MEDICAL PROPERTIES TRUST INC
Form 10-Q
October 27, 2006

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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 September 30, 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 No o

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

Large accelerated filer o Accelerated filer 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 o No þ

As of October 25, 2006, the registrant had 40,195,564 shares of common stock, par value $.001, outstanding.

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Real estate assets		
Land	$ 36,949,043	$ 31,004,675
Buildings and improvements	313,154,793	250,518,440
Construction in progress	99,131,783	45,913,085
Intangible lease assets	11,339,657	9,666,192
Mortgage loans	105,000,000	40,000,000
Gross investment in real estate assets	565,575,276	377,102,392
Accumulated depreciation	(9,989,453)	(5,260,219)
Accumulated amortization	(1,069,633)	(622,612)
Net investment in real estate assets	554,516,190	371,219,561
Cash and cash equivalents	1,187,026	59,115,832
Interest and rent receivable	14,044,019	6,923,091
Straight-line rent receivable	11,947,611	7,909,213
Loans receivable	46,332,229	48,205,611
Other assets	11,893,194	7,800,238
Total Assets	**$ 639,920,269**	**$ 501,173,546**
Liabilities and Stockholders Equity		
Liabilities		
Debt	$ 232,630,841	$ 100,484,520
Accounts payable and accrued expenses	27,733,227	19,928,900
Deferred revenue	16,979,122	10,922,317
Lease deposits and other obligations to tenants	6,970,052	11,386,801
Total liabilities	284,313,242	142,722,538
Minority interests	1,089,053	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 39,533,290 shares at September 30, 2006, and 39,345,105 shares at December 31, 2005	39,533	39,345
Additional paid in capital	362,202,277	359,588,362
Distributions in excess of net income	(7,723,836)	(3,350,565)
Total stockholders equity	354,517,974	356,277,142

Total Liabilities and Stockholders Equity	**$ 639,920,269**	**$ 501,173,546**

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues				
Rent billed	$ 9,560,954	$ 5,964,211	$ 27,730,809	$ 14,579,588
Straight-line rent	1,959,364	1,007,062	4,520,232	3,784,801
Interest income from loans	3,600,880	1,233,668	8,726,795	3,562,857
Total revenues	15,121,198	8,204,941	40,977,836	21,927,246
Expenses				
Real estate depreciation and amortization	1,974,371	1,170,387	5,480,638	2,986,790
General and administrative	2,548,517	2,546,380	7,948,530	5,712,257
Total operating expenses	4,522,888	3,716,767	13,429,168	8,699,047
Operating income	10,598,310	4,488,174	27,548,668	13,228,199
Other income (expense)				
Interest income	198,442	767,917	436,989	1,509,903
Interest expense	(2,071,900)		(3,246,413)	(1,542,266)
Net other income (expense)	(1,873,458)	767,917	(2,809,424)	(32,363)
Income before minority interests	8,724,852	5,256,091	24,739,244	13,195,836
Minority interests in consolidated partnerships	(51,305)		(173,016)	
Net income	**$ 8,673,547**	**$ 5,256,091**	**$ 24,566,228**	**$ 13,195,836**
Net income per share basic	$ 0.22	$ 0.14	$ 0.62	$ 0.44
Weighted average shares outstanding basic	39,529,687	37,606,480	39,453,413	29,975,971
Net income per share diluted	$ 0.22	$ 0.14	$ 0.62	$ 0.44
Weighted average shares outstanding diluted	39,857,355	37,654,576	39,759,907	29,999,381

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2006	**2005**
Operating activities		
Net income	$ 24,566,228	$ 13,195,836
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,657,498	3,104,131
Amortization of deferred financing costs	753,734	687,730
Straight-line rent revenue	(4,520,232)	(3,784,801)
Deferred revenue	(918,751)	(63,963)
Share-based compensation	2,362,848	684,085
Other adjustments	346,813	(75,052)
Increase in:		
Interest and rent receivable	(1,025,913)	(703,903)
Other assets	(2,163,078)	(1,414,600)
Increase (decrease) in:		
Accounts payable and accrued expenses	4,730,425	3,503,928
Deferred revenue	81,596	703,750
Lease deposits and other obligations to tenants	(732,864)	122,226
Net cash provided by operating activities	29,138,304	15,959,367
Investing activities		
Real estate acquired	(44,586,357)	(56,513,944)
Proceeds from sale of real estate	7,642,332	
Principal received on loans receivable		7,725,958
Investment in mortgage loans receivable	(64,512,500)	(4,934,772)
Investment in loans receivable	(1,662,982)	
Construction in progress	(86,327,316)	(53,834,985)
Acquisition of minority interest	(1,135,799)	
Net cash used for investing activities	(190,582,622)	(107,557,743)
Financing activities		
Additions to debt	181,719,896	19,000,000
Payments of debt	(53,462,811)	(34,633,333)
Deferred financing costs	(219,151)	(47,103)
Interest cost recorded as addition to debt	1,253,236	
Repurchase of deferred stock units		(75,000)
Distributions paid	(25,654,886)	(16,725,022)
Proceeds from sale of common shares, net of offering costs		126,224,359
Proceeds from sale of partnership units		1,137,500
Other	(120,772)	
Net cash provided by financing activities	103,515,512	94,881,401

(Decrease) increase in cash and cash equivalents for period		(57,928,806)		3,283,025
Cash and cash equivalents at beginning of period		59,115,832		97,543,677
Cash and cash equivalents at end of period	**$**	**1,187,026**	**$**	**100,826,702**
Interest paid, including capitalized interest of $4,728,153 in 2006 and $1,918,458 in 2005	$	5,494,249	$	2,772,994
Supplemental schedule of non-cash investing activities:				
Unbilled rent receivables recorded as deferred revenue	$	6,095,015	$	3,137,380
Real estate and loans receivable recorded as lease and loan deposits		37,542		8,338,837
Real estate and loans receivable recorded as deferred revenue		884,000		1,110,280
Construction and acquisition costs charged to loans and real estate		897,804		209,259
Lease deposit applied to loan receivable		3,768,864		
Construction in progress transferred to land and building		32,374,814		
Supplemental schedule of non-cash financing activities:				
Deferred costs charged to proceeds from sale of common stock	$		$	579,975
Distributions declared, not paid		10,448,750		
Additional paid-in capital from deferred stock units from sale of common stock		30,295		
Shares issued in lieu of cash bonus		219,701		
Shares issued for vested common stock		166		
Deferred financing costs deducted from debt proceeds		2,636,000		

See accompanying notes to consolidated financial statements.

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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 7, 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 have been 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.

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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 (SEC). 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 months and nine months ended September 30, 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.

New Accounting Pronouncements: The following is a summary of recently issued accounting pronouncements which have been issued but not adopted by the Company. Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS No. 157) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect that this statement will have a material effect on its financial position and results of operations. SEC Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, sets forth the SEC staff s views on the proper method for quantifying and recording errors from prior years which have been carried forward in the current year s financial statements. The SAB requires registrants to quantify misstatements in current year financial statements by measuring the effect of the error on both the balance sheet and the income statement. If either current year statement contains a material error, the financial statements would be adjusted. Prior year financial statements would be restated if material to either the prior year balance sheet or income statement. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect this SAB to have a material effect on its financial position and results of operations.

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.

In the three months ended September 30, 2006, the company acquired the following facilities:

Location	Type of Facility	Cost
Montclair, CA	General acute care	$ 20,000,000
Dallas, TX	Long-term acute care	15,408,468
Portland, OR	Long-term acute care	14,000,000

The Company entered into 15-year fixed term operating leases which contain annual rent escalation at the greater of a fixed percentage or the general increase in the consumer price index. The Portland facility is currently undergoing additional renovation and is shown in Acquisition and development costs in the accompanying balance sheet. The Company has a commitment to pay up to an additional $3.8 million for renovations necessary to convert the Portland facility into a long-term acute care hospital.

In July, 2006, the Company made two mortgage loans totaling $65.0 million, each secured by a general acute care hospital located in California. The loans require the payment of interest only during their 15 year terms with principal due in full at maturity. Interest is paid monthly and increases each year based on the annual change in the consumer price index. The loans may be prepaid under certain specified conditions.

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In September, 2006, the Company completed the sale of a long-term acute care hospital located in California for cash proceeds of $7.6 million, which were used to pay down the Company s revolving line of credit. The operations of this facility were not material to the Company s revenues, net income, cash flows or total assets.

For the three months ended September 30, 2006 and 2005, revenue from Vibra Healthcare, LLC accounted for 46.0% and 83.8%, respectively, of total revenue. For the nine months ended September 30, 2006 and 2005, revenue from Vibra Healthcare, LLC accounted for 50.8% and 88.4% of total revenue. For the three months and nine months ended September 30, 2006, the revenue of one other operator accounted for 15.5% and 15.6%, respectively, of total revenue.

During the three and nine month periods ended September 30, 2006 the Company recorded revenue of approximately $2.2 million and $6.3 million, or 14.6% and 15.4% of total revenue, respectively from the leases and other arrangements with Stealth, L.P., the tenant of the Houston Town and Country Hospital and MOB. Subsequent to September 30, 2006, the Company terminated its leases with Stealth, L.P. and replaced Stealth as tenant with a new partnership that was recently organized. The Company is presently considering offers from several hospital systems that have indicated a willingness to enter into a new lease that would include terms allowing us to recover all amounts owed by Stealth. At September 30, 2006, the Company has outstanding loans and receivables of approximately $3.2 million from Stealth. The Company has claimed cash security of $1.3 million.

Management believes that it will be successful in releasing the hospital and MOB, but there is no assurance that a replacement lessee will agree to pay amounts similar to those previously provided for in the leases with Stealth. The Company has made no provision in the accompanying financial statements for any costs which could be incurred if it does not successfully replace Stealth or if it is required to fund operations of the hospital for an extended period.

4. Debt

The following is a summary of debt:

	As of September 30, 2006		As of December 31, 2005	
	Balance	Interest Rate	Balance	Interest Rate
Revolving credit facility	$ 64,320,474	8.080%	$ 65,010,178	7.14%
Term loans	43,310,367	7.830%	35,474,342	6.64%
Senior unsecured notes				
7.871% fixed through July, 2011, due July, 2016	65,000,000	7.781%		
7.715% fixed through October, 2011, due October, 2016	20,000,000	7.715%		
7.590 % fixed through October, 2011, due October, 2016	15,000,000	7.590%		
7.333% fixed through October, 2011, due October, 2016	25,000,000	7.333%		
	$ 232,630,841		$ 100,484,520	

As of September 30, 2006, principal payments due for our term loans and senior unsecured notes were as follows:

2006	$ 144,717
2007	598,818
2008	42,566,832
2009	
2010	
Thereafter	125,000,000
Total	$ 168,310,367

In June, 2006, the Company exercised its option to convert the two construction loans for the West Houston Town and County Hospital and the adjacent medical office building to thirty-month term loans. The loans bear interest at the thirty-day LIBOR plus 2.50%. The loans require monthly payments of principal and interest with maturity in December, 2008 and are secured by mortgages on the hospital and medical office building.

In the third quarter of 2006, the Company issued $125.0 million of Senior Unsecured Notes (the Notes). The Notes were placed in private transactions exempt from registration under the Securities Act of 1933, as amended, (the Securities Act). Notes totaling $65.0 million will pay interest quarterly at a fixed annual rate of 7.871% through July 30, 2011, thereafter, at a floating annual rate of three-month LIBOR plus 2.30% and may be called at par value by the Company at any time on or after July 30, 2011. The remaining Notes will pay interest quarterly at fixed annual rates through July 30, 2011, thereafter, at a floating annual rate of three-month LIBOR plus 2.30% and may be called at par value by the Company at any time on or after October 30, 2011.

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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.

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 and nine months ended September 30, 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 months and nine months ended September 30, 2006 and 2005 was not material.

The Company awarded 60,000 stock options to three independent directors in March, 2005, with an estimated grant date fair value of $1.86 per option. With those awards, the Company has 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. In May, 2006, the members of the Compensation Committee of the Board of Directors awarded each of the five independent directors 5,000 deferred stock units (DSUs). These DSUs vested immediately upon grant and will be exchanged for shares of the Company s common stock at the end of five years. The Company recorded a non-cash expense of $267,250 on the date of grant based on the market value of the Company s common stock.

Options exercisable at September 30, 2006, are as follows:

Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Remaining Contractual Life (years)
$10.00	100,000	80,000	8.1

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; expected volatility of 27.75%; a weighted average risk-free rate of return of 4.30%; a dividend yield of 4.80%

Restricted stock awards 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 2005 incentive bonus in shares of restricted stock in lieu of cash. Such shares vest at the rate of 25% on the date grant, 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 approval of the bonuses by the Compensation Committee. The Compensation Committee awarded 140,500 shares of restricted common stock in May, 2006, to Company officers. These shares vest over a period of five years beginning July 1, 2006, based on a combination of service and performance criteria. 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
Awarded other	140,500	$ 11.60
Vested	(188,185)	$ 10.08
Forfeited		
Outstanding at September 30, 2006	662,274	$ 10.40

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The value of outstanding restricted shares is charged to compensation expense over the vesting periods. In the three months and nine months ended September 30, 2006, the Company recorded $791,000 and $2,096,000, respectively, of non-cash compensation expense for restricted shares. The remaining unrecognized cost from share based compensation at September 30, 2006, is approximately $6.0 million and will be recognized over a weighted average period of approximately 1.35 years. During the three months and nine months ended September 30, 2006, restricted shares which vested had a value of approximately $687,000 and $1,984,000 on the vesting dates.

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 and nine months ended September 30, 2006 and 2005, respectively:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Weighted average number of shares issued and outstanding	39,481,070	37,593,311	39,417,433	29,961,841
Vested deferred stock units	48,617	13,169	35,980	14,130
Weighted average shares basic	39,529,687	37,606,480	39,453,413	29,975,971
Common stock warrants, restricted stock and stock options	327,668	48,096	306,494	23,410
Weighted average shares diluted	39,857,355	37,654,576	39,759,907	29,999,381

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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 the 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 September 30, 2006, we owned 16 operating healthcare facilities and held mortgage loans secured by three other facilities. 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 19 facilities we owned and the three facilities on which we had made mortgage loans were in ten states, had a carrying cost of approximately $554.5 million and comprised approximately 86.7% of our total assets. Our acquisition and other loans of approximately $46.3 million represented approximately 7.2% of our total assets. We do not expect such non-mortgage loan assets at any time to exceed 20% of our total assets.

At October 1, 2006, we had 19 employees. Over the next 12 months, we expect to add four to six additional employees as we acquire new properties and make new mortgage loans and manage our existing properties and loans.

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Key Factors that May Affect Our Operations

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

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

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

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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

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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

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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 months and nine months ended September 30, 2006, we recorded $791,000 and $2,363,000, respectively, of expense for share based compensation, related to grants of restricted common stock and deferred stock units.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, we had approximately $1.2 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 had a balance of $64.3 million at September 30, 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 $84.4 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. We have begun discussions with the lender to expand the revolving credit facility to an amount greater than the maximum $175.0 million commitment. However, we can not provide assurance that we will enter into a larger revolving credit facility with the lender or with any other potential lender.

In the three months ended September 30, 2006, we sold $125.0 million of Senior Unsecured Notes due in 2016 (the Notes). The Notes were placed in private transactions exempt from registration under the Securities Act of 1933, as amended, (the Securities Act). The Notes will pay interest quarterly at fixed annual rate ranging from 7.333% to 7.871% for five years, and, thereafter, at an annual floating rate of three-month LIBOR plus 2.30%. We may call the Notes at par value at any time after five years. We used the net proceeds from the Notes primarily for funding acquisitions of healthcare real estate and mortgage loans. The ratio of fixed rate debt to variable rate debt is approximately 54% to 46%.

At September 30, 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	$ 57.1	$ 6.9
Bucks County women s hospital and medical office building	38.0	26.6	11.4
Portland long-term acute care hospital	17.8	14.4	3.4
Total	$ 119.8	$ 98.1	$ 21.7

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 as much as $100 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, possibly 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. If we are not able to obtain or maintain these levels of debt, we believe that our ability to acquire up to $100 million of additional assets during the remainder of 2006 will be adversely affected.

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.

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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. Since the first quarter of 2006, we borrowed a net additional $28.3 million on our revolving credit facility. In the first nine months of 2006, we also borrowed an additional $8.0 million on our construction loans for our West Houston Town and Country Hospital and Medical Office Building projects. In the three months ended September 30, 2006, we added $125.0 million from four issues of unsecured Senior Notes.

Investing Activities

In the first nine months of 2006, we invested $86.3 million in our four development projects. We also invested $9.7 million in our current operating facilities, primarily the West Houston Town and Country Hospital and Medical Office Building projects. We also acquired two facilities at a cost of $35.4 million and invested in two mortgage loans totaling $65.0 million. Our expectations about future investing activities are described above under Liquidity and Capital Resources. We also sold one facility for $7.6 million. The operations of that facility were not a material source of revenues, cash flows or total assets.

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 $124.7 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 September 30, 2006 Compared to Three Months Ended September 30, 2005

Net income for the three months ended September 30, 2006, was $8,673,547 compared to net income of $5,256,091 for the three months ended September 30, 2005, a 65.0% increase.

A comparison of revenues for the three months ended September 30, 2006 and 2005, is as follows:

	2006	% of Total	2005	% of Total	Year over Year Change
Base rents	$ 8,866,869	58.6%	$ 5,320,454	64.8%	66.7%
Straight-line rents	1,959,364	13.0%	1,007,062	12.3%	94.6%
Percentage rents	597,395	4.0%	643,757	7.8%	(7.2%)
Contingent rents	96,690	0.6%			
Fee income	50,128	0.3%	14,883	0.2%	236.8%
Interest from loans	3,550,752	23.5%	1,218,785	14.9%	191.3%
Total revenue	$ 15,121,198	100.0%	$ 8,204,941	100.0%	84.3%

Revenue of $15,121,198 in the three months ended September 30, 2006, was comprised of rents (76.2%) and interest from loans and fee income (23.8%). In the third quarter of 2006, we owned 16 rent producing properties compared to ten in the third 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 third quarter of 2006, we received percentage rents of approximately $597,000 from Vibra, a $46,000 decrease from the third quarter of 2005. Interest income from loans in the quarter ended September 30, 2006 compared to the same period in 2005 increased due to the origination of $105,000,000 mortgage loans since November of 2005. Vibra accounted for 46.0% and 83.8% of our gross revenues during the three months ended September 30, 2006 and 2005, respectively.

We expect our revenue to continue to increase in future quarters as a result of expected acquisitions and mortgage loans 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.

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Depreciation and amortization during the third quarter of 2006, was $1,974,371, compared to $1,170,387, during third quarter of 2005, a 68.7% increase. All of this increase is related to an increase in the number of rent producing properties from ten at September 30, 2005 to 16 at September 30, 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 third quarters of 2006 and 2005 totaled $2,548,517, and $2,546,380 respectively, an increase of 0.1%. We recorded approximately $791,000 for share-based compensation in the third quarter of 2006 as compared to $555,000 in the third quarter of 2005. We record the expense from restricted share awards over vesting periods of three to five years.

Interest income (other than from loans) for the three months ended September 30, 2006 and 2005, totaled $198,442 and $767,917, respectively. Interest income decreased primarily due to lower cash balances in the three months ended September 30, 2006, compared to the same period in 2005. We used our cash balances of $59.1 million at December 31, 2005 to reduce debt, pay dividends and invest in our development projects.

Interest paid for the quarters ended September 30, 2006 and 2005, totaled $2,231,436 and $676,711, respectively. Capitalized interest for the quarters ended September 30, 2006 and 2005, totaled $2,145,622 and $914,679, respectively, resulting in interest expense (which includes amortized financing costs) for the three months ended September 30, 2006 and 2005, of $2,071,900 and $0, 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 $99.1 million at September 30, 2006, compared to $78.5 million under construction at September 30, 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Net income for the nine months ended September 30, 2006, was $24,566,228 compared to net income of $13,195,836 for the nine months ended September 30, 2005, an 86.2% increase.

A comparison of revenues for the nine months ended September 30, 2006 and 2005, is as follows:

	2006	% of Total	2005	% of Total	Year over Year Change
Base rents	$ 25,606,078	62.5%	$ 12,936,876	59.0%	97.9%
Straight-line rents	4,520,232	11.0%	3,784,801	17.3%	19.4%
Percentage rents	1,893,991	4.6%	1,642,712	7.5%	15.3%
Contingent rents	230,740	0.6%			
Fee income	382,997	0.9%	98,963	0.4%	287.0%
Interest from loans	8,343,798	20.4%	3,463,894	15.8%	140.9%
Total revenue	$ 40,977,836	100.0%	$ 21,927,246	100.0%	86.9%

Revenue of $40,977,836 in the nine months ended September 30, 2006, was comprised of rents (78.7%) and interest from loans and fee income (21.3%). At September 30, 2006, we owned 16 rent producing properties compared to ten at September 30, 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 nine months of 2006, we received percentage rents of $1,893,991 from Vibra, a $251,000 increase from the first nine months of 2005, due to higher revenues at the original six Vibra facilities. Interest income from loans in the nine months ended September 30, 2006 compared to the same period in 2005 increased due to the origination of $105,000,000 mortgage loans since November of 2005. Vibra accounted for 50.8% and 88.4% of our gross revenues during the nine months ended September 30, 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 nine months ended September 30, 2006, was $5,480,638, compared to $2,986,790, during the nine months ended September 30, 2005, an 83.5% increase. All of this increase is related to an increase in the number of rent producing properties from ten at September 30, 2005 to 16 at September 30, 2006. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

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General and administrative expenses in the nine months ended September 30, 2006 and 2005, totaled $7,948,530, and $5,712,257, respectively, an increase of 39.2%. We recorded approximately $2.4 million for share-based compensation as compared to $602,403 in the first nine months of 2005. Share based compensation for 2006 includes approximately $267,000 for 25,000 deferred stock units (DSU s) awarded to the five independent members of our Board of Directors in May, 2006, at our annual meeting of shareholders. These DSU s vested immediately upon award. Based on our existing director compensation policies and Board composition, a similar number of DSU s will be awarded and expensed (based on the market price of our common stock) on the date of future annual meetings. The remaining share-based compensation expense recorded in 2006 represents the expense from grants of restricted shares to employees, officers and directors in 2005 and 2006. We record the expense from restricted share awards over vesting period of three to five years. Finally, in the nine months ended September 30, 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 quarters ended September 30, 2006 and 2005, totaled $436,989 and $1,509,903, respectively. Interest income decreased primarily due to lower cash balances in the nine months ended September 30, 2006. We used our cash balances of $59.1 million at December 31, 2005 to reduce debt, pay dividends and invest in our development projects.

Interest paid for the nine months ended September 30, 2006 and 2005, totaled $5,494,249 and $2,772,994, respectively. Capitalized interest for the nine months ended September 30, 2006 and 2005, totaled $4,728,153 and $1,918,458, respectively, resulting in interest expense (which includes amortized financing costs) for the nine months ended September 30, 2006 and 2005, of $3,246,413 and $1,542,266, 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 $99.1 million at September 30, 2006, compared to $78.5 million under construction at September 30, 2005.

Subsequent Event

On October 22, 2006, MPT West Houston Hospital, L.P. and MPT West Houston MOB, L.P., subsidiaries of Medical Properties Trust, Inc., terminated their respective leases with Stealth, L.P. (Stealth). The leases were for the hospital and medical office building, respectively, operated together by Stealth as Houston Town and County Hospital in Houston, Texas. The leases were originally entered into in 2004, with the lease for the hospital scheduled to expire in 2021 and that for the medical office building to expire in 2016. The leases required Stealth to make monthly payments of rent, including annual escalations of rent, and payments to fund repairs and improvements. The leases also required Stealth to pay all operating expenses of the facilities, including ad valorem taxes, insurance and utilities. During the three and nine month periods ended September 30, 2006 we recorded revenue of approximately $2.2 million and $6.3 million, or 14.6% and 15.4% of total revenue, respectively, from the leases and other arrangements with Stealth. We have made no provision in the accompanying financial statements for any costs which could be incurred if we do not successfully replace Stealth or if we are required to fund operations of the hospital for an extended period.

In connection with entering into the leases with Stealth, we also made working capital loans to Stealth and have unbilled rent receivables from Stealth in an aggregate amount, including accrued interest and after applying offsetting credits, of approximately $3.2 million. On October 24, 2006, we received the full proceeds of a letter of credit issued to us by Stealth in the amount of $1.3 million, which can be used to reduce the amount outstanding under the loans. Stealth had not obtained managed care provider contracts that we believe are necessary for profitable operation of the hospital. Accordingly, and pursuant to our rights under the leases, we terminated the leases and began negotiations directly with other hospital systems that we believe have access to the necessary provider contracts. We are presently considering offers from several hospital systems that have indicated a willingness to enter into a new lease with us that would include terms allowing us to recover all amounts owed by Stealth.

While we believe that we will be successful in releasing the hospital and MOB, there is no assurance that a replacement lessee will agree to pay amounts similar to those previously provided for in our leases with Stealth. We have made no provision in the accompanying financial statements for any costs which could be incurred if we do not successfully replace Stealth or if we are required to fund operations of the hospital for an extended period.

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 and nine months ended September 30, 2006 and 2005:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income	$ 8,673,547	$ 5,256,091	$ 24,566,228	$ 13,195,836
Depreciation and amortization	1,974,371	1,170,387	5,480,638	2,986,790
Funds from operations FFO	$ 10,647,918	$ 6,426,478	$ 30,046,866	$ 16,182,626

Per diluted share amounts:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income	$ 0.22	$ 0.14	$ 0.62	$ 0.44
Depreciation and amortization	0.05	0.03	0.14	0.10
Funds from operations FFO	$ 0.27	$ 0.17	$ 0.76	$ 0.54

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In addition to adjustments to net income necessary to calculate funds from operations in accordance with the NAREIT definition of FFO, we believe that investors also consider the effects of straight-line rent revenue and non-cash share based compensation expense.

Distribution Policy

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

The table below is a summary of our distributions paid or declared during the two years ended September 30, 2006:

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

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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 $1.2 million 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 $1.2 million per year. This assumes that the amount outstanding under our variable rate debt remains approximately $117.6 million, the balance at October 16, 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.

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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.

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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) Not applicable.

(c) Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

(a) Information required to be disclosed on Form 8-K, Item 1.02

1.02 Termination of a Material Definitive Agreement.

On October 22, 2006, MPT West Houston Hospital, L.P. and MPT West Houston MOB, L.P., subsidiaries of Medical Properties Trust, Inc., terminated their respective leases with Stealth, L.P. (Stealth). The leases were for the hospital and medical office building, respectively, operated together by Stealth as Houston Town and County Hospital in Houston, Texas. The leases were originally entered into in 2004, with the lease for the hospital scheduled to expire in 2021 and that for the medical office building to expire in 2016. The leases required Stealth to make monthly payments of rent, including annual escalations of rent, and payments to fund repairs and improvements. The leases also required Stealth to pay all operating expenses of the facilities, including ad valorem taxes, insurance and utilities. During the three and nine month periods ended September 30, 2006 we recorded revenue of approximately $2.2 million and $6.3 million, or 14.6% and 15.4% of total revenue, respectively, from the leases and other arrangements with Stealth. In connection with entering into the leases with Stealth, we also made working capital loans to Stealth and have unbilled rent receivables from Stealth in an aggregate amount, including accrued interest and after applying offsetting credits, of approximately $3.2 million. On October 24, 2006, we received the full proceeds of a letter of credit issued to us by Stealth in the amount of $1.3 million, which can be used to reduce the amount outstanding under the loans. Stealth had not obtained managed care provider contracts that we believe are necessary for profitable operation of the hospital. Accordingly, and pursuant to our rights under the leases, we terminated the leases and began negotiations directly with other hospital systems that we believe have access to the necessary provider contracts. We are presently considering offers from several hospital systems that have indicated a willingness to enter into a new lease with us that would include terms allowing us to recover all amounts owed by Stealth.

While we believe that we will be successful in releasing the hospital and MOB, there is no assurance that a replacement lessee will agree to pay amounts similar to those previously provided for in our leases with Stealth. We have made no provision in the accompanying financial statements for any costs which could be incurred if we do not successfully replace Stealth or if we are required to fund operations of the hospital for an extended period.

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 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350

99.1 Consolidated Financial Statements of Vibra Healthcare, LLC as of June 30, 2006
Since Vibra Healthcare, LLC leases more than 20% of our properties under triple net leases, the financial status of Vibra may be considered relevant to investors. The most recently available financial statements for Vibra are attached as Exhibit 99.1 to this Quarterly Report on Form 10-Q. We have not participated in the preparation of Vibra's financial statements nor do we have the right to dictate the form of any financial statements provided to us by Vibra.

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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: October 27, 2006

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INDEX TO EXHIBITS

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