MEDICAL PROPERTIES TRUST INC
Form 10-Q
May 11, 2006

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, 2006**

**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 Noo

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 o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes oNo þ

As of May 11, 2006, the registrant had 40,055,064 shares of common stock, par value $.001, outstanding.

**MEDICAL PROPERTIES TRUST, INC.**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTERLY PERIOD ENDED MARCH 31,2006**
**Table of Contents**

Table of Contents

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

### MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

| | March 31, 2006 (Unaudited) | December 31, 2005 |
|---|---|---|
| **Assets** | | |
| Real estate assets | | |
| Land | $ 33,012,463 | $ 31,004,675 |
| Buildings and improvements | 255,514,029 | 250,518,440 |
| Construction in progress | 72,612,522 | 45,913,085 |
| Intangible lease assets | 9,666,192 | 9,666,192 |
| Mortgage loan | 40,000,000 | 40,000,000 |
| Gross investment in real estate assets | 410,805,206 | 377,102,392 |
| Accumulated depreciation | (6,842,983) | (5,260,219) |
| Accumulated amortization | (783,715) | (622,612) |
| Net investment in real estate assets | 403,178,508 | 371,219,561 |
| Cash and cash equivalents | 5,424,613 | 59,115,832 |
| Interest and rent receivable | 8,857,064 | 6,923,091 |
| Straight-line rent receivable | 9,210,670 | 7,909,213 |
| Loans receivable | 48,748,111 | 48,205,611 |
| Other assets | 7,488,349 | 7,800,238 |
| **Total Assets** | **$ 482,907,315** | **$ 501,173,546** |
| **Liabilities and Stockholders Equity** | | |
| Liabilities | | |
| Debt | $ 75,511,051 | $ 100,484,520 |
| Accounts payable and accrued expenses | 24,224,209 | 19,928,900 |
| Deferred revenue | 12,326,691 | 10,922,317 |
| Lease deposits and other obligations to tenants | 11,937,499 | 11,386,801 |
| Total liabilities | 123,999,450 | 142,722,538 |
| Minority interests | 2,238,806 | 2,173,866 |
| 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 - 39,419,450 shares at March 31, 2006, and 39,345,105 shares at December 31, 2005 | 39,419 | 39,345 |

| | | | | |
|---|---|---|---|---|
| Additional paid in capital | | 360,415,874 | | 359,588,362 |
| Distributions in excess of net income | | (3,786,234) | | (3,350,565) |
| Total stockholders equity | | 356,669,059 | | 356,277,142 |
| **Total Liabilities and Stockholders Equity** | **$** | **482,907,315** | **$** | **501,173,546** |

See accompanying notes to consolidated financial statements.

1

Table of Contents

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

| | For the Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **Revenues** | | |
| Rent billed | $ 8,821,870 | $ 3,923,049 |
| Straight-line rent | 1,301,457 | 1,345,441 |
| Interest income from loans | 2,568,940 | 1,212,038 |
| Total revenues | 12,692,267 | 6,480,528 |
| **Expenses** | | |
| Real estate depreciation and amortization | 1,743,867 | 842,407 |
| General and administrative | 2,544,871 | 1,750,810 |
| Total operating expenses | 4,288,738 | 2,593,217 |
| Operating income | 8,403,529 | 3,887,311 |
| **Other income (expense)** | | |
| Interest income | 176,061 | 383,772 |
| Interest expense | (537,040) | (711,149) |
| Net other (expense) income | (360,979) | (327,377) |
| **Income before minority interests** | 8,042,550 | 3,559,934 |
| Minority interests in consolidated partnerships | (64,940) | |
| **Net income** | **$ 7,977,610** | **$ 3,559,934** |
| **Net income per share basic** | $ 0.20 | $ 0.14 |
| **Weighted average shares outstanding basic** | 39,428,071 | 26,099,195 |
| **Net income per share diluted** | $ 0.20 | $ 0.14 |
| **Weighted average shares outstanding diluted** | 39,501,723 | 26,103,259 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| | For the Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 7,977,610 | $ 3,559,934 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,792,462 | 874,730 |
| Amortization of deferred financing costs | 247,417 | 143,172 |
| Straight-line rent revenue | (1,301,457) | (1,345,441) |
| Deferred fee revenue | (483,510) | (34,964) |
| Share-based compensation | 605,558 | 75,000 |
| Other adjustments | 78,341 | |
| (Increase) decrease in: | | |
| Interest and rent receivable | (268,050) | (328,901) |
| Other assets | 18,259 | (837,057) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 3,298,490 | (830,828) |
| Deferred revenue | (10,539) | 350,000 |
| Lease deposits and other obligations to tenants | 537,297 | 18,191 |
| Net cash provided by operating activities | 12,491,878 | 1,643,836 |
| **Investing activities** | | |
| Real estate acquired | (7,003,377) | (28,000,000) |
| Principal received on loans receivable | | 7,725,958 |
| Investment in loans receivable | (310,000) | |
| Construction in progress | (26,699,437) | (12,439,331) |
| Equipment acquired | (2,244) | (15,698) |
| Net cash used for investing activities | (34,015,058) | (32,729,071) |
| **Financing activities** | | |
| Additions to debt | 4,026,393 | 19,000,000 |
| Payments of debt | (29,000,000) | (858,333) |
| Deferred financing and offering costs | | (440,239) |
| Distributions paid | (7,194,432) | (2,869,115) |
| Sale of partnership units | | 762,500 |
| Net cash provided by (used for) financing activities | (32,168,039) | 15,594,813 |
| Decrease in cash and cash equivalents for period | (53,691,219) | (15,490,422) |
| Cash and cash equivalents at beginning of period | 59,115,832 | 97,543,677 |
| **Cash and cash equivalents at end of period** | **$ 5,424,613** | **$ 82,053,255** |

| | | | | |
|---|---|---|---|---|
| Interest paid, including capitalized interest of $1,129,417 in 2006 and $395,401 in 2005 | $ | 1,419,040 | $ | 963,378 |
| Supplemental schedule of non-cash investing activities | | | | |
| Unbilled rent receivables recorded as deferred revenue | $ | 1,665,923 | $ | 625,631 |
| Other loans receivable recorded as deferred revenue | | 232,500 | | |
| Supplemental schedule of non-cash financing activities: | | | | |
| Distributions declared, unpaid | $ | 8,411,563 | $ | 2,869,115 |
| Restricted shares issued to employees in lieu of cash bonus | | 219,701 | | |
| Additional paid in capital from deferred stock units issued to directors | | 2,327 | | 75,000 |
| Par value of shares issued for vested restricted common stock | | 74 | | |

See accompanying notes to consolidated financial statements.

Table of Contents

**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**
Notes to 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), 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 succeeded to the business of Medical Properties Trust, LLC, a Delaware limited liability company, which was formed in December 2002. On the day of formation, the Company issued 1,630,435 shares of common stock, and the membership interests of Medical Properties Trust, LLC were transferred to the Company. Medical Properties Trust, LLC had no assets, but had incurred liabilities for costs and expenses related to acquisition due diligence, a planned offering of common stock, consulting fees and office overhead in an aggregate amount of approximately $423,000, which was assumed by 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 considers this to be a single business segment as defined in Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

On April 6, 2004, the Company completed the sale of 25.6 million shares of common stock in a private placement to qualified institutional buyers and accredited investors. The Company received $233.5 million after deducting offering costs. On July 8, 2005, the Company completed the sale of 11,365,000 shares of common stock in an initial public offering (IPO) at a price of $10.50 per share. On August 5, 2005, the underwriters purchased an additional 1,810,023 shares at the same offering price, less an underwriting commission of seven percent and expenses, pursuant to their over-allotment option. The proceeds are being used to purchase properties, make mortgage loans, to pay debt and accrued expenses, for working capital, and general corporate purposes.

**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 Consolidated Financial Statements*: The accompanying unaudited interim 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, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

*Reclassifications:* Certain reclassifications have been made to the consolidated financial statements to conform to the 2006 consolidated financial statement presentation. These reclassifications have no impact on stockholders equity or net income.

**3. Real Estate and Lending Activities**

In January, 2006, the Company exercised an option to acquire previously leased land on which the Company is developing a general acute care hospital. The Company also increased its investment in land adjacent to one of its general acute care hospitals. These two transactions totaled approximately $6.6 million.

For the three months ended March 31, 2006 and 2005, revenue from Vibra Healthcare, LLC accounted for 54.5% and 95.7%, respectively, of total revenue.

**4. Debt**

The following is a summary of debt:

| | As of March 31, 2006 | | As of December 31, 2005 | |
|---|---|---|---|---|
| | Balance | Interest Rate | Balance | Interest Rate |
| Revolving credit facility | $ 36,010,178 | 7.43% | $ 65,010,178 | 7.14% |
| Construction loans | 39,500,873 | 7.08% | 35,474,342 | 6.64% |
| | $ 75,511,051 | | $ 100,484,520 | |

**5. 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. The Company has reserved 4,691,180 shares of common stock for awards under the Equity Incentive Plan. The Equity Incentive Plan contains a limit of 300,000 shares as the maximum number of shares of common stock that may be awarded to an individual in any fiscal year. Awards under the Equity Incentive Plan are subject to forfeiture due to termination of employment prior to vesting. In the event of a change in control of the Company, all outstanding and unvested awards will immediately vest. The term of the awards is set by the Compensation Committee, though Incentive Stock Options may not have terms of more than ten years. Forfeited awards are returned to the Equity Incentive Plan and are then available to be re-issued as future awards.

Table of Contents

SFAS No. 123(R), *Share-Based Payment*, became effective for annual and interim periods beginning January 1, 2006. The adoption of SFAS No. 123(R) had no material effect on the results of our operations during the three months ended March 31, 2006, nor in any prior period, because substantially all of the Company s stock based compensation is in the form of restricted share and deferred stock unit awards. The Company s policy for recording expense from restricted share and deferred stock unit awards was not affected by SFAS No. 123(R). Under SFAS No. 123(R), the additional compensation expense which the Company would have recorded for stock options in the three month periods ended March 31, 2006 and 2005 was not material.

The Company awarded 60,000 stock options to three independent directors in the three month period ended March 31, 2005, with an estimated grant date fair value of $1.86 per option. With those awards, the Company had awarded a total of 100,000 options, all of which were to independent directors. No options have been awarded since that date and none have been exercised. All options have an exercise price of $10 per option (which was the per share value at date of grant) and vested one-third upon grant. The remainder vest one-half on each of the first and second anniversaries of the date of grant, and expire ten years from the date of grant. No other options have been granted.

Options exercisable at March 31, 2006, are as follows:

| Exercise Price | Options Outstanding | Options Exercisable | Weighted Average Remaining Contractual Life (years) |
|---|---|---|---|
| $10.00 | 100,000 | 66,666 | 8.6 |

The Company uses the Black-Scholes pricing model to calculate the fair values of the options awarded. In 2005, the following assumptions were used to derive the fair values: an option term of four to six years; estimated volatility of 27.75%; a weighted average risk-free rate of return of 4.30%; a dividend yield of 4.80%

Restricted stock awards granted in 2004 and 2005 vest over periods of three to five years, valued at the average price per share of common stock on the date of grant. Certain officers of the Company elected to receive their annual incentive bonus in shares of restricted stock in lieu of cash. Such shares vest at the rate of 25% on the date of election by the officer, and 37.5% on January 1 in each of the following two years. Shares granted under this plan are equivalent to 135% of the amount of cash bonus which the officer would otherwise receive. The price per share was based on the average market price per share on the date of Board approval of the bonuses. The following summarizes restricted stock awarded in 2006:

| | Shares | Weighted Average Value at Award Date |
|---|---|---|
| Outstanding at January 1, 2006 | 621,460 | $ 10.10 |
| Awarded (bonus election shares) | 88,499 | $ 9.93 |
| Vested | (74,345) | $ 10.08 |
| Forfeited | | |
| Outstanding at March 31, 2006 | 635,614 | $ 10.05 |

The value of outstanding restricted shares is charged to compensation expense over the vesting periods. In the three month period ended March 31, 2006, the Company recorded $606,000 of non-cash compensation expense for restricted shares. The Company records expense from share awards over the vesting periods using the straight-line method. The remaining unrecognized cost from share based compensation at March 31, 2006, is approximately $5.7 million. The weighted average period over which compensation cost for restricted share grants will be recognized is approximately 1.25 years. During the three month period ended March 31, 2006, restricted shares which vested had a value of approximately $731,000 on their vesting date.

Table of Contents

### 6. 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, 2006 and 2005, respectively:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Weighted average number of shares issued and outstanding | 39,404,454 | 26,082,862 |
| Vested deferred stock units | 23,617 | 16,333 |
| Weighted average shares basic | 39,428,071 | 26,099,195 |
| Common stock warrants and options | 73,652 | 4,064 |
| Weighted average shares diluted | 39,501,723 | 26,103,259 |

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, 2005.

**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, 2005, 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, 2006, we owned 14 operating healthcare facilities and held a mortgage loan secured by another facility. In addition, we were in the process of developing three additional healthcare facilities that were 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 17 facilities we owned and the one facility on which we had made a mortgage loan were in nine states, had a carrying cost of approximately $403.0 million and comprised approximately 83.5% of our total assets. Our acquisition and other loans of approximately $48.7 million represented approximately 10.1% of our total assets. We do not expect such loan assets at any time to exceed 20% of our total assets.

At May 1, 2006, 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

Table of Contents

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. 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, five 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, 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.

***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, 2006, we recorded $606,000 of expense for share based compensation, related to grants of restricted common stock.

**LIQUIDITY AND CAPITAL RESOURCES**

As of May 5, 2006, we have approximately $3.3 million in cash and temporary liquid investments. In October 2005, we entered into a four-year $100.0 million secured revolving credit facility. The loan, which has a balance of $54.0 million at May 5, 2006, is secured by a collateral pool comprised of several of our properties. The six properties currently in the collateral pool provide available borrowing capacity of approximately $74.2 million. We believe we have sufficient value in our other properties to increase the availability under the credit facility to its present maximum of $100.0 million. Under the terms of the credit agreement, we may increase the maximum commitment to $175.0 million subject to adequate collateral valuation and payment of customary commitment fees. In addition to availability under the revolving credit facility, we have approximately $4.1 million available under a construction/term facility with a bank totaling $43.0 million.

At March 31, 2006, we had remaining commitments to complete the funding of three development projects as described below (in millions):

| | Original Commitment | Cost Incurred | Remaining Commitment |
|---|---|---|---|
| North Cypress community hospital | $ 64.0 | $ 37.8 | $ 26.2 |
| Bucks County women s hospital and medical office building | 38.0 | 13.1 | 24.9 |
| Monroe County community hospital | 35.5 | 21.7 | 13.8 |
| Total | $ 137.5 | $ 72.6 | $ 64.9 |

*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 complete the developments described above, acquire between $200 and $300 million in additional assets, provide for working capital, and make required distributions to our stockholders through the remainder of 2006. 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 2006 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 2006, 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.

***Financing Activities***

In the first quarter of 2006, we used $29.0 million of available cash to temporarily reduce the balance on our revolving credit facility. Subsequent to March 31, 2006, we have borrowed an additional $18.0 on our revolving credit facility. We also borrowed an additional $4.0 million on our construction loans for our West Houston Town and Country Hospital and Medical Office Building projects.

Table of Contents

***Investing Activities***

In the first quarter of 2006, we invested $26.7 million in our three development projects. We also invested $7.0 million in our current operating facilities, primarily the West Houston Town and Country Hospital and Medical Office Building projects. Our expectations about future investing activities are described above under Liquidity and Capital Resources.

**Results of Operations**

Our historical operations are generated substantially by investments we have made since we completed our private offering and raised approximately $233.5 million in common equity in the second quarter of 2004 and since we completed our IPO and raised approximately $125.6 million in common equity in the third quarter of 2005. We also are in the process of developing additional healthcare facilities that have not yet begun generating revenue, and we expect to acquire additional existing healthcare facilities in the foreseeable future. Accordingly, we expect that future results of operations will vary materially from our historical results.

***Three months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005***

Net income for the three months ended March 31, 2006, was $7,977,610 compared to net income of $3,559,934 for the three months ended March 31, 2005, a 124.1% increase.

A comparison of revenues for the three month periods ended March 31, 2006 and 2005, is as follows:

| | 2006 | % of Total | 2005 | % of Total | Year over Year Change |
|---|---|---|---|---|---|
| Base rents | $ 8,137,870 | 64.1% | $ 3,528,507 | 54.4% | 130.6% |
| Straight-line rents | 1,301,457 | 10.3% | 1,345,441 | 20.8% | (3.3%) |
| Percentage rents | 640,708 | 5.0% | 394,542 | 6.1% | 62.4% |
| Contingent rents | 43,292 | 0.3% | | | |
| Fee income | 72,379 | 0.6% | 64,964 | 1.0% | 11.4% |
| Interest from loans | 2,496,561 | 19.7% | 1,147,074 | 17.7% | 117.7% |
| Total revenue | $ 12,692,267 | 100.0% | $ 6,480,528 | 100.0% | 95.9% |

Revenue of $12,692,267 in the three months ended March 31, 2006, was comprised of rents (79.7%) and interest from loans and fee income (20.3%). In the first quarter of 2006, we owned 14 rent producing properties compared to seven in the first quarter of 2005, 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. During the first quarter of 2006, we received percentage rents of approximately $641,000 from Vibra, a $246,000 increase from the first quarter of 2005, due to higher revenues at the original six Vibra facilities. Interest income from loans in the quarter ended March 31, 2006 compared to the same period in 2005 increased due to origination of a $40,000,000 mortgage loan in the fourth quarter of 2005. Vibra accounted for 54.5% and 95.7% of our gross revenues during the three months ended March 31, 2006 and 2005, 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 2006, was $1,743,867, compared to $842,407, during first quarter of 2005, a 107.0% increase. All of this increase is related to an increase in the number of rent producing properties from seven in the first quarter of 2005 to 14 in the first quarter 2006. 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 2006 and 2005 totaled $2,544,871, and $1,750,810, respectively, an increase of 45.4%. The increase is due primarily to approximately $606,000 for share based compensation as compared to $0 in the first quarter of 2005, accounting for approximately 76% of the increase in general and administrative in 2006. In addition, the number of employees increased from 10 to 20 since December 31, 2004. Finally, in the three months ended March 31, 2006, we settled a legal dispute resulting in incremental general and administrative expense of approximately $200,000.

Interest income (other than from loans) for the three months ended March 31, 2006 and 2005, totaled $176,061 and $383,772, respectively. Interest income decreased primarily due to lower cash balances in the three months ended March 31, 2006. We used our cash balances of $59.1 million at December 31, 2005 to reduce debt and invest in our development projects.

Interest paid for the quarters ended March 31, 2006 and 2005, totaled $1,419,040 and $963,378, respectively. Capitalized interest for the quarters ended March 31, 2006 and 2005, totaled $1,129,417 and $395,401, respectively, resulting in interest expense (which includes amortized financing costs) for the quarters ended March 31, 2006 and 2005, of $537,040 and $711,149, respectively. Interest paid increased due to higher interest rates and larger debt balances in 2006 compared to 2005. Capitalized interest increased due to higher interest rates and developments under construction of $72.6 million at March 31, 2006, compared to $36.8 million under construction at March 31, 2005.

***Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004***

Net income for the three months ended March 31, 2005 was $3,559,934 compared to a net loss of $493,726 for the three months ended March 31, 2004.

*Three Months Ended March 31, 2005:* Revenue of $6,480,528 was comprised of rents (81.3%) and interest from loans (18.7%). During this quarter, we received percentage rents from Vibra of approximately $395,000. These percentage rents occurred due to an increase in patient census at the Vibra Facilities from the three months ended December 31, 2004 to the three months ended March 31, 2005. The higher census figures at the Vibra Facilities produced increased revenue which exceeded the thresholds on which percentage rent are based. Also, we acquired the Desert Valley Facility during the quarter, which added to our rent revenue. Interest income from loans decreased due to Vibra repaying one of its loans from us.

Depreciation and amortization during the first quarter of 2005 are primarily attributable to the Vibra Facilities. The Desert Valley Facility contributed one month of depreciation and amortization during the quarter.

Property expenses are comprised primarily of a ground lease payment on our rehabilitation hospital located in Marlton, New Jersey.

General and administrative expenses during the quarter, which totaled $1,750,810, were comprised primarily of executive compensation of approximately $1.0 million, with the balance made up primarily of legal, office and other administrative expenses. During the three months ended March 31, 2005, we had 16 full-time employees and one part-time employee.

Other income of $383,772 consisted of interest and dividends, primarily from the temporary investment of the net proceeds of our April 2004 private placement and borrowings from Merrill Lynch Capital in mutual funds and other interest-bearing accounts.

Interest expense from the borrowings under our Merrill Lynch Capital loan during the three months ended March 31, 2005 totaled $711,149. Capitalized interest of approximately $395,000 was recorded in the three months ended March 31, 2005 for the construction of the West Houston Facilities.

*Three Months Ended March 31, 2004:* The loss in 2004 preceded our April 2004 private placement and covered a period during which we incurred administrative costs consisting primarily of executive compensation expenses. At

Table of Contents

March 31, 2004, we had five employees, four of whom were executive officers. We had no operating properties and no development properties. Our activities in the first quarter of 2004 were concentrated in evaluating potential acquisitions and planning for the April 2004, private placement. Due to the lack of operations in the first quarter of 2004, there is limited comparability to the results for the same period in 2005.

**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 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, 2006 and 2005:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Net income | $ 7,977,610 | $ 3,559,934 |
| Depreciation and amortization | 1,743,867 | 842,407 |
| Funds from operations FFO | $ 9,721,477 | $ 4,402,341 |

Per diluted share amounts:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Net income | $ .20 | $ .14 |
| Depreciation and amortization | .05 | .03 |
| Funds from operations FFO | $ .25 | $ .17 |

**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.

**Table of Contents**

The table below is a summary of our distributions paid or declared during the two year period ended March 31, 2006:

| Declaration Date | Record Date | Date of Distribution | Distribution per Share |
|---|---|---|---|
| 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 |
| November 11, 2004 | December 16, 2004 | January 11, 2005 | $ 0.11 |
| September 2, 2004 | September 16, 2004 | October 11, 2004 | $ 0.10 |

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 $935,000 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 $935,000 per year. This assumes that the amount outstanding under our variable rate debt remains approximately $93.5 million, the balance at May 5, 2006.

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.

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.

## 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, 2005 as filed with the Commission on March 31, 2006.

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

(a) Not applicable.

(b)

1. The effective date of the Securities Act registration statement for which the use of proceeds information is being disclosed was July 7, 2005, and the SEC file number assigned to the registration statement is 333-119957.
2. The offering commenced as of July 8, 2005.
3. The offering did not terminate before any securities were sold.
4. (i) As of the date of the filing of this report, the offering has terminated and 13,175,023 of the securities registered were sold.
   (ii) The names of the managing underwriters are Friedman, Billings, Ramsey & Co., Inc. and J. P. Morgan Securities, Inc.
   (iii) Our common stock, par value $0.001 per share, was the class of securities registered.
   (iv) We registered 13,175,023 shares of our common stock (which included 1,810,023 shares solely to cover over-allotments), having an aggregate offering price of approximately $138.3 million. In addition, 701,823 shares, having an aggregate offering price of approximately $7.4 million owned by selling stockholders were registered. As of the date of the filing of this report all of the shares registered have been sold.
   (v) From July 8, 2005 to the filing of this report, a reasonable estimate of the amount of expenses incurred by us in connection with the issuance and distribution of the securities totaled approximately $13.0 million, which consisted of direct payments of $9.8 million in underwriters discount and fees and $3.2 million in other issuance and distribution expenses. No payments for such expenses were made to (i) any of our directors, officers, general partners or their associates, (ii) any person(s) owning 10% or more of any class of our equity securities or (iii) any of our affiliates.
   (vi) Our net offering proceeds after deducting our total expenses were approximately $125.3 million.
   (vii) We contributed the net proceeds of the offering to our Operating Partnership. Our Operating Partnership used the net proceeds from the offering as follows:
      - approximately $20.3 million to acquire the Chino facility;
      - approximately $18.9 million to acquire the Sherman Oaks facility;
      - approximately $39.6 million to fund the Alliance mortgage loan;
      - approximately $15.3 million to fund construction and development costs on the North Cypress project;
      - approximately $10.4 million to fund construction and development costs on the Monroe project;

approximately $8.7 million to fund construction and development costs on the Bucks County project; and,

approximately $12.1 million to fund loans and construction and development costs on the West Houston community hospital and medical office building project.

No payments out of the net proceeds were made to (i) any of our directors, officers, general partners or their associates, (ii) any person(s) owning 10% or more of any class of our equity

Table of Contents

securities or (iii) any of our affiliates. The expenditures represent the use of all of the net offering proceeds of $125.3 million from which no funds remain.

(viii) The uses of proceeds described do not represent a material change in the use of proceeds described in our registration statement.

(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.**

(a) Information required to be disclosed on Form 8-K, Items 2.02 and 9.01

On May 11, 2006, we issued a press release announcing our financial results for the three months ended December 31, 2005. A copy of the press release is filed as exhibit 99.1 to this report and is incorporated by reference herein. The information in Exhibit 99.1 attached hereto shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

**Item 6. Exhibits**

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

| Exhibit Number | Description |
|---|---|
| 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 |
| 32.1 | 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 | Press release dated May 11, 2006 reporting financial results for the three months ended March 31, 2006 |

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 11, 2006

**Table of Contents**

INDEX TO EXHIBITS

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| 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 | Press release dated May 11, 2006 reporting financial results for the three months ended March 31, 2006 |