

MEDICAL PROPERTIES TRUST INC
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-32559

Commission file number 333-177186

MEDICAL PROPERTIES TRUST, INC.

MPT OPERATING PARTNERSHIP, L.P.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND 20-0191742

DELAWARE 20-0242069

(State or other jurisdiction of (I. R. S. Employer

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incorporation or organization) 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer (Medical Properties Trust, Inc. only)

Accelerated filer

Non-accelerated filer (MPT Operating Partnership, L.P. only)

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 4, 2018, Medical Properties Trust, Inc. had 364,736,886 shares of common stock, par value \$0.001, outstanding.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three months ended March 31, 2018 of Medical Properties Trust, Inc., a Maryland corporation, and MPT Operating Partnership, L.P., a Delaware limited partnership, through which Medical Properties Trust, Inc. conducts substantially all of its operations. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our company,” “Medical Properties,” “MPT,” or “the company” refer to Medical Properties Trust, Inc. together with its consolidated subsidiaries, including MPT Operating Partnership, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to MPT Operating Partnership, L.P. together with its consolidated subsidiaries.

MEDICAL PROPERTIES TRUST, INC. AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED March 31, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	March 31,	December 31,
	2018	2017
	(Unaudited)	(Note 2)
(In thousands, except per share amounts)		
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	\$ 5,867,286	\$ 5,797,605
Real estate held for sale	—	146,615
Mortgage loans	1,927,393	1,778,316
Net investment in direct financing leases	686,024	698,727
Gross investment in real estate assets	8,480,703	8,421,263
Accumulated depreciation and amortization	(493,782)	(455,712)
Net investment in real estate assets	7,986,921	7,965,551
Cash and cash equivalents	138,314	171,472
Interest and rent receivables	81,965	78,970
Straight-line rent receivables	202,317	185,592
Other loans	148,842	150,209
Other assets	473,481	468,494
Total Assets	\$ 9,031,840	\$ 9,020,288
Liabilities and Equity		
Liabilities		
Debt, net	\$ 4,898,364	\$ 4,898,667
Accounts payable and accrued expenses	206,891	211,188
Deferred revenue	15,549	18,178
Lease deposits and other obligations to tenants	57,847	57,050
Total liabilities	5,178,651	5,185,083
Equity		
Preferred stock, \$0.001 par value. Authorized 10,000 shares;		
no shares outstanding	—	—
Common stock, \$0.001 par value. Authorized 500,000 shares;		
issued and outstanding — 364,695 shares at March 31, 2018 and		
364,424 shares at December 31, 2017	365	364
Additional paid-in capital	4,333,972	4,333,027
Distributions in excess of net income	(484,804)	(485,932)
Accumulated other comprehensive loss	(9,961)	(26,049)
Treasury shares, at cost	(777)	(777)

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Total Medical Properties Trust, Inc. Stockholders' Equity	3,838,795	3,820,633
Non-controlling interests	14,394	14,572
Total Equity	3,853,189	3,835,205
Total Liabilities and Equity	\$9,031,840	\$ 9,020,288

See accompanying notes to condensed consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

(In thousands, except per share amounts)	For the Three Months	
	Ended March 31, 2018	2017
Revenues		
Rent billed	\$ 128,011	\$ 96,763
Straight-line rent	15,791	12,779
Income from direct financing leases	17,681	17,880
Interest and fee income	43,563	28,975
Total revenues	205,046	156,397
Expenses		
Interest	57,023	38,029
Real estate depreciation and amortization	35,802	27,586
Property-related	2,184	1,328
General and administrative	17,818	13,197
Acquisition costs	—	2,756
Total expenses	112,827	82,896
Other income (expense)		
Gain on sale of real estate, net	1,467	7,413
Debt refinancing costs	—	(13,629)
Other	(1,468)	1,767
Total other income (expense)	(1)	(4,449)
Income before income tax	92,218	69,052
Income tax expense	(1,175)	(867)
Net income	91,043	68,185
Net income attributable to non-controlling interests	(442)	(215)
Net income attributable to MPT common stockholders	\$ 90,601	\$ 67,970
Earnings per common share — basic and diluted		
Net income attributable to MPT common stockholders	\$ 0.25	\$ 0.21
Weighted average shares outstanding — basic		
Weighted average shares outstanding — basic	364,882	321,057
Weighted average shares outstanding — diluted		
Weighted average shares outstanding — diluted	365,343	321,423
Dividends declared per common share		
Dividends declared per common share	\$ 0.25	\$ 0.24

See accompanying notes to condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	For the Three Months	
	Ended March 31, 2018	2017
Net income	\$91,043	\$68,185
Other comprehensive income:		
Foreign currency translation gain	16,088	6,292
Total comprehensive income	107,131	74,477
Comprehensive income attributable to non-controlling interests	(442)	(215)
Comprehensive income attributable to MPT common stockholders	\$106,689	\$74,262

See accompanying notes to condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months	
	Ended March 31,	2017
	2018	
	(In thousands)	
Operating activities		
Net income	\$91,043	\$68,185
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Depreciation and amortization	37,858	28,954
Amortization of deferred financing costs and debt discount	1,789	1,617
Direct financing lease interest accretion	(2,340)	(2,286)
Straight-line rent revenue	(20,377)	(13,896)
Share-based compensation	1,856	1,971
Gain from sale of real estate, net	(1,467)	(7,413)
Straight-line rent and other write-off	6,059	1,117
Debt refinancing costs	—	13,629
Other adjustments	(3,217)	(2,959)
Changes in:		
Interest and rent receivables	(3,678)	(4,208)
Accounts payable and accrued expenses	(12,729)	(20,428)
Net cash provided by operating activities	94,797	64,283
Investing activities		
Cash paid for acquisitions and other related investments	—	(9,004)
Net proceeds from sale of real estate	148,809	64,335
Principal received on loans receivable	1,734	3,233
Investment in loans receivable	(149,080)	(1,410)
Construction in progress and other	(8,399)	(26,898)
Net cash (used for) provided by investing activities	(6,936)	30,256
Financing activities		
Proceeds from term debt	—	955,280
Payments of term debt	—	(675,201)
Revolving credit facilities, net	(33,590)	90,000
Distributions paid	(89,403)	(74,521)
Lease deposits and other obligations to tenants	1,299	3,307
Debt issuance costs paid and other financing activities	(1,643)	(15,882)
Net cash (used for) provided by financing activities	(123,337)	282,983
(Decrease) increase in cash, cash equivalents and restricted cash for period	(35,476)	377,522
Effect of exchange rate changes	2,774	(10,083)
Cash, cash equivalents and restricted cash at beginning of period	172,247	84,882
Cash, cash equivalents and restricted cash at end of period	\$139,545	\$452,321
Interest paid	\$57,025	\$51,601

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Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	\$91,410	\$77,172
Cash, cash equivalents and restricted cash are comprised of the following:		
Beginning of period:		
Cash and cash equivalents	\$171,472	\$83,240
Restricted cash, included in Other assets	775	1,642
	\$172,247	\$84,882
End of period:		
Cash and cash equivalents	\$138,314	\$446,948
Restricted cash, included in Other assets	1,231	5,373
	\$139,545	\$452,321

See accompanying notes to condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	March 31, 2018 (Unaudited)	December 31, 2017 (Note 2)
(In thousands)		
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	\$ 5,867,286	\$ 5,797,605
Real estate held for sale	—	146,615
Mortgage loans	1,927,393	1,778,316
Net investment in direct financing leases	686,024	698,727
Gross investment in real estate assets	8,480,703	8,421,263
Accumulated depreciation and amortization	(493,782)	(455,712)
Net investment in real estate assets	7,986,921	7,965,551
Cash and cash equivalents	138,314	171,472
Interest and rent receivables	81,965	78,970
Straight-line rent receivables	202,317	185,592
Other loans	148,842	150,209
Other assets	473,481	468,494
Total Assets	\$ 9,031,840	\$ 9,020,288
Liabilities and Capital		
Liabilities		
Debt, net	\$ 4,898,364	\$ 4,898,667
Accounts payable and accrued expenses	115,149	121,465
Deferred revenue	15,549	18,178
Lease deposits and other obligations to tenants	57,847	57,050
Payable due to Medical Properties Trust, Inc.	91,352	89,333
Total liabilities	5,178,261	5,184,693
Capital		
General Partner — issued and outstanding — 3,647 units at March 31, 2018		
and 3,644 units at December 31, 2017	38,518	38,489
Limited Partners:		
Common units — issued and outstanding — 361,048 units at		
March 31, 2018 and 360,780 units at December 31, 2017	3,810,628	3,808,583
LTIP units — issued and outstanding — 232 units at March 31, 2018		
and 292 units at December 31, 2017	—	—
Accumulated other comprehensive loss	(9,961)	(26,049)
Total MPT Operating Partnership, L.P. Capital	3,839,185	3,821,023
Non-controlling interests	14,394	14,572
Total capital	3,853,579	3,835,595
Total Liabilities and Capital	\$ 9,031,840	\$ 9,020,288

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

(In thousands, except per unit amounts)	For the Three Months	
	Ended March 31, 2018	2017
Revenues		
Rent billed	\$128,011	\$96,763
Straight-line rent	15,791	12,779
Income from direct financing leases	17,681	17,880
Interest and fee income	43,563	28,975
Total revenues	205,046	156,397
Expenses		
Interest	57,023	38,029
Real estate depreciation and amortization	35,802	27,586
Property-related	2,184	1,328
General and administrative	17,818	13,197
Acquisition costs	—	2,756
Total expenses	112,827	82,896
Other income (expense)		
Gain on sale of real estate, net	1,467	7,413
Debt refinancing costs	—	(13,629)
Other	(1,468)	1,767
Total other income (expense)	(1)	(4,449)
Income before income tax	92,218	69,052
Income tax expense	(1,175)	(867)
Net income	91,043	68,185
Net income attributable to non-controlling interests	(442)	(215)
Net income attributable to MPT Operating Partnership partners	\$90,601	\$67,970
Earnings per units — basic and diluted		
Net income attributable to MPT Operating Partnership partners	\$0.25	\$0.21
Weighted average units outstanding — basic	364,882	321,057
Weighted average units outstanding — diluted	365,343	321,423
Dividends declared per unit	\$0.25	\$0.24

See accompanying notes to condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	For the Three Months	
	Ended March 31, 2018	2017
Net income	\$91,043	\$68,185
Other comprehensive income:		
Foreign currency translation gain	16,088	6,292
Total comprehensive income	107,131	74,477
Comprehensive income attributable to non-controlling interests	(442)	(215)
Comprehensive income attributable to MPT Operating Partnership partners	\$106,689	\$74,262

See accompanying notes to condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months	
	Ended March 31,	2017
	2018	
	(In thousands)	
Operating activities		
Net income	\$91,043	\$68,185
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Depreciation and amortization	37,858	28,954
Amortization of deferred financing costs and debt discount	1,789	1,617
Direct financing lease interest accretion	(2,340)	(2,286)
Straight-line rent revenue	(20,377)	(13,896)
Unit-based compensation	1,856	1,971
Gain from sale of real estate, net	(1,467)	(7,413)
Straight-line rent and other write-off	6,059	1,117
Debt refinancing costs	—	13,629
Other adjustments	(3,217)	(2,959)
Changes in:		
Interest and rent receivables	(3,678)	(4,208)
Accounts payable and accrued expenses	(12,729)	(20,428)
Net cash provided by operating activities	94,797	64,283
Investing activities		
Cash paid for acquisitions and other related investments	—	(9,004)
Net proceeds from sale of real estate	148,809	64,335
Principal received on loans receivable	1,734	3,233
Investment in loans receivable	(149,080)	(1,410)
Construction in progress and other	(8,399)	(26,898)
Net cash (used for) provided by investing activities	(6,936)	30,256
Financing activities		
Proceeds from term debt	—	955,280
Payments of term debt	—	(675,201)
Revolving credit facilities, net	(33,590)	90,000
Distributions paid	(89,403)	(74,521)
Lease deposits and other obligations to tenants	1,299	3,307
Debt issuance costs paid and other financing activities	(1,643)	(15,882)
Net cash (used for) provided by financing activities	(123,337)	282,983
(Decrease) increase in cash, cash equivalents and restricted cash for period	(35,476)	377,522
Effect of exchange rate changes	2,774	(10,083)
Cash, cash equivalents and restricted cash at beginning of period	172,247	84,882
Cash, cash equivalents and restricted cash at end of period	\$139,545	\$452,321
Interest paid	\$57,025	\$51,601

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Supplemental schedule of non-cash financing activities:		
Distributions declared, unpaid	\$91,410	\$77,172
Cash, cash equivalents, and restricted cash are comprised of the following:		
Beginning of period:		
Cash and cash equivalents	\$171,472	\$83,240
Restricted cash, included in Other assets	775	1,642
	\$172,247	\$84,882
End of period:		
Cash and cash equivalents	\$138,314	\$446,948
Restricted cash, included in Other assets	1,231	5,373
	\$139,545	\$452,321

See accompanying notes to condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND MPT OPERATING PARTNERSHIP, L.P.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003, under the Maryland General Corporation Law for the purpose of engaging in the business of investing in, owning, and leasing commercial real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P., (the "Operating Partnership") through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis except where material differences exist.

We have operated as a real estate investment trust ("REIT") since April 6, 2004 and elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will generally not be subject to federal income tax in the United States ("U.S."), provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income. Certain non-real estate activities we undertake are conducted by entities which we elected to be treated as taxable REIT subsidiaries ("TRS"). Our TRS entities are subject to both U.S. federal and state income taxes. For our properties located outside the U.S., we are subject to local taxes; however, we do not expect to incur additional taxes in the U.S. as such income flows through our REIT.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. Our properties are located in the U.S. and Europe.

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. 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 ("GAAP") 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 ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to these significant accounting policies other than the following:

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2017-01, “Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 provides an initial screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, in which case, the transaction would be accounted for as an asset acquisition rather than as a business combination. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. With this accounting change, we expect to recognize a majority of our future real estate acquisitions as asset transactions rather than business combinations, which will result in the capitalization of third party transaction costs that are directly related to an acquisition and significantly decrease acquisition expenses. Indirect and internal transaction costs will continue to be expensed, but we do not expect to treat these costs as acquisition expenses for purposes of deriving normalized funds from operations in the future. Accordingly, this change in accounting increased our general and administrative expenses by \$1.6 million for the three months ended March 31, 2018 compared to prior year.

On January 1, 2018, we adopted ASU No. 2014-09, “Revenue from Contracts with Customers.” Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. This standard should not have a significant impact on our financial results, as a substantial portion of our revenue consists of rental income from leasing arrangements and interest income from loans, which are specifically excluded from ASU No. 2014-09. However, we also adopted a related standard ASU No. 2017-05 “Other Income - Gains and Losses from the

Derecognition of Nonfinancial Assets” on January 1, 2018, which we expect will allow for more transactions to qualify as sales of real estate with gains on sales being recognized earlier than under previous accounting guidance, as the new guidance is based on transfer of control versus whether or not the seller has continuing involvement. Upon adoption of this new standard, we recorded a \$1.9 million adjustment to retained earnings to fully recognize gains on real estate sold in prior years that was required to be deferred under previous accounting guidance.

In August and November 2016, the Financial Accounting Standards Board (“FASB”) issued guidance on the classification of certain receipts and payments in the statements of cash flows and to require companies to separately disclose the changes in total cash, cash equivalents, and amounts generally described as restricted cash on statements of cash flows (ASU 2016-18). Restricted cash recorded in other assets on the condensed consolidated balance sheets includes certain operating deposits, tenant capital reserve deposits and deposits related to real estate acquisitions. This guidance was adopted on January 1, 2018 by applying a retrospective transition method resulting in the restatement of all periods presented. This change did not have a material impact on the statements of cash flows for the three months ended March 31, 2018 and March 31, 2017, respectively.

Recent Accounting Developments:

Leases

In February 2016, FASB issued ASU 2016-02, “Leases”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either financing or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

We will adopt this new standard on January 1, 2019. We are continuing to evaluate this standard and the impact to us from both a lessor and lessee perspective. We do have leases in which we are the lessee, including ground leases, on which certain of our facilities reside, along with corporate office and equipment leases, that will be required to be recorded on our balance sheet upon adoption of this standard. From a lessor perspective, we do expect certain non-lease components (including certain operating expenses that the tenants of our facilities are required to pay pursuant to our “triple-net” leases) to be recorded gross versus net of the respective expenses upon adoption of this standard in 2019 in accordance with ASU No. 2014-09.

Reclassifications and Revisions

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period presentation.

Variable Interest Entities

At March 31, 2018, we had loans to and/or equity investments in certain variable interest entities (“VIEs”), which are also tenants of our facilities. We have determined that we are not the primary beneficiary of these VIEs. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at March 31, 2018 (in thousands):

	Maximum Loss	Asset Type	Carrying
VIE Type	Exposure(1)	Classification	Amount(2)
Loans, net	\$ 334,906	Mortgage and other loans	\$ 233,470
Equity investments	\$ 14,553	Other assets	\$ —

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

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

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrowers or investees) that most significantly impact the VIE's economic performance.

As of March 31, 2018, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which they could be exposed to further losses (e.g., cash short falls).

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

See Note 3 and Note 5 for additional description of the nature, purpose and activities of our more significant VIEs (such as Ernest Health Inc. (“Ernest”)) and interests therein.

3. Real Estate and Lending Activities

Acquisitions

We acquired the following assets (in thousands):

	Three Months Ended March 31, 2018
Assets Acquired	
Land	\$—\$1,230
Building	— 6,901
Intangible lease assets — subject to amortization	— 873
Total assets acquired	\$—\$9,004

On January 30, 2017, we acquired an inpatient rehabilitation hospital in Germany for €8.4 million. This acquisition was the final property to close as part of the six hospital portfolio that we agreed to buy in September 2016 for an aggregate amount of €44.1 million. This property is leased to affiliates of Median Kliniken S.à r.l. (“MEDIAN”) pursuant to the existing long-term master lease agreement reached with MEDIAN in 2015.

Development Activities

During the 2018 first quarter, we completed construction on Ernest Flagstaff. This \$24 million inpatient rehabilitation facility located in Flagstaff, Arizona opened on March 1, 2018 and is being leased to Ernest pursuant to a stand-alone lease, with terms generally similar to the original master lease.

See table below for a status update on our current development projects (in thousands):

Property	Commitment	Costs Incurred as of	Estimated Completion Date
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		March 31, 2018	
Circle Health (Birmingham, England)	\$ 45,211	\$ 18,369	1Q 2019
Surgery Partners (Idaho Falls, Idaho)	113,468	16,753	1Q 2020
	\$ 158,679	\$ 35,122	

Disposals

On March 1, 2018, we sold the real estate of St. Joseph Medical Center in Houston, Texas, for approximately \$148 million to Steward Health Care System LLC (“Steward”). In return, we received a mortgage loan equal to the purchase price, with such loan secured by the underlying real estate. The mortgage loan has terms consistent with the other mortgage loans in the Steward portfolio. This transaction resulted in a gain of \$1.5 million, offset by a \$1.7 million non-cash charge to revenue to write-off related straight-line rent receivables on this property.

On March 31, 2017, we sold the EASTAR Health System real estate located in Muskogee, Oklahoma, which was leased to RCCH Healthcare Partners (“RCCH”). Total proceeds from this transaction were approximately \$64 million resulting in a gain of \$7.4 million, partially offset by a \$0.6 million non-cash charge to revenue to write-off related straight-line rent receivables on this property.

Leasing Operations

At March 31, 2018, leases on 14 Ernest facilities, ten Prime Healthcare Services, Inc. (“Prime”) facilities, and two Alecto Healthcare Services LLC (“Alecto”) facilities are accounted for as direct financing leases (“DFLs”). The components of our net investment in DFLs consisted of the following (in thousands):

	As of	
	March 31, 2018	As of December 31, 2017
Minimum lease payments receivable	\$2,223,869	\$ 2,294,081
Estimated residual values	434,769	448,339
Less: Unearned income	(1,972,614)	(2,043,693)
Net investment in direct financing leases	\$686,024	\$ 698,727

On March 15, 2018, we entered into a new lease agreement of our long-term acute care facility in Boise, Idaho with a joint venture formed by Vibra Healthcare, LLC (“Vibra”) and Ernest. The new lease has an initial 15-year fixed term (ending March 2033) with three extension options of five years each. With this transaction, we incurred a non-cash charge of \$1.5 million to write-off DFL unbilled interest associated with the previous lease to Ernest on this property.

Adeptus Health

As noted in previous filings, we have 16 properties that we plan to re-lease to a new operator or sell. These properties are being transitioned away from Adeptus Health in stages over a two year period as part of Adeptus Health’s confirmed plan of reorganization under Chapter 11 of the Bankruptcy Code. Rent is being paid by Adeptus Health during this transition period. On January 1, 2018 and April 1, 2018, Adeptus Health vacated and stopped making rent payments on five and three properties, respectively. As a result of the shortening of our lease term on these and eight other properties, we recorded \$1.8 million to accelerate straight-line rent receivable amortization in the 2018 first quarter. At March 31, 2018, Adeptus Health is current on its rent obligations to us. Although no assurances can be made that we will not recognize a loss in the future, we believe at March 31, 2018 that the sale or re-leasing of the assets related to these 16 transition facilities will not result in any material loss or impairment.

Gilbert and Florence Facilities

In the first quarter of 2018, we terminated the lease at our Gilbert and Florence, Arizona facilities due to the tenant not meeting its rent obligations pursuant to the lease. As a result of the lease terminating, we recorded a charge of \$1.1 million to reserve against the straight-line rent receivables. This former tenant has continued to occupy the facility, but on April 25, 2018, this former tenant filed for involuntary bankruptcy. At March 31, 2018, all outstanding receivables were completely reserved. Although no assurances can be made that we will not have any impairment charges in the future, we believe our investment in Gilbert and Florence of \$38.1 million at March 31, 2018, is fully recoverable.

Loans

The following is a summary of our loans (in thousands):

	As of	As of
	March 31,	December 31,
	2018	2017
Mortgage loans	\$1,927,393	\$ 1,778,316
Acquisition loans	117,627	118,448
Working capital and other loans	31,215	31,761
	\$2,076,235	\$ 1,928,525

The increase in mortgage loans relates to the St. Joseph property that was sold on March 1, 2018 – see “Disposals” section of this Note 3 for further information. Our non-mortgage loans typically consist of loans to our tenants for acquisitions and working capital purposes. At March 31, 2018, acquisition loans includes \$113.9 million in loans to Ernest.

Concentrations of Credit Risk

Our revenue concentration for the three months ended March 31, 2018 as compared to the prior year is as follows (dollars in thousands):

Revenue by Operator

	For the Three Months Ended March 31, 2018		2017		
	Total	Percentage of	Total	Percentage of	
Operators	Revenue	Total Revenue	Revenue	Total Revenue	
Steward (1)	\$73,227	35.7	% \$33,704	21.6	%
Prime	31,778	15.5	% 31,511	20.1	%
MEDIAN	29,088	14.2	% 23,450	15.0	%
Ernest	16,416	8.0	% 17,520	11.2	%
RCCH	9,537	4.7	% 9,306	6.0	%
Other operators	45,000	21.9	% 40,906	26.1	%
Total	\$205,046	100.0	% \$156,397	100.0	%

(1) Includes revenue from IASIS prior to being acquired by Steward on September 29, 2017.

Revenue by U.S. State and Country

	For the Three Months Ended March 31, 2018		2017		
	Total	Percentage of	Total	Percentage of	
U.S. States and Other Countries	Revenue	Total Revenue	Revenue	Total Revenue	
Texas	\$30,355	14.8	% \$24,737	15.8	%
Massachusetts	26,940	13.1	% 26,584	17.0	%
Utah	20,871	10.2	% 2,534	1.6	%
California	16,666	8.1	% 16,565	10.6	%
Arizona	11,386	5.6	% 7,332	4.7	%
All other states	60,037	29.3	% 51,465	32.9	%
Total U.S.	\$166,255	81.1	% \$129,217	82.6	%
Germany	\$37,665	18.4	% \$26,190	16.7	%
United Kingdom, Italy, and Spain	1,126	0.5	% 990	0.7	%
Total International	\$38,791	18.9	% \$27,180	17.4	%
Grand Total	\$205,046	100.0	% \$156,397	100.0	%

On a gross asset basis (as defined in the “Reconciliation of Non-GAAP Financial Measures” section of Item 2 of this Form 10-Q), our concentration as of March 31, 2018 as compared to December 31, 2017 is as follows (dollars in thousands):

Gross Assets by Operator

	As of March 31, 2018	As of December 31, 2017
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	Total	Percentage of	Total	Percentage of	
	Gross	Total	Gross	Total	
Operators	Assets	Gross	Assets	Gross	
		Assets		Assets	
Steward (1)	\$3,459,275	36.2	% \$3,457,384	36.5	%
MEDIAN	1,261,991	13.2	% 1,229,325	13.0	%
Prime	1,120,737	11.7	% 1,119,484	11.8	%
Ernest	612,112	6.4	% 629,161	6.6	%
RCCH	506,265	5.3	% 506,265	5.3	%
Other operators	2,118,132	22.3	% 2,089,934	22.1	%
Other assets	466,095	4.9	% 444,659	4.7	%
Total	\$9,544,607	100.0	% \$9,476,212	100.0	%

(1) Includes approximately \$1.8 billion of triple net leased gross assets.

Gross Assets by U.S. State and Country

	As of March 31, 2018		As of December 31, 2017			
	Total	Percentage	Total	Percentage	Total	Percentage
		of				
	Gross	Total	Gross	Total	Gross	Total
Assets	Gross	Assets	Gross	Assets	Gross	
U.S. States and Other Countries						
Massachusetts	\$1,298,226	13.6	%	\$1,297,226	13.7	%
Texas	1,260,795	13.2	%	1,257,390	13.3	%
Utah	1,035,748	10.9	%	1,035,501	10.9	%
California	542,873	5.7	%	542,876	5.7	%
Arizona	489,185	5.1	%	491,284	5.2	%
All other states	2,616,686	27.4	%	2,618,536	27.6	%
Other domestic assets	402,841	4.2	%	387,050	4.1	%
Total U.S.	\$7,646,354	80.1	%	\$7,629,863	80.5	%
Germany	\$1,623,755	17.0	%	\$1,581,726	16.7	%
United Kingdom, Italy, and Spain	211,244	2.2	%	207,014	2.2	%
Other international assets	63,254	0.7	%	57,609	0.6	%
Total International	\$1,898,253	19.9	%	\$1,846,349	19.5	%
Grand Total	\$9,544,607	100.0	%	\$9,476,212	100.0	%

On an individual property basis, we had no investment of any single property greater than 3.7% of our total gross assets as of March 31, 2018.

4. Debt

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

	As of	As of
	March 31,	December 31,
	2018	2017
Revolving credit facility(A)	\$807,614	\$840,810
Term loans	200,000	200,000
4.000% Senior Unsecured Notes due 2022(B)	616,200	600,250
5.500% Senior Unsecured Notes due 2024	300,000	300,000
6.375% Senior Unsecured Notes due 2024	500,000	500,000
3.325% Senior Unsecured Notes due 2025(B)	616,200	600,250
5.250% Senior Unsecured Notes due 2026	500,000	500,000
5.000% Senior Unsecured Notes due 2027	1,400,000	1,400,000
	\$4,940,014	\$4,941,310
Debt issue costs, net	(41,650)	(42,643)

	\$4,898,364	\$ 4,898,667
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(A) Includes £9 million and £8 million of GBP-denominated borrowings that reflect the exchange rate at March 31, 2018 and December 31, 2017, respectively.

(B) These notes are Euro-denominated and reflect the exchange rate at March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018, principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows (in thousands):

2018	\$—
2019	—
2020	—
2021	807,614
2022	816,200
Thereafter	3,316,200
Total	\$4,940,014

On February 1, 2017, we replaced our previous unsecured credit facility (which we had entered into in 2014 and amended in 2015) with a new revolving credit and term loan agreement (“Credit Facility”). The new agreement included a \$1.3 billion unsecured

revolving loan facility (same amount as the previous revolving loan facility), a \$200 million unsecured term loan facility (\$50 million lower than the previous term loan), and a new €200 million unsecured term loan facility.

On March 4, 2017, we redeemed the €200 million aggregate principal amount of our 5.750% Senior Unsecured Notes due 2020.

On March 24, 2017, we completed a €500 million senior unsecured notes offering (“3.325% Senior Unsecured Notes due 2025”). A portion of the proceeds from this offering were used to prepay and extinguish the €200 million term loan facility portion of our Credit Facility on March 30, 2017.

With the replacement of our old credit facility, the redemption of the 5.750% Senior Unsecured Notes due 2020, and the payoff of our €200 million euro term loan, we incurred a debt refinancing charge of approximately \$14 million in the 2017 first quarter.

Covenants

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate or other assets; and change our business. In addition, the credit agreements governing our Credit Facility limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations, as defined in the agreements, on a rolling four quarter basis. At March 31, 2018, the dividend restriction was 95% of normalized adjusted funds from operations (“NAFFO”). The indentures governing our senior unsecured notes also limit the amount of dividends we can pay based on the sum of 95% of NAFFO, proceeds of equity issuances and certain other net cash proceeds. Finally, our senior unsecured notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the Credit Facility contains customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, secured leverage ratio, consolidated adjusted net worth, unsecured leverage ratio, and unsecured interest coverage ratio. This Credit Facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the Credit Facility, the entire outstanding balance may become immediately due and payable. At March 31, 2018, we were in compliance with all such financial and operating covenants.

5. Fair Value of Financial Instruments

We have various assets and liabilities that are considered financial instruments. We estimate that the carrying value of cash and cash equivalents and accounts payable and accrued expenses approximate their fair values. We estimate the fair value of our interest and rent receivables using Level 2 inputs such as discounting the estimated future cash flows using the current rates at which similar receivables would be made to others with similar credit ratings and for the same remaining maturities. The fair value of our mortgage loans and working capital loans are estimated by using Level 2 inputs such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our senior unsecured notes using Level 2 inputs such as quotes from securities dealers and market makers. We estimate the fair value of our revolving credit facility and term loan using Level 2 inputs based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

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

	As of March 31, 2018		As of December 31, 2017	
	Book	Fair	Book	Fair
Asset (Liability)	Value	Value	Value	Value
Interest and rent receivables	\$81,965	\$81,009	\$78,970	\$78,028
Loans (1)	1,846,525	1,871,705	1,698,471	1,722,101
Debt, net	(4,898,364)	(4,968,232)	(4,898,667)	(5,073,707)

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

Items Measured at Fair Value on a Recurring Basis

Our equity interest in Ernest along with their related loans are measured at fair value on a recurring basis as we elected to account for these investments using the fair value option method. We have elected to account for these investments at fair value due to

the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other currently existing equity interests or loans.

At March 31, 2018, these amounts were as follows (in thousands):

	Fair	Original	Asset Type
Asset Type	Value	Cost	Classification
Mortgage loans	\$115,000	\$115,000	Mortgage loans
Equity investments and other loans	112,256	118,010	Other loans/other assets
	\$227,256	\$233,010	

Our mortgage and other loans with Ernest are recorded at fair value based on Level 2 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our equity investment in Ernest is recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which requires significant estimates of our investee such as projected revenue and expenses and appropriate consideration of the underlying risk profile of the forecast assumptions associated with the investee. We classify the equity investment as Level 3, as we use certain unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices. For the cash flow model, our observable inputs include use of a capitalization rate, discount rate (which is based on a weighted average cost of capital), and market interest rates, and our unobservable input includes an adjustment for a marketability discount (“DLOM”) on our equity investment of 40% at March 31, 2018.

In regards to the underlying projection of revenues and expenses used in the discounted cash flow model, such projections are provided by Ernest. However, we will modify such projections (including underlying assumptions used) as needed based on our review and analysis of Ernest’s historical results, meetings with key members of management, and our understanding of trends and developments within the healthcare industry.

In arriving at the DLOM, we started with a DLOM range based on the results of studies supporting valuation discounts for other transactions or structures without a public market. To select the appropriate DLOM within the range, we then considered many qualitative factors including the percent of control, the nature of the underlying investee’s business along with our rights as an investor pursuant to the operating agreement, the size of investment, expected holding period, number of shareholders, access to capital marketplace, etc. To illustrate the effect of movements in the DLOM, we performed a sensitivity analysis below by using basis point variations (dollars in thousands):

Basis Point Change in Marketability Discount	Estimated
	Increase
	(Decrease)

	In Fair Value
+100 basis points	\$ (9)
- 100 basis points	9

Because the fair value of the Ernest investments noted above is below our original cost, we recognized an unrealized loss during the first quarter of 2018. No unrealized gain/loss on the Ernest investments was recorded in the first quarter of 2017.

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6. Earnings Per Share

Medical Properties Trust, Inc.

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

	For the Three Months	
	Ended March 31,	
	2018	2017
Numerator:		
Net income	\$91,043	\$68,185
Non-controlling interests' share in net income	(442)	(215)
Participating securities' share in earnings	(195)	(125)
Net income, less participating securities' share in earnings	\$90,406	\$67,845
Denominator:		
Basic weighted-average common shares	364,882	321,057
Dilutive potential common shares	461	366
Dilutive weighted-average common shares	365,343	321,423

MPT Operating Partnership, L.P.

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

	For the Three Months	
	Ended March 31,	
	2018	2017
Numerator:		
Net income	\$91,043	\$68,185
Non-controlling interests' share in net income	(442)	(215)
Participating securities' share in earnings	(195)	(125)
Net income, less participating securities' share in earnings	\$90,406	\$67,845
Denominator:		
Basic weighted-average units	364,882	321,057
Dilutive potential units	461	366
Diluted weighted-average units	365,343	321,423

7. Commitments and Contingencies

Commitments

On September 28, 2016, we entered into definitive agreements to acquire an acute care hospital in Washington for a purchase price of \$17.5 million. Upon closing, the facility will be leased to RCCH, pursuant to the current master lease. Closing of this transaction, which is expected to be completed in 2018 is subject to customary real estate, regulatory and other closing conditions.

Contingencies

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

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 are presented on a combined basis for Medical Properties Trust and MPT Operating Partnership, L.P. as there are no material differences between these two entities.

The following discussion and analysis of the consolidated financial condition and consolidated results of operations should be read together with the condensed consolidated financial statements and notes thereto contained in this Form 10-Q and the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 and as updated in our quarterly reports on Form 10-Q for future periods, and current reports on Form 8-K as we file them with the SEC under the Securities Exchange Act of 1934, as amended. Such factors include, among others, the following:

- U.S. (both national and local) and European (in particular Germany, the United Kingdom, Spain and Italy) political, economic, business, real estate, and other market conditions;
- the competitive environment in which we operate;
- the execution of our business plan;
- financing risks;
- the risk that a condition to closing under the agreements governing any or all of our outstanding transactions that have not closed as of the date hereof may not be satisfied;
- the possibility that the anticipated benefits from any or all of the transactions we enter into will take longer to realize than expected or will not be realized at all;
- acquisition and development risks;
- potential environmental contingencies and other liabilities;
- adverse developments affecting the financial health of one or more of our tenants, including insolvency;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a real estate investment trust, or REIT, for U.S. federal and state income tax purposes (particularly in light of current tax reform considerations);
- our ability to attract and retain qualified personnel;
- changes in foreign currency exchange rates;
- U.S. (both federal and state) and European (in particular Germany, the United Kingdom, Spain and Italy) healthcare and other regulatory requirements; and
- U.S. national and local economic conditions, as well as conditions in Europe and any other foreign jurisdictions where we own or will own healthcare facilities, which may have a negative effect on the following, among other things:
 - the financial condition of our tenants, our lenders, or institutions that hold our cash balances, which may expose us to increased risks of default by these parties;
 - our ability to obtain equity or debt financing (including joint venture financing arrangements) on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities, refinance existing debt and our future interest expense; and
-

the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

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Key Factors that May Affect Our Operations

Our revenue is derived from rents we earn pursuant to the lease agreements with our tenants, from interest income from loans to our tenants and other facility owners and from profits or equity interests in certain of our tenants' operations. 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, which could impact our results. 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 portfolio.

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

- admission levels and surgery/procedure/diagnosis volumes by type;
 - the current, historical and prospective operating margins (measured by earnings before interest, taxes, depreciation, amortization and facility rent) of each tenant or borrower and at each facility;
 - the ratio of our tenants' or borrowers' operating earnings both to facility rent and to facility rent plus other fixed costs, including debt costs;
 - trends in the source of our tenants' or borrowers' revenue, including the relative mix of public payors (including Medicare, Medicaid/MediCal, managed care in the U.S. and pension funds in Germany) and private payors (including commercial insurance and private pay patients);
 - the effect of evolving healthcare legislation and other regulations on our tenants' or borrowers' profitability and liquidity; and
 - the competition and demographics of the local and surrounding areas in which the tenants or borrowers operate.
- Certain business factors, in addition to those described above that directly affect our tenants and borrowers, 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;
- 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' or borrowers' profitability and our lease rates;
- competition from other financing sources; and
- the ability of our tenants and borrowers to access funds in the credit markets.

CRITICAL ACCOUNTING POLICIES

Refer to our 2017 Annual Report on Form 10-K for a discussion of our critical accounting policies, which include revenue recognition, investments in real estate, purchase price allocation, loans, losses from rent and interest receivables, stock-based compensation, our fair value option election, and our accounting policy on consolidation. During the three months ended March 31, 2018, there were no material changes to these policies.

Overview

We are a self-advised real estate investment trust ("REIT") focused on investing in and owning net-leased healthcare facilities across the U.S. and selectively in foreign jurisdictions. We have operated as a REIT since April 6, 2004, and accordingly, elected REIT status upon the filing of our calendar year 2004 federal income tax return. Medical

Properties Trust, Inc. was incorporated under Maryland law on August 27, 2003, and MPT Operating Partnership, L.P. was formed under Delaware law on September 10, 2003. We conduct substantially all of our business through MPT Operating Partnership, L.P. We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases, which require the tenant to bear most of the costs associated with the property. We also make mortgage loans to healthcare operators collateralized by their real estate assets. In addition, we selectively make loans to certain of our operators through our taxable REIT subsidiaries, the proceeds of which are typically used for acquisitions and working capital. Finally, from time to time, we acquire a profits or other equity interest in our tenants that gives us a right to share in such tenant's profits and losses.

At March 31, 2018, our portfolio consisted of 274 properties leased or loaned to 31 operators, of which two are under development and 15 are in the form of mortgage loans.

Our investments in healthcare real estate, including mortgage and other loans, as well as any equity investments in our tenants are considered a single reportable segment. All of our investments are currently located in the U.S. and Europe. Our total assets are made up of the following (dollars in thousands):

	As of March 31, 2018	% of Total	As of December 31, 2017	% of Total
Real estate owned (gross)	\$6,518,188	72.2 %	\$ 6,595,252	73.1 %
Mortgage loans	1,927,393	21.3 %	1,778,316	19.7 %
Other loans	148,842	1.6 %	150,209	1.7 %
Construction in progress	35,122	0.4 %	47,695	0.5 %
Other assets	402,295	4.5 %	448,816	5.0 %
Total assets (1)	\$9,031,840	100.0 %	\$ 9,020,288	100.0 %

(1) Includes \$1.9 billion and \$1.8 billion of healthcare real estate assets in Europe at March 31, 2018 and December 31, 2017, respectively.

The following is our revenue by operating type (dollar amounts in thousands):

	For the Three Months Ended March 31, 2018	% of Total	For the Three Months Ended March 31, 2017	% of Total
General Acute Care Hospitals (1)	\$ 145,797	71.1 %	\$ 107,126	68.5 %
Rehabilitation Hospitals	50,159	24.5 %	38,279	