982
Investment in loans receivable	(5,681)	(67,181)
Construction in progress and other	(1,204)	(74)
Net cash used for investing activities	(4,359)	(313,526)
Financing activities		
Revolving credit facilities, net	(68,800)	(23,986)
Additions to debt		110,094
Payments of debt	(606)	(330)
Distributions paid	(29,439)	(29,082)
Sale of common stock	67,848	128,029
Other financing activities	2,364	(4,033)
Net cash used (provided) by financing activities	(28,633)	180,692
Increase (decrease) in cash and cash equivalents for period	(3,826)	(90,538)
Cash and cash equivalents at beginning of period	11,748	94,215
Cash and cash equivalents at end of period	**$ 7,922**	**$ 3,677**
Interest paid	$ 17,095	$ 12,549
Supplemental schedule of non-cash investing activities:		
Interest and other receivables transferred to loans receivable		78
Supplemental schedule of non-cash financing activities:		

Distributions declared, unpaid	16,050	17,938
Other non-cash financing activities	5	25

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in, owning, and leasing commercial real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P. (the Operating Partnership), through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. Presently, we directly own substantially all of the limited partnership interests in the Operating Partnership.

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 an entity which we elected to be treated as a taxable REIT subsidiary (TRS). Our TRS is subject to both federal and state income taxes.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We manage our business as a single business segment as defined in Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

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, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Except for the impact from the adoption of new accounting pronouncements (see Notes 4 and 9), the condensed consolidated balance sheet at December 31, 2008 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.

In June 2009, we implemented Statement of Financial Accounting Standards No. 165, *Subsequent Events,* or SFAS 165. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS 165 did not impact our financial position or results of operations. We evaluated all events or transactions that occurred after June 30, 2009 up through August 7, 2009, the date we issued these financial statements. During this period we did not have any material recognizable subsequent events except as described in Note 11.

For further information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K, as amended, for the year ended December 31, 2008.

New Accounting Pronouncements: The following is a summary of recently issued accounting pronouncements which have been issued but not yet adopted by us.

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In June 2009, the FASB issued the following new accounting standards:

- SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, or SFAS 166;

- SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* or SFAS 167; and

- SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, or SFAS 168*

SFAS 166 prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets, the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for a transfer of financial assets occurring on or after January 1, 2010. We have not determined the effect that the adoption of SFAS 166 will have on our financial position or results of operations, but we presently expect that the effect will generally be limited to future transactions.

SFAS 167 amends FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51*, or FIN 46(R), to require an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. We have not determined the effect, if any, that the adoption of SFAS 167 will have on our financial position or results of operations.

SFAS 168 replaces SFAS No. 162*, The Hierarchy of Generally Accepted Accounting Principles,* to establish the *FASB Accounting Standards Codification* as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

Reclassifications: Certain reclassifications have been made to the condensed consolidated financial statements to conform to the 2009 consolidated financial statement presentation. These reclassifications had no impact on stockholders equity or net income. In accordance with SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (i) all prior period non-controlling interests on the condensed consolidated balance sheets have been reclassified as a component of equity and (ii) all prior period non-controlling interests share of earnings on the condensed consolidated statements of income have been reclassified to clearly identify net income attributable to the non-controlling interest.

3. Real Estate and Lending Activities

Acquisitions

In the second and third quarters of 2008, we completed the acquisition of 20 properties from a single seller for approximately $357.2 million. In May 2008, we acquired a long-term acute care hospital at a cost of $10.8 million from an unrelated party and entered into an operating lease with Vibra Healthcare (Vibra). We financed these acquisitions using proceeds from our March 2008 issuance of debt and equity (see Note 4 Debt and Note 5 Common Stock), from our existing revolving credit facilities and from the sale of three rehabilitation facilities to Vibra in May

2008 with proceeds (including lease termination fees and loan prepayment) totaling $105.0 million (see Note 8 Discontinued Operations).

In June 2008, we entered into a $60 million financing arrangement with affiliates of Prime Healthcare Services, Inc. (Prime) related to three southern California hospital campuses operated by Prime. In July 2008, we acquired one of the facilities from a Prime affiliate for approximately $15.0 million and the other two facilities (including two medical office buildings) in the 2008 fourth quarter for $45 million.

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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 earnings data for the three and six month periods ending June 30, 2008, as if each acquisition and the sale of three rehabilitation facilities to Vibra were consummated on the same terms at the beginning of 2008 ($ amounts in thousands except per share amounts).

	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2008
Revenues	$ 34,669	$ 68,417
Net income	10,433	22,857
Earnings per share diluted	$ 0.15	$ 0.34

Leasing Operations

In April 2009, we terminated leases on two of our facilities in Louisiana (Covington and Denham Springs) after the operator defaulted on the terms of the leases. As a result of the lease terminations, we took a $1.1 million charge in order to fully reserve or write off the related straight-line rent receivables associated with the Covington and Denham Springs facilities, respectively. In addition we accelerated the amortization of the related lease intangibles resulting in $0.5 million of expense in the 2009 second quarter. In June 2009, we re-leased the Denham Springs facility to a new operator under terms similar to the terminated lease. The operator of the Covington facility has entered bankruptcy proceedings, during which it has made payments to us generally equivalent to the amounts payable under the terms of the terminated lease.

For the three months ended June 30, 2009 and 2008, revenue from affiliates of Prime accounted for 39.7% and 28.0%, respectively, of total revenue. For the six months ended June 30, 2009 and 2008, revenue from affiliates of Prime accounted for 39.1% and 32.0%, respectively, of total revenue. For the three months ended June 30, 2009 and 2008, revenue from Vibra accounted for 14.2% and 16.4%, respectively, of total revenue. For the six months ended June 30, 2009 and 2008, revenue from Vibra accounted for 14.1% and 17.0%, respectively, of total revenue.

4. Debt

The following is a summary of debt ($ amounts in thousands):

	As of June 30, 2009		As of December 31, 2008	
	Balance	Interest Rate	Balance	Interest Rate
Revolving credit facilities	$ 124,200	Variable	$ 193,000	Variable
Senior unsecured notes fixed rate through July and October 2011 due July and October 2016	125,000	7.333% - 7.871%	125,000	7.333% - 7.871%
Exchangeable senior notes				
Principal amount	220,000	6.125% - 9.250%	220,000	6.125% - 9.250%
Unamortized discount	(9,877)		(11,418)	
	210,123		208,582	
Term loans	103,369	Various	103,975	Various
	$ 562,692		$ 630,557	

As of June 30, 2009, principal payments due for our debt (which exclude the effects of any discounts recorded) are as follows:

2009	$ 605
2010	114,273(1)
2011	211,091
2012	39,600
2013	82,000
Thereafter	125,000
Total	$ 572,569

(1) $83,000 of the revolving credit facilities due in 2010 may be extended until 2011 provided that we give written notice to the Administrative Agent at least 60 days prior to the termination date and as long as no default has occurred. If we elect to extend, we will be required to pay an aggregate extension fee equal to 0.25% of the existing revolving commitments.

In January 2009, we completed a public offering of common stock (see Note 5 Common Stock) resulting in net proceeds of $67.9 million, which were used to repay borrowings outstanding under our revolving credit facilities.

In November 2006 and March 2008, our Operating Partnership issued and sold $138.0 million and $82.0 million, respectively, of Exchangeable Senior Notes. See Note 4 of our 2008 Annual Report on Form 10-K, as amended, for further information in regards to the terms of the exchangeable senior notes.

In May 2008, the FASB issued FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)* (FSP), which affects the accounting for our exchangeable senior notes. The FSP requires that the initial debt proceeds from the sale of our exchangeable senior notes be allocated between a liability component and an equity component. The resulting debt discount is amortized over the period the debt is expected to be outstanding as additional interest expense. We adopted this FSP on January 1, 2009 and have applied the FSP retroactively to all periods presented. The adoption of the FSP resulted in an increase in unamortized debt discount of $7.7 million and additional paid in capital of $11.0 million and a decrease in retained earnings of $3.3 million in our consolidated balance sheet as of December 31, 2008. We recorded additional non-cash interest expense in our consolidated statements of income of approximately $0.5 million ($0.01 per share) in the second quarter of 2009 and 2008, associated with the amortization of this discount at an annual effective interest rate of 8.3% and 11.3% for the 2006 and 2008 exchangeable senior notes, respectively. For the six months ended June 30, 2009 and 2008, we recorded $1.1 million ($0.01 per share) and $0.8 million ($0.01 per share), respectively. The unamortized discounts of $6.1 million and $3.7 million at June 30, 2009 will continue to be amortized through November 2011 and April 2013 for the 2006 and 2008 exchangeable senior notes, respectively.

Our revolving credit agreement and term loans impose certain restrictions on us, including restrictions on our ability to: incur debts; grant liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; and change our business. In addition, these agreements limit the amount of dividends we can pay to 100% of funds from operations, as defined in the agreements, on a rolling four quarter basis. These agreements also contain provisions for the mandatory prepayment of outstanding borrowings under these facilities from the proceeds received from the sale of properties that serve as collateral.

In addition to these restrictions, our revolving credit agreement and term loans 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, floating rate debt, facility leverage ratio, and borrowing base interest coverage ratio. These agreements also contain 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 these facilities, the entire outstanding balance may become immediately due and payable. At June 30, 2009, we were in compliance with all such financial and operating covenants.

5. Common Stock

In January 2009, we completed a public offering of 12.0 million shares of our common stock at $5.40 per share. Including the underwriters purchase of approximately 1.3 million additional shares to cover over allotments, net proceeds from this offering, after underwriting discount and commissions and fees, were approximately $67.9 million.

On January 9, 2009, we filed Articles of Amendment to our charter with the Maryland State Department of Assessments and Taxation increasing the number of authorized shares of common stock, par value $0.001 per share available for issuance from 100,000,000 to 150,000,000.

In March 2008, we sold 12,650,000 shares of common stock at a price of $10.75 per share. After deducting underwriters commissions and offering expenses, we realized proceeds of $128.6 million.

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6. Stock Awards

Our stockholders have approved and we have adopted the Second Amended and Restated Medical Properties Trust, Inc. 2004 Equity Incentive Plan (the Equity Incentive Plan) which authorizes the issuance of options to purchase common stock, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance units and other stock based awards, including profits interest 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 3,692,623 shares remain available for future stock awards as of June 30, 2009. We awarded 441,134 and 405,512 shares in the first quarter of 2009 and 2008, respectively, of restricted stock to management, independent directors, and certain employees. The 2009 awards vest quarterly based on service, over three years in equal amounts beginning April 2009. The 2008 awards to management vest based on service over five years in equal annual amounts beginning February 2009, while the awards to directors vest based on service over three years in equal amounts beginning February 2009.

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

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

	June 30, 2009		December 31, 2008	
Asset (Liability)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Interest and Rent Receivables	$ 17,645	$ 16,369	$ 13,837	$ 12,475
Loans	294,433	283,736	293,523	282,459
Debt	(562,692)	(465,052)	(630,557)	(482,175)

8. Discontinued Operations

In the second quarter of 2008, we sold the real estate assets of three inpatient rehabilitation facilities to Vibra for proceeds of approximately $105.0 million, including $7.0 million representing early lease termination fee income and $8.0 million in the form of a loan pre-payment. We recognized a $9.3 million gain on the sales of the real estate; however, we wrote-off approximately $9.5 million in related straight-line rent receivables.

In 2006, we terminated leases for a hospital and medical office building (MOB) complex with Stealth L.P. (Stealth) and repossessed the real estate. In January 2007, we sold the hospital and MOB complex recognizing a gain of approximately $4.1 million. During the period between termination of the lease and sale of the real estate, we substantially funded through loans the working capital requirements of the hospital s operator pending the operator s collection of patient receivables from Medicare and other sources. In July 2008, we received from Medicare the substantial remainder of amounts we expected to collect and based thereon recorded a charge of $2.1 million (net of approximately $1.2 million in tax benefits) to write-off the remaining uncollectible receivables from the operator in June 2008. We are defendants in ongoing litigation related to the Stealth transaction as described in Note 10 Contingencies, which has resulted in a certain amount of legal expenses for the three and six months ended June 30, 2009 and 2008.

We have classified current and prior year activity related to these transactions, along with the related operating results of the facilities prior to these transactions taking place, as discontinued operations.

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The following table presents the results of discontinued operations for the three and six months ended June 30, 2009 and 2008 ($ amounts in thousands except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$	$ (944)	$	$2,705
Gain on sale		9,328		9,328
Net income	(580)	5,186	69	8,040
Earnings per share diluted	$(0.01)	$ 0.08	$	$ 0.13

9. Earnings Per Share

In June 2008, the FASB issued FASB Staff Position EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance in FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Certain of our unvested restricted and performance stock awards contain non-forfeitable rights to dividends, and accordingly, these awards are deemed to be participating securities under FSP EITF 03-6-1. We adopted FSP EITF 03-6-1 on January 1, 2009 which resulted in an approximate $0.01 and $0.02 negative impact on earnings per share for the three and six month periods, respectively, ending June 30, 2009 and 2008. Our earnings per share under FSP EITF 03-6-1 were calculated based on the following (amounts in thousands except per share amounts):

	For the Three Months Ended June 30,	
	2009	2008
Numerator:		
Income from continuing operations	$ 8,438	$ 8,198
Non-controlling interests share in continuing operations	(9)	(17)
Participating securities share in earnings	(380)	(471)