MEDICAL PROPERTIES TRUST INC
Form 10-K
March 16, 2007

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

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

or

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

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)	*(IRS Employer Identification No.)*
1000 Urban Center Drive, Suite 501 **Birmingham, AL**	**35242**
(Address of Principal Executive Offices)	*(Zip Code)*

(205) 969-3755
(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. o

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

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

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

The aggregate market value of shares of the Registrant s common stock, par value $0.001 per share (Common Stock), held by non-affiliates of the Registrant as of March 15, 2007 was approximately $704,228,219. For purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

As of March 15, 2007, 49,195,564 shares of the Registrant s Common Stock were outstanding.

Portions of the Registrant s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2007 are incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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A WARNING ABOUT FORWARD LOOKING STATEMENTS

We make forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business strategy;
- our projected operating results;
- our ability to acquire or develop net-leased facilities;
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases and loans;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to compete in the marketplace;
- lease rates and interest rates;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock and other securities, along with, among others, the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this Annual Report on Form 10-K, including those set forth under the sections captioned Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations; and Our Business .
- general volatility of the capital markets and the market price of our common stock;
- changes in our business strategy;

changes in healthcare laws and regulations;

availability, terms and development of capital;

availability of qualified personnel;

changes in our industry, interest rates or the general economy; and

the degree and nature of our competition.

When we use the words believe, expect, may, potential, anticipate, estimate, plan, will, could, inter expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. *Business*

Overview

We are a self-advised real estate investment trust that acquires, develops, leases and makes other investments in healthcare facilities providing state-of-the-art healthcare services. We lease our facilities to healthcare operators pursuant to long-term net-leases, which require the tenant to bear most of the costs associated with the property. We also make long-term, interest only mortgage loans to healthcare operators, and from time to time, we also make operating, working capital and acquisition loans to our tenants.

We were formed as a Maryland corporation on August 27, 2003 to succeed to the business of Medical Properties Trust, LLC, a Delaware limited liability company, which was formed by one of our founders in December 2002. We conduct substantially all of our business through our wholly-owned subsidiaries, MPT Operating Partnership, L.P., and MPT Development Services, Inc. References in this Annual Report on Form 10-K to Medical Properties Trust, Medical Properties, we, us, and our include Medical Properties Trust, Inc. and our wholly-owned subsidiaries.

Since April 2004, we have sold at various times approximately 47.8 million shares of common stock for net proceeds of approximately $496.5 million. We have committed to issue 3 million shares of common stock before February 28, 2008, for approximately $14.82 per share adjusted for certain activities. We used these proceeds generally to fund investments in healthcare real estate. At March 1, 2007, we have approximately $736.3 million invested in healthcare real estate and related assets.

Our investment in healthcare real estate, including mortgage loans and other loans to certain of our tenants, is considered a single reportable segment as further discussed in our Consolidated Financial Statements, Note 2 Summary of Significant Accounting Policies, in Part II, Item 8 of this Annual Report on Form 10-K. All of our investments are located in the United States, and we do not expect to invest in non-U.S. markets in the foreseeable future.

In 2006, we continued to execute our business plan to create the preeminent provider of real estate capital to healthcare companies. During 2006, we:

- Invested approximately $213 million in new healthcare real estate assets;
- Completed the development and construction of two general acute care hospitals with an aggregate investment of approximately $100 million; and
- Issued fixed rate term loans aggregating approximately $125 million and exchangeable notes of $138 million.

Subsequent to December 31, 2006, we:

- Sold our Houston Town and Country Hospital and Medical Office Building real estate for a gain in excess of $5.0 million;
- Added approximately $91 million in investments in healthcare real estate and related assets; and

Completed an offering of 12 million shares of common stock (of which 3 million shares will be issued prior to February 28, 2008).

Portfolio of Properties

As of December 31, 2006, we owned 21 facilities which were being operated by six tenants; we had two facilities that were under development and leased to two tenants; and we had three mortgage loans to two operators. In 2006, we had the following acquisition, investment and development activities:

We acquired 8 existing healthcare facilities for a total cost of approximately $115.5 million;

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We made two mortgage loans totaling $65.0 million to the operator of two hospitals located in southern California;

Our facilities under development in Houston, TX (North Cypress) and Bloomington, IN (Monroe) began operations; and

We invested an additional approximately $8.5 million in facilities which we owned at December 31, 2005.

Outlook and Strategy

Our strategy is to lease the facilities that we acquire or develop to experienced healthcare operators pursuant to long-term net leases. Alternatively, we have structured certain of our investments as long-term, interest only mortgage loans to healthcare operators, and we may make similar investments in the future. The market for healthcare real estate is extensive and includes real estate owned by a variety of healthcare operators. We focus on acquiring and developing those net-leased facilities that are specifically designed to reflect the latest trends in healthcare delivery methods. These facilities include: physical rehabilitation hospitals, long-term acute care hospitals, and regional and community hospitals.

Our Leases and Loans

The leases for our facilities are net leases with terms requiring the tenant to pay all ongoing operating and maintenance expenses of the facility, including property, casualty, general liability and other insurance coverages, utilities and other charges incurred in the operation of the facilities, as well as real estate taxes, ground lease rent and the costs of capital expenditures, repairs and maintenance. Similarly, borrowers under our mortgage loan arrangements retain the responsibilities of ownership, including physical maintenance and improvements and all costs and expenses. Our leases and loans also provide that our tenants will indemnify us for environmental liabilities. Our current leases and loans have initial terms of 10 to 15 years and provide for annual rent or interest escalation and, in some cases, percentage rent.

Significant Tenants

At March 1, 2007, we have leases with seven hospital operating companies (including the two properties currently under development) covering 21 facilities and we have five mortgage loans to three hospital operating companies. Vibra Healthcare, LLC (Vibra) leases eight of our facilities. Total revenue from Vibra in 2006 was approximately $27.8 million, or 55.0% of total revenue. We expect that the percentage of revenue we earn from Vibra in 2007 will be substantially less than that in 2006 because we expect Vibra s interest and percentage rent to decline and because our anticipated near-term future acquisitions and investments do not include transactions with Vibra. However, there is a reasonable likelihood that we will make additional investments in Vibra-operated properties in the foreseeable future.

At March 1, 2007, affiliates of Prime Healthcare Services, Inc. (Prime) lease five of our facilities and we have mortgage loans on two facilities owned by affiliates of Prime. Total revenue from Prime affiliates in 2006 was approximately $9.8 million, or 19.4% of total revenue. There is a reasonable likelihood that we will make additional investments in Prime affiliated properties in the foreseeable future.

Environmental Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and remediate hazardous or toxic substances or petroleum product

releases or threats of releases. Such laws also impose certain obligations and liabilities on property owners with respect to asbestos containing materials. These laws may impose remediation responsibility and liability without regard to fault, or whether or not the owner, operator or tenant knew of or caused the presence of the contamination. Investigation, remediation and monitoring costs may be substantial and can exceed the value of the property. The presence of contamination or the failure to properly remediate contamination on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow funds using such property as collateral and may adversely impact our investment in that property.

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Generally, prior to completing any acquisition or closing any mortgage loan, we obtain Phase I environmental assessments in order to attempt to identify potential environmental concerns at the facilities. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property s chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures.

Competition

We compete in acquiring and developing facilities with financial institutions, other lenders, real estate developers, other REITs, other public and private real estate companies and private real estate investors. Among the factors adversely affecting our ability to compete are the following:

- we may have less knowledge than our competitors of certain markets in which we seek to purchase or develop facilities;
- many of our competitors have greater financial and operational resources than we have; and
- our competitors or other entities may determine to pursue a strategy similar to ours.

To the extent that we experience vacancies in our facilities, we will also face competition in leasing those facilities to prospective tenants. The actual competition for tenants varies depending on the characteristics of each local market. Virtually all of our facilities operate in a competitive environment, and patients and referral sources, including physicians, may change their preferences for healthcare facilities from time to time.

Healthcare Regulatory Matters

The following discussion describes certain material federal healthcare laws and regulations that may affect our operations and those of our tenants. However, the discussion does not address state healthcare laws and regulations, except as otherwise indicated. These state laws and regulations, like the federal healthcare laws and regulations, could affect our operations and those of our tenants. Moreover, the discussion relating to reimbursement for healthcare services addresses matters that are subject to frequent review and revision by Congress and the agencies responsible for administering federal payment programs. Consequently, predicting future reimbursement trends or changes is inherently difficult.

Ownership and operation of hospitals and other healthcare facilities are subject, directly and indirectly, to substantial federal, state and local government healthcare laws and regulations. Our tenants failure to comply with these laws and regulations could adversely affect their ability to meet their lease obligations. Physician investment in us or in our facilities also will be subject to such laws and regulations. We intend for all of our business activities and operations to conform in all material respects with all applicable laws and regulations.

Anti-Kickback Statute. 42 U.S.C. §1320a-7b(b), or the Anti-Kickback Statute, prohibits, among other things, the offer, payment, solicitation or acceptance of remuneration directly or indirectly in return for referring an individual to a provider of services for which payment may be made in whole or in part under a federal healthcare program, including the Medicare or Medicaid programs. Violation of the Anti-Kickback Statute is a crime and is punishable by criminal fines of up to $25,000 per violation, five years imprisonment or both. Violations may also result in civil

sanctions, including civil penalties of up to $50,000 per violation, exclusion from participation in federal healthcare programs, including Medicare and Medicaid, and additional monetary penalties in amounts treble to the underlying remuneration.

The Anti-Kickback Statute defines the term remuneration very broadly and, accordingly, local physician investment in our facilities could trigger scrutiny of our lease arrangements under the Anti-Kickback Statute. In addition to certain statutory exceptions, the Office of Inspector General of the Department of Health and Human Services, or OIG, has issued Safe Harbor Regulations that describe practices that will not be considered violations of the Anti-Kickback Statute. These include a safe harbor for space rental arrangements which protects payments

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made by a tenant to a landlord under a lease arrangement meeting certain conditions. We intend to use our commercially reasonable efforts to structure lease arrangements involving facilities in which local physicians are investors and tenants so as to satisfy, or meet as closely as possible, the conditions for the safe harbor for space rental. We cannot assure you, however, that we will meet all the conditions for the safe harbor, and it is unlikely that we will meet all conditions for the safe harbor in those instances in which percentage rent is contemplated and we have physician investors. In addition, federal regulations require that our tenants with purchase options pay fair market value purchase prices for facilities in which we have physician investment. We intend our lease agreement purchase option prices to be fair market value; however, we cannot assure you that all of our purchase options will be at fair market value. Any purchase not at fair market value may present risks of challenge from healthcare regulatory authorities. The fact that a particular arrangement does not fall within a statutory exception or safe harbor does not mean that the arrangement violates the Anti-Kickback Statute. The statutory exception and Safe Harbor Regulations simply provide a guaranty that qualifying arrangements will not be prosecuted under the Anti-Kickback Statute. The implication of the Anti-Kickback Statute could limit our ability to include local physicians as investors or tenants or restrict the types of leases into which we may enter if we wish to include such physicians as investors having direct or indirect ownership interests in our facilities.

Federal Physician Self-Referral Statute. Any physicians investing in our company or its subsidiary entities could also be subject to the Ethics in Patient Referrals Act of 1989, or the Stark Law (codified at 42 U.S.C. §1395nn). Unless subject to an exception, the Stark Law prohibits a physician from making a referral to an entity furnishing designated health services paid by Medicare or Medicaid if the physician or a member of his immediate family has a financial relationship with that entity. A reciprocal prohibition bars the entity from billing Medicare or Medicaid for any services furnished pursuant to a prohibited referral. Financial relationships are defined very broadly to include relationships between a physician and an entity in which the physician or the physician s family member has (i) a direct or indirect ownership or investment interest that exists in the entity through equity, debt or other means and includes an interest in an entity that holds a direct or indirect ownership or investment interest in any entity providing designated health services; or (ii) a direct or indirect compensation arrangement with the entity.

The Stark Law as originally enacted in 1989 only applied to referrals for clinical laboratory tests reimbursable by Medicare. However, the law was amended in 1993 and 1994 and, effective January 1, 1995, became applicable to referrals for an expanded list of designated health services reimbursable under Medicare or Medicaid.

The Stark Law specifies a number of substantial sanctions that may be imposed upon violators. Payment is to be denied for Medicare claims related to designated health services referred in violation of the Stark Law. Further, any amounts collected from individual patients or third-party payors for such designated health services must be refunded on a timely basis. A person who presents or causes to be presented a claim to the Medicare program in violation of the Stark Law is also subject to civil monetary penalties of up to $15,000 per claim, civil money penalties of up to $100,000 per arrangement and possibly even exclusion from participation in the Medicare and Medicaid programs.

Final regulations applicable only to physician referrals for clinical laboratory services were published in August 1995. A proposed rule applicable to physician referrals for all designated health services was published in January 1998. In January 2001, the Centers for Medicare & Medicaid Services (CMS) published the Phase I final rule, which finalized a significant portion of the 1998 proposed rule. On March 26, 2004, CMS issued the second phase of its final regulations addressing physician referrals to entities with which they have a financial relationship (the Phase II rule). The Phase II rule addresses and interprets a number of exceptions for ownership and compensation arrangements involving physicians, including the exceptions for space and equipment rentals and the exception for indirect compensation arrangements. The Phase II rule also includes exceptions for physician ownership and investment, including physician ownership of rural providers and hospitals. The new regulation revised the hospital ownership exception to reflect the 18-month moratorium that began December 8, 2003 on physician ownership or investment in specialty hospitals, which was enacted in Section 507 of the Medicare Prescription Drug, Improvement, and

Modernization Act of 2003. The Phase II rule became effective on July 26, 2004. The moratorium imposed by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 expired on June 8, 2005. However, that moratorium was retroactively extended by the passage of the Deficit Reduction Act of 2005 (the DRA) which requires the Secretary of Health and Human Services to develop a

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strategic and implementing plan for physician investment in specialty hospitals that addresses the issues of The report is due six months after the date of enactment, but this deadline may be extended by two months. The DRA also directs CMS to continue the moratorium on enrollment of specialty hospitals until the earlier of the date the report is submitted or six months after enactment of the DRA.

In those cases where physicians invest in our subsidiaries or our facilities, we intend to fashion our lease arrangements with healthcare providers to meet the applicable indirect compensation exceptions under the Stark Law, however, no assurance can be given that our leases will satisfy these Stark Law exception requirements. Unlike the Anti-Kickback Statute Safe Harbor Regulations, a financial arrangement which implicates the Stark Law must meet the requirements of an applicable exception to avoid a violation of the Stark Law. This may lead to obstacles in permitting local physicians to invest in our facilities or restrict the types of lease arrangements we may enter into if we wish to include such physicians as investors.

State Self-Referral Laws. In addition to the Anti-Kickback Statute and the Stark Law, state anti-kickback and self-referral laws could limit physician ownership or investment in us, restrict the types of leases we may enter into if such physician investment is permitted or require physician disclosure of our ownership or financial interest to patients prior to referrals.

Recent Regulatory and Legislative Developments. The DRA was signed by President Bush on February 8, 2006, and is expected to reduce Medicare spending by $6.0 billion over the next five years and cut Medicaid spending by $5.0 billion over the same time frame. A clerical error during the legislative process, however, raises some concerns over the validity of the DRA because the United States House of Representatives never voted on the version approved by the Senate and ultimately signed by the President. Legal challenges may arise as a result of this technicality, challenging the DRA. Nonetheless, CMS has already begun implementing portions of the DRA. Medicare Part A pays for hospital inpatient operating and capital related costs associated with acute care hospital inpatient stays on a prospective basis. Pursuant to this inpatient prospective payment system, or IPPS, CMS categorizes each patient case according to a list of diagnosis-related groups, or DRGs. Each DRG has an assigned payment that is based upon the expected amount of hospital resources necessary to treat a patient in that DRG. On August 12, 2005, CMS published a Final Rule for IPPS for fiscal year 2006. The Final Rule includes a 3.7% increase in payment rates, a number of changes to the DRGs and enhancements to the voluntary quality reporting program. Hospitals are required to submit certain clinical data on ten quality measures in order to receive full payment for fiscal year 2006. CMS expects aggregate payments to IPPS hospitals to increase by $3.3 billion over the previous year.

On August 1, 2003, CMS published the fiscal year 2004 Final Rule for inpatient rehabilitation facilities, or IRFs. Under the Final Rule, all IRFs have received an increase in their prospective payment system rate for fiscal year 2004 due to an across the board 3.2% IRF market basket increase. On August 15, 2005, CMS published the fiscal year 2006 Final Rule for inpatient rehabilitation facilities, or IRFs. The Final Rule adopts a number of refinements to the IRF prospective payment system, including an across-the-board 1.9% decrease in the standard payment amount based on evidence that coding increases instead of increases in patient acuity have led to increased payments to IRFs. The Final Rule also includes a 3.6% market basket increase and increases from 19.1% to 21.3% the payment rate adjustment for IRFs located in rural areas. Further, the Final Rule reduces the outlier threshold for cases with unusually high costs from $11,211 to $5,132. In addition, the Final Rule contains policy changes including the adoption of new labor market area definitions which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000. These increases are expected to benefit those tenants of ours who operate IRFs. These increases benefit those tenants of ours who operate IRFs.

On May 7, 2004, CMS issued a Final Rule to revise the classification criterion, commonly known as the 75 percent rule, used to classify a hospital or hospital unit as an IRF. The compliance threshold is used to distinguish an IRF from an acute care hospital for purposes of payment under the Medicare IRF prospective payment system. The Final Rule

implements a three-year period to analyze claims and patient assessment data to determine whether CMS will continue to use a compliance threshold that is lower than 75% or not. For cost reporting periods beginning on or after July 1, 2004, and before July 1, 2005, the compliance threshold will be 50% of the IRF s total patient population. The compliance threshold will increase to 60% of the IRF s total patient population for cost reporting periods beginning on or after July 1, 2005 and before July 1, 2006, to 65% for cost

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reporting periods beginning on or after July 1, 2006 and before July 1, 2007, and to 75% for cost reporting periods after July 1, 2007. The Deficit Reduction Act of 2005 extends the phase-in period of the 75 percent rule for one additional year. The 60% threshold remains in effect until June 30, 2007. In fiscal year 2007, the threshold is 65% and beginning in fiscal year 2008, the threshold is 75%.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the Act, which contains sweeping changes to the federal health insurance program for the elderly and disabled. The Act includes provisions affecting program payment for inpatient and outpatient hospital services. In total, the Congressional Budget Office estimates that hospitals will receive $24.8 billion over ten years in additional funding due to the Act.

Rural hospitals, which may include regional or community hospitals, one of our targeted types of facilities, will benefit most from the reimbursement changes in the Act. Some examples of these reimbursement changes include (i) providing that payment for all hospitals, regardless of geographic location, will be based on the same, higher standardized amount which was previously available only for hospitals located in large urban areas, (ii) reducing the labor share of the standardized amount from 71% to 62% for hospitals with an applicable wage index of less than 1.0, (iii) giving hospitals the ability to seek a higher wage index based on the number of hospital employees who take employment out of the county in which the hospital is located with an employer in a neighboring county with a higher wage index, and (iv) improving critical access hospital program conditions of participation requirements and reimbursement. Medicare disproportionate share hospital, or DSH, payment adjustments for hospitals that are not large urban or large rural hospitals will be calculated using the DSH formula for large urban hospitals, up to a 12% cap in 2004 for all hospitals other than rural referral centers, which are not subject to the cap. The Act provides that sole community hospitals, as defined in 42 U.S.C. § 1395 ww(d)(5)(D)(iii), located in rural areas, rural hospitals with 100 or fewer beds, and certain cancer and children s hospitals shall receive Transitional Outpatient Payments, or TOPs, such that these facilities will be paid as much under the Medicare outpatient prospective payment system, or OPPS, as they were paid prior to implementation of OPPS. As of January 1, 2004 all TOPs for community mental health centers and all other hospitals were otherwise discontinued. The hold harmless TOPs provided for under the Act will continue for qualifying rural hospitals for services furnished through December 31, 2005 and for sole community hospitals for cost reporting periods beginning on or after January 1, 2004 and ending on December 31, 2005. Hold harmless TOPs payments continue permanently for cancer and children s hospitals.

The Act also requires CMS to provide supplemental payments to acute care hospitals that are located more than 25 road miles from another acute care hospital and have low inpatient volumes, defined to include fewer than 800 discharges per fiscal year, effective on or after October 1, 2004. Total supplemental payments may not exceed 25% of the otherwise applicable prospective payment rate.

Finally, the Act assures inpatient hospitals that submit certain quality measure data a full inflation update equal to the hospital market basket percentage increase for fiscal years 2005 through 2007. The market basket percentage increase refers to the anticipated rate of inflation for goods and services used by hospitals in providing services to Medicare patients. For fiscal year 2005, the market basket percentage increase for hospitals paid under the inpatient prospective payment system is 3.3%. For those inpatient hospitals that do not submit such quality data, the Act provides for an update of market basket minus 0.4 percentage points. The DRA expands the provision of the Act tying inpatient reimbursement to hospitals reporting on certain quality measures. Hospitals not submitting the data will not receive the full market basket update. The DRA requires the Secretary of Health and Human Services to add other quality measures to be reported on by hospitals. Beginning in fiscal year 2007, the market basket updates for hospitals that fail to provide the quality data will be reduced by 2%.

The Act also imposed an 18 month moratorium limiting the availability of the whole hospital exception, or Whole Hospital Exception, under the Stark Law for specialty hospitals and prohibited physicians investing in rural specialty

hospitals from invoking an alternative Stark Law exception for physician ownership or investment in rural providers. The moratorium began upon enactment of the Act and expired June 8, 2005. Under the Whole Hospital Exception, the Stark Law permits a physician to refer a Medicare or Medicaid patient to a hospital in which the physician has an ownership or investment interest so long as the physician maintains staff privileges at the hospital and the physician s ownership or investment interest is in the hospital as a whole, rather than a subdivision of the

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facility. Following expiration of the moratorium, CMS issued a statement that it will not issue provider agreements for new specialty hospitals or authorize initial state surveys of new specialty hospitals while it undertakes a review of its procedures for enrolling such facilities in the Medicare program. CMS anticipates completing this review by January 2006. The suspension on enrollment does not apply to specialty hospitals that submitted enrollment applications prior to June 9, 2005 or requested an advisory opinion about the applicability of the moratorium.

The moratorium imposed by the Act expired on June 8, 2005. However, that moratorium was retroactively extended by the passage of the DRA which requires the Secretary of Health and Human Services to develop a strategic and implementing plan for physician investment in specialty hospitals that addresses the issues of proportionality of investment return, bona fide investment, annual disclosure of investments, and the provision of medical assistance (Medicaid) and charity care. The report is due six months after the date of enactment, but this deadline may be extended by two months. The DRA also directs CMS to continue the moratorium on enrollment of specialty hospitals until the earlier of the date the report is submitted or six months after enactment of the DRA.

Any acquisition or development of specialty hospitals must comply with the current application and interpretation of the Stark Law. CMS may clarify or modify its definition of specialty hospital, which may result in physicians who own interests in our tenants being forced to divest their ownership or the enrollment of the hospital for participation in the Medicare Program may be delayed. Although the specialty hospital moratorium under the Act limited, and the proposed Budget Reconciliation Conference Agreement would have limited physician ownership or investment in specialty hospitals as defined by CMS, they do not limit a physician s ability to hold an ownership or investment interest in facilities which may be leased to hospital operators or other healthcare providers, assuming the lease arrangement conforms to the requirements of an applicable exception under the Stark Law. We intend to structure all of our leases, including leases containing percentage rent arrangements, to comply with applicable exceptions under the Stark Law and to comply with the Anti-Kickback Statute. We believe that strong arguments can be made that percentage rent arrangements, when structured properly, should be permissible under the Stark Law and the Anti-Kickback Statute; however, these laws are subject to continued regulatory interpretation and there can be no assurance that such arrangements will continue to be permissible. Accordingly, although we do not currently have any percentage rent arrangements where physicians own an interest in our facilities, we may be prohibited from entering into percentage rent arrangements in the future where physicians own an interest in our facilities. In the event we enter into such arrangements at some point in the future and later find the arrangements no longer comply with the Stark Law or Anti-Kickback Statute, we or our tenants may be subject to penalties under the statutes.

The California Department of Health Services recently adopted regulations, codified as Sections 70217, 70225 and 70455 of Title 22 of the California Code of Regulations, or CCR, which establish minimum, specific, numerical licensed nurse-to-patient ratios for specified units of general acute care hospitals. These regulations are effective January 1, 2004. The minimum staffing ratios set forth in 22 CCR 70217(a) co-exist with existing regulations requiring that hospitals have a patient classification system in place. 22 CCR, 70053.2 and 70217. The licensed nurse-to-patient ratios constitute the minimum number of registered nurses, licensed vocational nurses, and, in the case of psychiatric units, licensed psychiatric technicians, who shall be assigned to direct patient care and represent the maximum number of patients that can be assigned to one licensed nurse at any one time. Over the past several years many hospitals have, in response to managed care reimbursement contracts, cut costs by reducing their licensed nursing staff. The California Legislature responded to this trend by requiring a minimum number of licensed nurses at the bedside. Due to this new regulatory requirement, any acute care facilities we target for acquisition or development in California may be required to increase their licensed nursing staff or decrease their admittance rates as a result. Governor Schwarzenegger issued two emergency regulations in an attempt to suspend the ratios in emergency rooms and delay for three years staffing requirements in general medical units. However, this action was appealed and on June 7, 2005, the Superior Court overturned the two emergency regulations. The Schwarzenegger administration appealed that ruling; however, the Governor withdrew the appeal in November 2005.

On May 7, 2004, CMS issued a Final Rule to update the annual payment rates for the Medicare prospective payment system for services provided by long term care hospitals. The rule increased the Medicare payment rate for long-term care hospitals by 3.1% starting July 1, 2004. On May 6, 2005, CMS issued a Final Rule to update the annual payment rates for 2006. Beginning July 1, 2005, the Medicare payment rate for long-term care hospitals will

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increase by 3.4% for patient discharges through June 30, 2006. Medicare expects aggregate payment to these hospitals to increase by $169 million during the 2006 long-term care hospital rate year compared with the 2005 rate year. Long-term care hospitals, one of the types of facilities we are targeting, are defined generally as hospitals that have an average Medicare inpatient length of stay greater than 25 days. In addition, the final rule contains policy changes including the adoption of new labor market area definitions for long-term care hospitals which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000. On January 27, 2006, CMS published a proposed rule provides for no increase in the Medicare payment rates for long-term care hospitals for patient discharges between July 1, 2006 and June 30, 2007. CMS is also proposing to adopt the Rehabilitation, Psychiatric and Long-Term Care (RPL) market basket to replace the excluded hospital with capital market basket that is currently used as the measure of inflation for calculating the annual update to the long-term care hospital prospective payment rate. The RPL market basket is based on the operating and capital costs of inpatient rehabilitation facilities, inpatient psychiatric facilities, and long-term care hospitals. CMS is also proposing to revise the labor-related share based on the RPL market basket from 72.855% (based on the excluded hospital with capital market basket) to 75.923%. CMS is accepting comments on the proposed rule until March 20, 2006. We do not know whether the proposed rule will be adopted without change.

The Balanced Budget Act of 1997, or BBA, mandated implementation of a prospective payment system for skilled nursing facilities. Under this prospective payment system, and for cost reporting periods beginning on or after July 1, 1998, skilled nursing facilities are paid a prospective payment rate adjusted for case mix and geographic variation in wages formulated to cover all costs, including routine, ancillary and capital costs. In 1999 and 2000 the BBA was refined to provide for, among other revisions, a 20% add-on for 12 high acuity non-therapy Resource Utilization Grouping categories, or RUG categories, and a 6.7% add-on for all 14 rehabilitation RUG categories. These categories may expire when CMS releases its refinements to the current RUG payment system. On August 4, 2005, CMS published a Final Rule updating skilled nursing facility payment rates for fiscal year 2006. The Final Rule eliminates the temporary add-on payments that Congress directed in the Balanced Budget Refinement Act of 1999 and introduces nine (9) new payment categories. The Final Rule also permanently increases rates for all RUGs to reflect variations in non-therapy ancillary costs. Further, fiscal year 2006 payment rates include a market basket update increase of 3.1%, a slight increase over what had been anticipated in the Proposed Rule. In addition, the Final Rule contains policy changes including the adoption of new labor market area definitions which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000. The Deficit Reduction Act of 2005 reduces payments to skilled nursing faculties for certain bad debt attributable to Medicare coinsurance for beneficiaries who are not dual eligibles.

Beginning January 1, 2007, the Deficit Reduction Act of 2005 caps payment rates for services provided in ambulatory surgery centers at the amounts paid for the same services in hospital outpatient departments under the OPPS. This provision is effective until the Secretary of Health and Human Services establishes a revised payment system for ambulatory surgery centers as required by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

In addition to the legislation and regulations discussed above, on January 12, 2005, the Medicare Payment Advisory Committee, or MedPAC, made extensive recommendations to Congress and the Secretary of HHS including proposing revisions to DRG payments to more fully capture differences in severity of illnesses in an attempt to more equally pay for care provided at general acute care hospitals as compared to specialty hospitals. Furthermore, MedPAC made significant recommendations regarding paying healthcare providers relative to their performance and to the outcomes of the care they provided. MedPAC recommendations have historically provided strong indications regarding future directions of both the regulatory and legislative process.

Insurance

We have purchased general liability insurance (lessor s risk) that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the healthcare facilities that are leased to and occupied by our tenants. Our leases with tenants also require the tenants to carry general liability, professional liability, all risks, loss of earnings and other insurance coverages and to name us as an additional insured under these policies. We expect that the policy specifications and insured limits will be appropriate given the relative risk of loss, the cost of the coverage and industry practice.

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Employees

We have 20 employees as of March 1, 2007. We anticipate hiring approximately four to six additional full-time employees during the next 12 months, commensurate with our growth. We believe that our relations with our employees are good. None of our employees are members of any union.

Available Information

Our website address is www.medicalpropertiestrust.com and provides access in the Investor Relations section, free of charge, to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Also available on our website, free of charge, are our Corporate Governance Guidelines, the charters of our Ethics, Nominating and Corporate Governance, Audit and Compensation Committees and our Code of Ethics and Business Conduct. If you are not able to access our website, the information is available in print free of charge to any shareholder who should request the information directly from us at (205) 969-3755.

ITEM 1A. ***Risk Factors***

RISKS RELATED TO OUR BUSINESS AND GROWTH STRATEGY

We were formed in August 2003 and have a limited operating history; our management has a limited history of operating a REIT and a public company and may therefore have difficulty in successfully and profitably operating our business.

We were organized in 2003 and thus have a limited operating history. We first elected REIT status for our taxable year ended December 31, 2004. We are subject to the risks generally associated with the formation of any new business, including unproven business models, uncertain market acceptance and competition with established businesses. Our management has limited experience in operating a REIT and a public company. Therefore, you should be especially cautious in drawing conclusions about the ability of our management team to execute our business plan.

We expect to continue to experience rapid growth and may not be able to adapt our management and operational systems to integrate the net-leased facilities we have acquired and are developing or those that we may acquire or develop in the future without unanticipated disruption or expense.

We are currently experiencing a period of rapid growth. We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to integrate and manage the facilities we have acquired and are developing and those that we may acquire or develop. Our failure to successfully integrate and manage our current portfolio of facilities or any future acquisitions or developments could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

We may be unable to access capital, which would slow our growth.

Our business plan contemplates growth through acquisitions and development of facilities. As a REIT, we are required to make cash distributions, which reduce our ability to fund acquisitions and developments with retained earnings. We are dependent on acquisition financings and access to the capital markets for cash to make investments in new facilities. Due to market or other conditions, there will be times when we will have limited access to capital

from the equity and debt markets. During such periods, virtually all of our available capital will be required to meet existing commitments and to reduce existing debt. We may not be able to obtain additional equity or debt capital or dispose of assets on favorable terms, if at all, at the time we need additional capital to acquire healthcare properties on a competitive basis or to meet our obligations. Our ability to grow through acquisitions and developments will be limited if we are unable to obtain debt or equity financing, which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

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Dependence on our tenants for payments of rent and interest may adversely impact our ability to make distributions to our stockholders.

We expect to continue to qualify as a REIT and, accordingly, as a REIT operating in the healthcare industry, we are not permitted by current tax law to operate or manage the businesses conducted in our facilities.

Accordingly, we rely almost exclusively on rent payments from our tenants under leases or interest payments from our tenants under mortgage loans we have made to them for cash with which to make distributions to our stockholders. We have no control over the success or failure of these tenants businesses. Significant adverse changes in the operations of any facility, or the financial condition of any tenant or a guarantor, could have a material adverse effect on our ability to collect rent and interest payments and, accordingly, on our ability to make distributions to our stockholders. Facility management by our tenants and their compliance with state and federal healthcare laws could have a material impact on our tenants operating and financial condition and, in turn, their ability to pay rent and interest to us.

It may be costly to replace defaulting tenants and we may not be able to replace defaulting tenants with suitable replacements on suitable terms.

Failure on the part of a tenant to comply materially with the terms of a lease could give us the right to terminate our lease with that tenant, repossess the applicable facility, cross default certain other leases with that tenant and enforce the payment obligations under the lease. The process of terminating a lease with a defaulting tenant and repossessing the applicable facility may be costly and require a disproportionate amount of management s attention. In addition, defaulting tenants or their affiliates may initiate litigation in connection with a lease termination or repossession against us or our subsidiaries. For example, in connection with our termination of leases relating to the Houston Town and Country Hospital and Medical Office Building in late 2006, our relevant subsidiaries were subsequently named as one of a number of defendants in lawsuits filed by various affiliates of the defaulting tenant. Resolution of these types of lawsuits in a manner materially adverse to us may adversely affect our financial condition and results of operations. If a tenant-operator defaults and we choose to terminate our lease, we then would be required to find another tenant-operator. The transfer of most types of healthcare facilities is highly regulated, which may result in delays and increased costs in locating a suitable replacement tenant. The sale or lease of these properties to entities other than healthcare operators may be difficult due to the added cost and time of refitting the properties. If we are unable to re-let the properties to healthcare operators, we may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by non-healthcare purchasers. Alternatively, we may be required to spend substantial amounts to adapt the facility to other uses. There can be no assurance that we would be able to find another tenant in a timely fashion, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable terms. Defaults by our tenants under our leases may adversely affect the timing of and our ability to make distributions to our stockholders.

Our revenues are dependent upon our relationship with, and success of, Vibra and Prime.

As of December 31, 2006, we owned 21 facilities which were being operated by six operators, we had two facilities that were under development and leased to two operators, and we had three mortgage loans to two operators. Vibra Healthcare, LLC, or Vibra, leased seven of our facilities, representing 33.4% of the original total cost of our operating facilities and mortgage loans as of December 31, 2006, and affiliates of Prime Healthcare Services, Inc. leased seven of our facilities, representing 21.6% of the original total cost of our operating facilities and mortgage loans as of December 31, 2006. Total revenue from Vibra and Prime, including rent, percentage rent and interest, was approximately $27.8 million and $9.8 million, respectively, or 55.0% and 19.4%, respectively, of total revenue from continuing operations in the year ended December 31, 2006. The financial performance and resulting ability of each of

Vibra and Prime to satisfy its lease and loan obligations to us are material to our financial results and our ability to service our debt and make distributions to our stockholders.

In the first quarter of 2007, we completed additional transactions with Prime for approximately $140.0 million. We may pursue additional transactions with Vibra or Prime in the future. Our relationship with Vibra and Prime, and their respective financial performance and resulting ability to satisfy its lease and loan obligations to us are material to our financial results and our ability to service our debt and make distributions to our stockholders. We are

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dependent upon the ability of Vibra and Prime to make rent and loan payments to us, and its failure or delay to meet these obligations would have a material adverse effect on our financial condition and results of operations.

Accounting rules may require consolidation of entities in which we invest and other adjustments to our financial statements.

The Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (ARB No. 51), in January 2003, and a further interpretation of FIN 46 in December 2003 (FIN 46-R, and collectively FIN 46). FIN 46 clarifies the application of ARB No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, referred to as variable interest entities. FIN 46 generally requires consolidation by the party that has a majority of the risk and/or rewards, referred to as the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. Under certain circumstances, generally accepted accounting principles may require us to account for loans to thinly capitalized companies such as Vibra as equity investments. The resulting accounting treatment of certain income and expense items may adversely affect our results of operations, and consolidation of balance sheet amounts may adversely affect any loan covenants.

The bankruptcy or insolvency of our tenants under our leases could seriously harm our operating results and financial condition.

Some of our tenants, including North Cypress Medical Center Operating Company, Bucks County Oncoplastic Institute, Monroe Hospital and Vibra, are and some of our prospective tenants may be, newly organized, have limited or no operating history and may be dependent on loans from us to acquire the facility s operations and for initial working capital. Any bankruptcy filings by or relating to one of our tenants could bar us from collecting pre-bankruptcy debts from that tenant or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant bankruptcy could delay our efforts to collect past due balances under our leases and loans, and could ultimately preclude collection of these sums. If a lease is assumed by a tenant in bankruptcy, we expect that all pre-bankruptcy balances due under the lease would be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any secured claims we have against our tenants may only be paid to the extent of the value of the collateral, which may not cover any or all of our losses. Any unsecured claim we hold against a bankrupt entity may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. We may recover none or substantially less than the full value of any unsecured claims, which would harm our financial condition.

Our facilities and properties under development are currently leased to only seven tenants, four of which were recently organized and have limited or no operating histories, and failure of any of these tenants and the guarantors of their leases to meet their obligations to us would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Our existing facilities and the properties we have under development are currently leased to Vibra, Prime, Gulf States, North Cypress, Bucks County Oncoplastic Institute (BCO) and Monroe Hospital or their subsidiaries or affiliates. If any of our tenants were to experience financial difficulties, the tenant may not be able to pay its rent. Vibra, North Cypress, BCO and Monroe Hospital were recently organized and have limited or no operating histories.

Our business is highly competitive and we may be unable to compete successfully.

We compete for development opportunities and opportunities to purchase healthcare facilities with, among others:

private investors;

healthcare providers, including physicians;

other REITs;

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real estate partnerships;

financial institutions; and

local developers.

Many of these competitors have substantially greater financial and other resources than we have and may have better relationships with lenders and sellers. Competition for healthcare facilities from competitors may adversely affect our ability to acquire or develop healthcare facilities and the prices we pay for those facilities. If we are unable to acquire or develop facilities or if we pay too much for facilities, our revenue and earnings growth and financial return could be materially adversely affected. Certain of our facilities and additional facilities we may acquire or develop will face competition from other nearby facilities that provide services comparable to those offered at our facilities and additional facilities we may acquire or develop. Some of those facilities are owned by governmental agencies and supported by tax revenues, and others are owned by tax-exempt corporations and may be supported to a large extent by endowments and charitable contributions. Those types of support are not available to our facilities and additional facilities we may acquire or develop. In addition, competing healthcare facilities located in the areas served by our facilities and additional facilities we may acquire or develop may provide healthcare services that are not available at our facilities and additional facilities we may acquire or develop. From time to time, referral sources, including physicians and managed care organizations, may change the healthcare facilities to which they refer patients, which could adversely affect our rental revenues.

Our use of debt financing will subject us to significant risks, including refinancing risk and the risk of insufficient cash available for distribution to our stockholders.

As of December 31, 2006, we had $305.0 million of debt outstanding, which excludes $43.2 million, which was paid off in January 2007 with proceeds from the sale of our Houston Town and Country Hospital and Medical Office Building. As of March 1, 2007, we have approximately $274.0 million of debt outstanding. We may borrow from other lenders in the future, or we may issue corporate debt securities in public or private offerings and our organizational documents do not limit the amount of debt we may incur.

Most of our current debt is, and we anticipate that much of our future debt will be, non-amortizing and payable in balloon payments. Therefore, we will likely need to refinance at least a portion of that debt as it matures. There is a risk that we may not be able to refinance then-existing debt or that the terms of any refinancing will not be as favorable as the terms of the then-existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of facilities, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due. Additionally, we may incur significant penalties if we choose to prepay the debt.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make distributions to our stockholders.

As of December 31, 2006, we had approximately $46.0 million in variable interest rate debt ($15.0 million at March 1, 2007). We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that these arrangements may result in higher interest rates than we would otherwise have. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate changes may materially adversely affect results of operations and our ability to make distributions to our

stockholders.

Most of our current tenants have, and prospective tenants may have, an option to purchase the facilities we lease to them which could disrupt our operations.

Most of our current tenants have, and some prospective tenants will have, the option to purchase the facilities we lease to them. We cannot assure you that the formulas we have developed for setting the purchase price will yield

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a fair market value purchase price. Any purchase not at fair market value may present risks of challenge from healthcare regulatory authorities.

In the event our tenants and prospective tenants determine to purchase the facilities they lease either during the lease term or after their expiration, the timing of those purchases will be outside of our control and we may not be able to re-invest the capital on as favorable terms, or at all. Our inability to effectively manage the turn-over of our facilities could materially adversely affect our ability to execute our business plan and our results of operations.

RISKS RELATING TO REAL ESTATE INVESTMENTS

Our real estate and mortgage investments are and will continue to be concentrated in healthcare facilities, making us more vulnerable economically than if our investments were more diversified.

We have acquired and are developing and have made mortgage investments in and expect to continue acquiring and developing and making mortgage investments in healthcare facilities. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our business strategy to invest in healthcare facilities. A downturn in the real estate industry could materially adversely affect the value of our facilities. A downturn in the healthcare industry could negatively affect our tenants ability to make lease or loan payments to us and, consequently, our ability to meet debt service obligations or make distributions to our stockholders. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or outside of healthcare facilities.

Our facilities may not have efficient alternative uses, which could impede our ability to find replacement tenants in the event of termination or default under our leases.

All of the facilities in our current portfolio are and all of the facilities we expect to acquire or develop in the future will be net-leased healthcare facilities. If we or our tenants terminate the leases for these facilities or if these tenants lose their regulatory authority to operate these facilities, we may not be able to locate suitable replacement tenants to lease the facilities for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the facilities to other uses. Any loss of revenues or additional capital expenditures occurring as a result could have a material adverse effect on our financial condition and results of operations and could hinder our ability to meet debt service obligations or make distributions to our stockholders.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our facilities and harm our financial condition.

Real estate investments are relatively illiquid. Our ability to quickly sell or exchange any of our facilities in response to changes in economic and other conditions will be limited. No assurances can be given that we will recognize full value for any facility that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Development and construction risks could adversely affect our ability to make distributions to our stockholders.

We are developing a women s hospital and integrated medical office building in Bensalem, Pennsylvania and renovating a long-term acute care facility in Portland, Oregon. We expect to develop additional facilities in the future. Our development and related construction activities may subject us to the following risks:

- we may have to compete for suitable development sites;

our ability to complete construction is dependent on there being no title, environmental or other legal proceedings arising during construction;

we may be subject to delays due to weather conditions, strikes and other contingencies beyond our control;

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- we may be unable to obtain, or suffer delays in obtaining, necessary zoning, land-use, building, occupancy healthcare regulatory and other required governmental permits and authorizations, which could result in increased costs, delays in construction, or our abandonment of these projects;

- we may incur construction costs for a facility which exceed our original estimates due to increased costs for materials or labor or other costs that we did not anticipate; and

- we may not be able to obtain financing on favorable terms, which may render us unable to proceed with our development activities.

We expect to fund our development projects over time. The time frame required for development and construction of these facilities means that we may have to wait years for a significant cash return. In addition, our tenants may not be able to obtain managed care provider contracts in a timely manner or at all. Because we are required to make cash distributions to our stockholders, if the cash flow from operations or refinancings is not sufficient, we may be forced to borrow additional money to fund distributions. We cannot assure you that we will complete our current construction projects on time or within budget or that future development projects will not be subject to delays and cost overruns. Risks associated with our development projects may reduce anticipated rental revenue which could affect the timing of, and our ability to make, distributions to our stockholders.

Our facilities may not achieve expected results or we may be limited in our ability to finance future acquisitions, which may harm our financial condition and operating results and our ability to make the distributions to our stockholders required to maintain our REIT status.

Acquisitions and developments entail risks that investments will fail to perform in accordance with expectations and that estimates of the costs of improvements necessary to acquire and develop facilities will prove inaccurate, as well as general investment risks associated with any new real estate investment. We anticipate that future acquisitions and developments will largely be financed through externally generated funds such as borrowings under credit facilities and other secured and unsecured debt financing and from issuances of equity securities. Because we must distribute at least 90% of our REIT taxable income, excluding net capital gain, each year to maintain our qualification as a REIT, our ability to rely upon income from operations or cash flow from operations to finance our growth and acquisition activities will be limited. Accordingly, if we are unable to obtain funds from borrowings or the capital markets to finance our acquisition and development activities, our ability to grow would likely be curtailed, amounts available for distribution to stockholders could be adversely affected and we could be required to reduce distributions, thereby jeopardizing our ability to maintain our status as a REIT.

Newly-developed or newly-renovated facilities do not have the operating history that would allow our management to make objective pricing decisions in acquiring these facilities (including facilities that may be acquired from certain of our executive officers, directors and their affiliates). The purchase prices of these facilities will be based in part upon projections by management as to the expected operating results of the facilities, subjecting us to risks that these facilities may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

We have purchased general liability insurance (lessor s risk) that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the healthcare facilities that are leased to and occupied by our tenants. Our leases generally require our tenants to carry general liability, professional liability, loss of earnings, all risk and extended coverage insurance in amounts sufficient to permit the replacement of the facility in the event of a

total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism, which may be uninsurable or not insurable at a price we or our tenants can afford. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace a facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive might not be adequate to restore our economic position with respect to the affected facility. If any of these or similar events occur, it may reduce our return from the facility and the value of our investment.

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Capital expenditures for facility renovation may be greater than anticipated and may adversely impact rent payments by our tenants and our ability to make distributions to stockholders.

Facilities, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures and equipment. Although our leases require our tenants to be primarily responsible for the cost of such expenditures, renovation of facilities involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other facilities. All of these factors could adversely impact rent and loan payments by our tenants, could have a material adverse effect on our financial condition and results of operations and could adversely effect our ability to make distributions to our stockholders.

All of our healthcare facilities are subject to property taxes that may increase in the future and adversely affect our business.

Our facilities are subject to real and personal property taxes that may increase as property tax rates change and as the facilities are assessed or reassessed by taxing authorities. Our leases generally provide that the property taxes are charged to our tenants as an expense related to the facilities that they occupy. As the owner of the facilities, however, we are ultimately responsible for payment of the taxes to the government. If property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes. If we incur these tax liabilities, our ability to make expected distributions to our stockholders could be adversely affected.

As the owner and lessor of real estate, we are subject to risks under environmental laws, the cost of compliance with which and any violation of which could materially adversely affect us.

Our operating expenses could be higher than anticipated due to the cost of complying with existing and future environmental and occupational health and safety laws and regulations. Various environmental laws may impose liability on a current or prior owner or operator of real property for removal or remediation of hazardous or toxic substances. Current or prior owners or operators may also be liable for government fines and damages for injuries to persons, natural resources and adjacent property. These environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence or disposal of the hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to our stockholders and could exceed the value of all of our facilities. In addition, the presence of hazardous or toxic substances, or the failure of our tenants to properly manage, dispose of or remediate such substances, including medical waste generated by physicians and our other healthcare tenants, may adversely affect our tenants or our ability to use, sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenue and our financing ability. We have obtained on all facilities we have acquired and are developing and intend to obtain on all future facilities we acquire Phase I environmental assessments. However, even if the Phase I environmental assessment reports do not reveal any material environmental contamination, it is possible that material environmental contamination and liabilities may exist of which we are unaware.

Although the leases for our facilities generally require our tenants to comply with laws and regulations governing their operations, including the disposal of medical waste, and to indemnify us for certain environmental liabilities, the scope of their obligations may be limited. We cannot assure you that our tenants would be able to fulfill their indemnification obligations and, therefore, any material violation of environmental laws could have a material adverse affect on us. In addition, environmental and occupational health and safety laws are constantly evolving, and changes in laws, regulations or policies, or changes in interpretations of the foregoing, could create liabilities where none exists today.

Our interests in facilities through ground leases expose us to the loss of the facility upon breach or termination of the ground lease and may limit our use of the facility.

We have acquired interests in four of our facilities, at least in part, by acquiring leasehold interests in the land on which the facility is or the facility under development will be located rather than an ownership interest in the property, and we may acquire additional facilities in the future through ground leases. As lessee under ground

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leases, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease. Ground leases may also restrict our use of facilities. Our current ground lease in Marlton, New Jersey limits use of the property to operation of a 76 bed rehabilitation hospital. Our current ground lease for the facility in Redding, California limits use of the property to operation of a hospital offering the following services: skilled nursing; physical rehabilitation; occupational therapy; speech pathology; social services; assisted living; day health programs; long-term acute care services; psychiatric services; geriatric clinic services; outpatient services related to the foregoing service categories; and other post-acute services. Our current ground lease for the facility in San Antonio limits use of the property to operation of a comprehensive rehabilitation hospital, medical research and education and other medical uses and uses reasonably incidental thereto. These restrictions and any similar future restrictions in ground leases will limit our flexibility in renting the facility and may impede our ability to sell the property.

RISKS RELATING TO THE HEALTHCARE INDUSTRY

Reductions in reimbursement from third-party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us.

Sources of revenue for our tenants and operators may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. In addition, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government-sponsored payment programs.

The healthcare industry continues to face various challenges, including increased government and private payor pressure on healthcare providers to control or reduce costs. We believe that our tenants will continue to experience a shift in payor mix away from fee-for-service payors, resulting in an increase in the percentage of revenues attributable to managed care payors, government payors and general industry trends that include pressures to control healthcare costs. Pressures to control healthcare costs and a shift away from traditional health insurance reimbursement have resulted in an increase in the number of patients whose healthcare coverage is provided under managed care plans, such as health maintenance organizations and preferred provider organizations. In addition, due to the aging of the population and the expansion of governmental payor programs, we anticipate that there will be a marked increase in the number of patients relying on healthcare coverage provided by governmental payors. These changes could have a material adverse effect on the financial condition of some or all of our tenants, which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders.

A significant number of our tenants operate long-term care hospitals, or LTACHs. The United States Department of Health and Human Services, Centers for Medicare and Medicaid Services, or CMS, recently proposed a 0.71 percent increase to the LTACH prospective payment system rates for 2008. However, in light of concerns raised by an analysis of recent LTACH case mix data, CMS also proposed a budget neutrality requirement for annual payment updates.

In addition to the proposed payment changes, CMS is proposing changes to its policy known as the 25 percent rule. That rule takes into account the percentage of patients that were admitted to the LTACH from its co-located host hospital (usually a general acute care hospital). Under the current policy, if an LTACH that is a hospital-within-a-hospital or satellite facility that has more than a certain percentage (generally 25 percent) of its discharges admitted from the co-located host hospital for the cost reporting period, then the payment to the LTACH would be adjusted downward. CMS is now proposing to extend the 25 percent threshold to situations not

contemplated by the existing regulations. Under the proposed policy, the downward payment adjustment would apply to virtually all LTACHs if more than 25 percent (or the applicable percentage in certain special circumstances) of its discharged patients were admitted from an individual hospital, regardless of where that hospital is located. If adopted as proposed, these changes could have a material adverse effect on the financial condition of some of our tenants, which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders.

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The healthcare industry is heavily regulated and existing and new laws or regulations, changes to existing laws or regulations, loss of licensure or certification or failure to obtain licensure or certification could result in the inability of our tenants to make lease payments to us.

The healthcare industry is highly regulated by federal, state and local laws, and is directly affected by federal conditions of participation, state licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations and rules. In addition, establishment of healthcare facilities and transfers of operations of healthcare facilities are subject to regulatory approvals not required for establishment of or transfers of other types of commercial operations and real estate. Sanctions for failure to comply with these regulations and laws include, but are not limited to, loss of or inability to obtain licensure, fines and loss of or inability to obtain certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any tenant to comply with such laws, requirements and regulations could affect its ability to establish or continue its operation of the facility or facilities and could adversely affect the tenant s ability to make lease payments to us which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders. In addition, restrictions and delays in transferring the operations of healthcare facilities, in obtaining new third-party payor contracts including Medicare and Medicaid provider agreements, and in receiving licensure and certification approval from appropriate state and federal agencies by new tenants may affect our ability to terminate lease agreements, remove tenants that violate lease terms, and replace existing tenants with new tenants. Furthermore, these matters may affect a new tenant s ability to obtain reimbursement for services rendered, which could adversely affect their ability to pay rent to us and to pay principal and interest on their loans from us.

Our tenants are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make lease and loan payments to us.

The federal government and numerous state governments have passed laws and regulations that attempt to eliminate healthcare fraud and abuse by prohibiting business arrangements that induce patient referrals or the ordering of specific ancillary services. In addition, the Balanced Budget Act of 1997 strengthened the federal anti-fraud and abuse laws to provide for stiffer penalties for violations. Violations of these laws may result in the imposition of criminal and civil penalties, including possible exclusion from federal and state healthcare programs. Imposition of any of these penalties upon any of our tenants could jeopardize any tenant s ability to operate a facility or to make lease and loan payments, thereby potentially adversely affecting us.

In the past several years, federal and state governments have significantly increased investigation and enforcement activity to detect and eliminate fraud and abuse in the Medicare and Medicaid programs. In addition, legislation has been adopted at both state and federal levels which severely restricts the ability of physicians to refer patients to entities in which they have a financial interest. It is anticipated that the trend toward increased investigation and enforcement activity in the area of fraud and abuse, as well as self-referrals, will continue in future years and could adversely affect our prospective tenants and their operations, and in turn their ability to make lease and loan payments to us.

Vibra has accepted, and prospective tenants may accept, an assignment of the previous operator s Medicare provider agreement. Vibra and other new-operator tenants that take assignment of Medicare provider agreements might be subject to federal or state regulatory, civil and criminal investigations of the previous owner s operations and claims submissions. While we conduct due diligence in connection with the acquisition of such facilities, these types of issues may not be discovered prior to purchase. Adverse decisions, fines or recoupments might negatively impact our tenants financial condition.

Certain of our lease arrangements may be subject to fraud and abuse or physician self-referral laws.

Local physician investment in our operating partnership or our subsidiaries that own our facilities could subject our lease arrangements to scrutiny under fraud and abuse and physician self-referral laws. Under the federal Ethics in Patient Referrals Act of 1989, or Stark Law, and regulations adopted thereunder, if our lease arrangements do not satisfy the requirements of an applicable exception, that noncompliance could adversely affect the ability of our

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tenants to bill for services provided to Medicare beneficiaries pursuant to referrals from physician investors and subject us and our tenants to fines, which could impact their ability to make lease and loan payments to us. On March 26, 2004, CMS issued Phase II final rules under the Stark Law, which, together with the 2001 Phase I final rules, set forth CMS current interpretation and application of the Stark Law prohibition on referrals of designated health services, or DHS. These rules provide us additional guidance on application of the Stark Law through the implementation of bright-line tests, including additional regulations regarding the indirect compensation exception, but do not eliminate the risk that our lease arrangements and business strategy of physician investment may violate the Stark Law. Finally, the Phase II rules implemented an 18-month moratorium on physician ownership or investment in specialty hospitals imposed by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The moratorium imposed by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or MMA, expired on June 8, 2005. However, that moratorium was retroactively extended by the passage of the Deficit Reduction Act of 2005, or the DRA, which requires the Secretary of Health and Human Services to develop a strategic and implementing plan for physician investment in specialty hospitals that addresses the issues of proportionality of investment return, bona fide investment, annual disclosure of investments, and the provision of medical assistance (Medicaid) and charity care. The final report was published on August 8, 2006, at which time the moratorium expired. However, we expect that specialty hospitals will continue to be closely scrutinized by Congress and various federal and state agencies. Further, despite the expiration of the specialty hospital moratorium, in its final report, CMS expressed its intention to (i) revise the Medicare Payment system to address incentives to physician investors; (ii) require disclosure of physician investment and compensation arrangements; (iii) continue to enforce the fraud and abuse laws; and (iv) continue to enforce prior violations of the MMA moratorium. We intend to use our good faith efforts to structure our lease arrangements to comply with these laws; however, if we are unable to do so, this failure may restrict our ability to permit physician investment or, where such physicians do participate, may restrict the types of lease arrangements into which we may enter, including our ability to enter into percentage rent arrangements.

State certificate of need laws may adversely affect our development of facilities and the operations of our tenants.

Certain healthcare facilities in which we invest may also be subject to state laws which require regulatory approval in the form of a certificate of need prior to initiation of certain projects, including, but not limited to, the establishment of new or replacement facilities, the addition of beds, the addition or expansion of services and certain capital expenditures. State certificate of need laws are not uniform throughout the United States and are subject to change. We cannot predict the impact of state certificate of need laws on our development of facilities or the operations of our tenants.

In addition, certificate of need laws often materially impact the ability of competitors to enter into the marketplace of our facilities. Finally, in limited circumstances, loss of state licensure or certification or closure of a facility could ultimately result in loss of authority to operate the facility and require re-licensure or new certificate of need authorization to re-institute operations. As a result, a portion of the value of the facility may be related to the limitation on new competitors. In the event of a change in the certificate of need laws, this value may markedly decrease.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

Maryland law and Medical Properties charter and bylaws contain provisions which may prevent or deter changes in management and third-party acquisition proposals that you may believe to be in your best interest, depress the price of Medical Properties common stock or cause dilution.

Medical Properties charter contains ownership limitations that may restrict business combination opportunities, inhibit change of control transactions and reduce the value of Medical Properties common stock. To qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, no more than 50% in value of Medical Properties

outstanding stock, after taking into account options to acquire stock, may be owned, directly or indirectly, by five or fewer persons during the last half of each taxable year. Medical Properties charter generally prohibits direct or indirect ownership by any person of more than 9.8% in value or in number, whichever is more restrictive, of outstanding shares of any class or series of our securities, including Medical Properties common

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stock. Generally, Medical Properties common stock owned by affiliated owners will be aggregated for purposes of the ownership limitation. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then-current market price or which such holders otherwise might believe to be in their best interests. The ownership limitation provisions also may make Medical Properties common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of either the value or number of the outstanding shares of Medical Properties common stock.

Medical Properties charter and bylaws contain provisions that may impede third-party acquisition proposals that may be in your best interests. Medical Properties charter and bylaws also provide that our directors may only be removed by the affirmative vote of the holders of two-thirds of Medical Properties common stock, that stockholders are required to give us advance notice of director nominations and new business to be conducted at our annual meetings of stockholders and that special meetings of stockholders can only be called by our president, our board of directors or the holders of at least 25% of stock entitled to vote at the meetings. These and other charter and bylaw provisions may delay or prevent a change of control or other transaction in which holders of Medical Properties common stock might receive a premium for their common stock over the then-current market price or which such holders otherwise might believe to be in their best interests.

We depend on key personnel, the loss of any one of whom may threaten our ability to operate our business successfully.

We depend on the services of Edward K. Aldag, Jr., William G. McKenzie, R. Steven Hamner, Emmett E. McLean and Michael G. Stewart to carry out our business and investment strategy. If we were to lose any of these executive officers, it may be more difficult for us to locate attractive acquisition targets, complete our acquisitions and manage the facilities that we have acquired or are developing. Additionally, as we expand, we will continue to need to attract and retain additional qualified officers and employees. The loss of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business and financial results.

Our UPREIT structure may result in conflicts of interest between Medical Properties stockholders and the holders of our operating partnership units.

We are organized as an UPREIT, which means that we hold our assets and conduct substantially all of our operations through an operating limited partnership, and may in the future issue limited partnership units to third parties. Persons holding operating partnership units would have the right to vote on certain amendments to the partnership agreement of our operating partnership, as well as on certain other matters. Persons holding these voting rights may exercise them in a manner that conflicts with the interests of our stockholders. Circumstances may arise in the future, such as the sale or refinancing of one of our facilities, when the interests of limited partners in our operating partnership conflict with the interests of our stockholders. As the sole member of the general partner of the operating partnership, Medical Properties has fiduciary duties to the limited partners of the operating partnership that may conflict with fiduciary duties Medical Properties officers and directors owe to its stockholders. These conflicts may result in decisions that are not in your best interest.

TAX RISKS ASSOCIATED WITH OUR STATUS AS A REIT

Loss of our tax status as a REIT would have significant adverse consequences to us and the value of Medical Properties common stock.

We believe that we qualify as a REIT for federal income tax purposes and have elected to be taxed as a REIT under the federal income tax laws commencing with our taxable year that began on April 6, 2004 and ended on December 31, 2004. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, there is no assurance that we will be successful in operating so as to qualify as a REIT. At any time, new laws, regulations, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a

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REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke the REIT election, which it may do without stockholder approval.

If we lose or revoke our REIT status, we will face serious tax consequences that will substantially reduce the funds available for distribution because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income; therefore we would be subject to federal income tax at regular corporate rates and we might need to borrow money or sell assets in order to pay any such tax;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

As a result of all these factors, a failure to achieve or a loss or revocation of our REIT status could have a material adverse effect on our financial condition and results of operations and would adversely affect the value of our common stock.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our REIT taxable income, excluding net capital gain. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of (1) 85% of our ordinary income for that year; (2) 95% of our capital gain net income for that year; and (3) 100% of our undistributed taxable income from prior years.

We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. In the future, we may borrow to pay distributions to our stockholders and the limited partners of our operating partnership. Any funds that we borrow would subject us to interest rate and other market risks.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Overall, no more than 20% of the value of our assets may consist of securities of one or more taxable REIT subsidiaries, and no more than 25% of the value of our assets may consist of securities that are not qualifying assets under the test requiring that 75% of a REIT s assets consist of real estate and other related assets. Further, a taxable REIT subsidiary may not directly or indirectly operate or manage a healthcare facility. For purposes of this definition a healthcare facility means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a service provider that is eligible for participation in the Medicare

program under Title XVIII of the Social Security Act with respect to the facility. Thus, compliance with the REIT requirements may limit our flexibility in executing our business plan.

Loans to our tenants could be recharacterized as equity, in which case our rental income from that tenant might not be qualifying income under the REIT rules and we could lose our REIT status.

In connection with the acquisition of the Vibra Facilities, our taxable REIT subsidiary made a loan to Vibra in an aggregate amount of approximately $41.4 million to acquire the operations at the Vibra Facilities. As of March 1,

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2007, that loan had been reduced to approximately $29.9 million. Our taxable REIT subsidiary also made a loan of approximately $6.2 million to Vibra and its subsidiaries for working capital purposes, which has been paid in full. The acquisition loan bears interest at an annual rate of 10.25%. Our operating partnership loaned the funds to our taxable REIT subsidiary to make these loans. The loan from our operating partnership to our taxable REIT subsidiary bears interest at an annual rate of 9.25%.

Our taxable REIT subsidiary has made and will make loans to tenants to acquire operations or for other purposes. The Internal Revenue Service, or IRS, may take the position that certain loans to tenants should be treated as equity interests rather than debt, and that our rental income from such tenant should not be treated as qualifying income for purposes of the REIT gross income tests. If the IRS were to successfully treat a loan to a particular tenant as equity interests, the tenant would be a related party tenant with respect to our company and the rent that we receive from the tenant would not be qualifying income for purposes of the REIT gross income tests. As a result, we could lose our REIT status. In addition, if the IRS were to successfully treat a particular loan as interests held by our operating partnership rather than by our taxable REIT subsidiary, we could fail the 5% asset test, and if the IRS further successfully treated the loan as other than straight debt, we could fail the 10% asset test with respect to such interest. As a result of the failure of either test, could lose our REIT status, which would subject us to corporate level income tax and adversely affect our ability to make distributions to our stockholders.

RISKS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price.

We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our funds from operations or earnings estimates or publication of research reports about us or the real estate industry
- increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- local conditions such as an oversupply of, or a reduction in demand for, rehabilitation hospitals, long-term acute care hospitals, ambulatory surgery centers, medical office buildings, specialty hospitals, skilled nursing facilities, regional and community hospitals, women s and children s hospitals and other single-discipline facilities;

speculation in the press or investment community; and

general market and economic conditions.

Future sales of common stock may have adverse effects on our stock price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, or the perception

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that these sales could occur, may adversely affect prevailing market prices for our common stock. We may issue from time to time additional common stock or units of our operating partnership in connection with the acquisition of facilities and we may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of common stock or the perception that these sales could occur may adversely effect the prevailing market price for our common stock. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our distribution rate as a percentage of our price per share of common stock, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution or interest rate on our securities or seek securities paying higher distributions or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our facilities and our related distributions to stockholders, and not from the underlying appraised value of the facilities themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common stock. In addition, rising interest rates would result in increased interest expense on our variable-rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions.

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ITEM 1B. ***Unresolved Staff Comments***

None

ITEM 2. ***Properties***

At December 31, 2006, our portfolio consisted of 21 owned properties and three mortgage loans with an aggregate of approximately 2.4 million square feet and 2,349 licensed beds. We also own two properties under construction that we expect to comprise in the aggregate approximately 252,000 square feet and 63 licensed beds.

State	Total Revenue	Percentage of Total Revenue	Total Investment
California	$ 20,042,283	39.7%	$ 251,203,954
Colorado	2,172,695	4.3%	13,538,836
Indiana	1,756,375	3.5%	34,959,038
Kentucky	6,870,200	13.6%	48,401,136
Louisiana	2,220,515	4.4%	17,588,305
Massachusetts	4,425,549	8.8%	29,650,220
New Jersey	6,099,064	12.1%	41,690,663
Oregon	5,000		17,098,481
Pennsylvania	1,027,521	2.0%	40,173,078
Texas	5,852,230	11.6%	150,669,105(1)
	$ 50,471,432	100.0%	$ 644,972,816

Type of Property	Number of Properties	Number of Square Feet	Number of Licensed Beds
Community Hospital	13	1,674,674	1,582(1)
Long-term Acute Care Hospital	9	594,268	567
Rehabilitation Hospital	4	335,492	263
	26	2,604,434	2,412

(1) Excludes a hospital and MOB which were sold in January, 2007, with a book value of approximately $63.3 million, shown as real estate held for sale in the consolidated financial statements at December 31, 2006.

ITEM 3. ***Legal Proceedings***

None.

ITEM 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

ITEM 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

Medical Properties common stock is traded on the New York Stock Exchange under the symbol MPW. The following table sets forth the high and low sales prices for the common stock for each quarter from the initial public

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offering to the period ending December 31, 2006, as reported by the New York Stock Exchange Composite Tape, and the distributions declared by us with respect to each such period.

	High	Low	Distribution
Year ended December 31, 2005			
Third Quarter	$ 11.20	$ 9.62	$ 0.17
Fourth Quarter	10.09	7.60	0.18
Year ended December 31, 2006			
First Quarter	11.23	9.40	0.21
Second Quarter	12.50	10.25	0.25
Third Quarter	13.93	11.25	0.26
Fourth Quarter	15.65	13.12	0.27

On March 15, 2007, the closing price for our common stock, as reported on the New York Stock Exchange, was $14.74. As of March 15, 2007, there were 52 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

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ITEM 6. ***Selected Financial Data***

The following table sets forth selected financial and operating information on a historical basis for the years ended December 31, 2006, 2005 and 2004, and for the period from inception (August 27, 2003) to December 31, 2003:

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004	Period from Inception (August 27, 2003) to December 31, 2003
OPERATING DATA				
Total revenue	$ 50,471,432	$ 30,452,545	$ 10,893,459	$
Depreciation and amortization	6,704,924	4,182,731	1,478,470	
General and administrative expenses	10,190,850	8,016,992	5,150,786	992,418
Interest expense	4,417,955	1,521,169	32,769	
Income from continuing operations	29,672,741	18,822,785	4,576,349	(1,023,276)
Income from discontinued operations	486,957	817,562		
Net income	30,159,698	19,640,347	4,576,349	(1,023,276)
Income from continuing operations per diluted common share	0.75	0.58	0.24	(0.63)
Income from discontinued operations per diluted common share	0.01	0.03		
Net income per diluted common share	0.76	0.61	0.24	(0.63)
Weighted average number of common shares diluted	39,701,976	32,370,089	19,312,634	1,630,435
OTHER DATA				
Net income	$ 30,159,698	$ 19,640,347	$ 4,576,349	$ (1,023,276)
Depreciation and amortization	6,704,924	4,182,731	1,478,470	
Funds from operations	36,864,622	23,823,078	6,054,819	(1,023,276)
Funds from operations per diluted common share	0.93	0.74	0.31	(0.63)
Dividends declared per diluted common share	0.99	0.62	0.21	

	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003

BALANCE SHEET DATA				
Real estate assets at cost	$ 558,124,367	$ 337,102,392	$ 151,690,293	$ 166,301
Other loans and investments	150,172,830	85,813,486	50,224,069	
Cash and equivalents	4,102,873	59,115,832	97,543,677	100,000
Total assets	744,756,745	495,452,717	306,506,063	468,133
Debt	304,961,898	65,010,178	56,000,000	100,000
Other liabilities	95,021,876	71,991,531	17,777,619	1,389,779
Minority interests	1,051,835	2,173,866	1,000,000	
Total stockholders equity	343,721,136	356,277,142	231,728,444	(1,021,646)
Total liabilities and stockholders equity	744,756,745	495,452,717	306,506,063	468,133

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ITEM 7. ***Managements Discussion and Analysis of Financial Condition and Results of Operations***

Overview

We were incorporated in Maryland on August 27, 2003 primarily for the purpose of investing in and owning net-leased healthcare facilities across the United States. We also make real estate mortgage loans and other loans to our tenants. 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. Our existing tenants are, and our prospective tenants will generally be, healthcare operating companies and other healthcare providers that use substantial real estate assets in their operations. We offer financing for these operators real estate through 100% lease and mortgage financing and generally seek lease and loan terms typically for 15 years with a series of shorter renewal terms at the option of our tenants and borrowers. We also have included and intend to include in our lease and loan agreements annual contractual rate increases that in the current market range from 1.5% to 3.5%. Our existing portfolio escalators range from 0% to 3.5%. Most of our leases and loans also include rate increases based on the general rate of inflation if greater than the minimum contractual increases. In addition to the base rent, our leases require our tenants to pay all operating costs and expenses associated with the facility. Some leases also require our tenants to pay percentage rents which are based on the level of those tenants net revenues from their operations.

We selectively make loans to certain of our operators through our taxable REIT subsidiary, which they use for acquisitions and working capital. We consider our lending business an important element of our overall business strategy for two primary reasons: (1) it provides opportunities to make income-earning investments that yield attractive risk-adjusted returns in an industry in which our management has expertise, and (2) by making debt capital available to certain qualified operators, we believe we create for our company a competitive advantage over other buyers of, and financing sources for, healthcare facilities. For purpose of Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we conduct business operations in one segment.

At December 31, 2006, we owned 21 operating healthcare facilities and held three mortgage loans secured by three other properties. In addition, we are developing two additional healthcare facilities that are 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 23 facilities we owned and the three facilities that secured our mortgage loans were in ten states, had a carrying cost of approximately $650.7 million (including the balances of our mortgage loans) and comprised approximately 87.4% of our total assets. Our acquisition and other loans of approximately $45.2 million represented approximately 6.1% of our total assets. We do not expect such loan assets at any time to exceed 20% of our total assets. We also had cash and temporary investments of approximately $4.1 million that represented less than one percent of our assets.

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

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

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

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

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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.

At March 1, 2007, we had 20 employees. Over the next 12 months, we expect to add four to six additional employees.

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 intend to rely on our experience, collect historical 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 will include the following:

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

Accordingly, our management must determine, 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 us to earn what we term construction period rent . We record the accrued construction period rent as a receivable and as deferred revenue during the construction period. We recognize earned revenue on the straight-line method as the construction period rent is paid to us by the lessee/operator, usually beginning when the lessee/operator takes physical possession of the facility.

We make loans to certain 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

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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 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 and related assets we intend to sell be designated as held for sale on our balance sheet.

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

Purchase Price Allocation. We record above-market and below-market in-place lease values, if any, for the facilities we own which are based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We amortize any resulting capitalized below-market lease values as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. Because our strategy to a large degree involves the origination of long term lease arrangements at market rates, we do not expect the above-market and below-market in-place lease values to be significant for many of our anticipated transactions.

We measure the aggregate value of other intangible assets to be acquired based on the difference between (i) the property valued with existing leases adjusted to market rental rates and (ii) the property valued as if vacant.

Management s estimates of value are made using methods similar to those used by independent appraisers (*e.g.*, discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to range

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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 are typically 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.

In 2006, we entered into derivative contracts as part of our offering of Exchangeable Senior Notes (the exchangeable notes). The contracts are generally termed capped call or call spread contracts. These contracts are financial instruments which are separate from the exchangeable notes themselves, but affect the overall potential number of shares which will be issued by us to satisfy the conversion feature in the exchangeable notes. The exchangeable notes can be exchanged into shares of our common stock when our stock price exceeds $16.57 per share, which is the equivalent of 60.3346 shares per $1,000 note. The number of shares actually issued upon conversion will be equivalent to the amount by which our stock price exceeds $16.57 times the 60.3346 conversion rate. The capped call transaction allows us to effectively increase that exchange price from $16.57 to $18.94. Therefore, our shareholders will not experience dilution of their shares from any settlement or conversion of the exchangeable notes until the price of our stock exceeds $18.94 per share rather than $16.57 per share. When evaluating this transaction, we have followed the guidance in Emerging Issues Task Force (EITF) No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock.* EITF No. 00-19 requires that contracts such as this capped call which meet certain conditions must be accounted for as permanent adjustments to equity rather than periodically adjusted to their fair value as assets or liabilities. We have evaluated the terms of these

contracts and have determined that this capped call must be recorded as a permanent adjustment to stockholders equity. We have therefore shown the premium paid in this transaction as a one-time adjustment in the statement of stockholders equity.

The exchangeable notes themselves also contain the conversion feature described above. SFAS No. 133 also states that certain embedded derivative contracts must follow the guidance of EITF No. 00-19 and be evaluated as though they also were a freestanding derivative contract. Embedded derivative contracts such the conversion

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feature in the notes should not be treated as a financial instrument separate from the note if it meets certain conditions in EITF No. 00-19. We have evaluated the conversion feature in the exchangeable notes and have determined that it should not be reported separately from the debt.

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

Stock-Based Compensation. Prior to 2006, we used the intrinsic value method to account for the issuance of stock options under our equity incentive plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees.* SFAS No. 123(R) became effective for our annual and interim periods beginning January 1, 2006, but had no material effect on the results of our operations. During the years ended December 31, 2006 and 2005, we recorded approximately $2.9 million and $1.2 million, respectively, of expense for share based compensation related to grants of restricted common stock and deferred stock units. In 2006, we also granted performance based restricted share awards. Because these awards will vest based on the Company s performance, we must evaluate and estimate the probability of achieving those performance targets. Any changes in these estimates and probabilities must be recorded in the period when they are changed. During 2006, we awarded 105,375 shares of restricted stock which are based solely on performance criteria over the next five years.

Disclosure of Contractual Obligations

The following table summarizes known material contractual obligations associated with investing and financing activities as of December 31, 2006:

Contractual Obligations(1)	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
Construction contracts	$ 10,547,453	$	$	$	$ 10,547,453
Senior notes	9,630,775	19,261,550	19,198,672	169,769,670	217,860,667
Exchangeable notes	8,660,918	16,905,000	153,816,596		179,382,514
Revolving credit facility(2)	4,164,786	53,978,865			58,143,651
Operating lease commitments(3)	743,248	1,509,011	1,201,917	38,911,660	42,365,836
Totals	$ 33,747,180	$ 91,654,426	$ 174,217,185	$ 208,681,330	$ 508,300,121

(1) Excludes the term loan of $43.2 million which was paid off on January 17, 2007.

(2) Assumes the balance and interest rates are those in effect at December 31, 2006 and no principal payments are made until the expiration of the facility in 2009.

(3) Some of our contractual obligations to make operating lease payments are related to ground leases for which we are reimbursed by our tenants.

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The Company also has outstanding letters-of-credit which total $2.2 million at December 31, 2006 and which expire in 2007.

Liquidity and Capital Resources

As of March 1, 2007, we have approximately $36.4 million in cash and temporary liquid investments.

From the time of our initial capitalization in April 2004 through completion of our February 28, 2007 follow-on offering, we have issued approximately 47.8 million shares of common stock and realized net proceeds of approximately $496.5 million. We have also issued $125.0 million in fixed rate term notes and $138.0 million in fixed rate exchangeable notes. At March 1, 2007, we have in place a $150.0 million secured revolving credit facility with an available borrowing base of approximately $90.1 million.

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

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

	Original Commitment	Cost Incurred	Remaining Commitment
Bucks County women s hospital and medical office building	$ 38.0	$ 35.8	$ 2.2
Portland long-term acute care hospital	21.8	17.1	4.7
Total	$ 59.8	$ 52.9	$ 6.9

We expect these two developments to begin operation in the second quarter of 2007. We have no new development projects under commitment at March 1, 2007, which will reduce our need for cash to fund projects which produce no revenue during construction and development.

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 in excess of $200 million in additional assets, provide for working capital, and make distributions to our stockholders through 2007. We expect that such additional financing arrangements will include various types of new debt and proceeds from the sale of up to 3 million shares of common stock pursuant to forward sale agreements between us and certain investment banking firms (described below). Generally, we believe we will be able to finance up to approximately 50-60% of the cost of our healthcare facilities; however, there is no assurance that we will be able to obtain or maintain those levels of debt on our portfolio of real estate assets on favorable terms in the future.

Long-term Liquidity Requirements: We believe that cash flow from operating activities subsequent to 2007 will be sufficient to provide adequate working capital and make distributions to our stockholders in compliance with our requirements as a REIT. However, in order to continue acquisition and development of healthcare facilities during and after 2007 at our goals of $200-300 million annually, we will require access to more permanent external capital,

possibly including preferred and common equity capital. If equity capital is not available at a price that we consider appropriate, we may increase our debt, utilize other forms of capital, if available, or reduce our acquisition activity.

In February 2007, we sold 9 million shares of common stock and realized net proceeds of $133.4 million. Concurrently, the underwriters borrowed from third parties and sold 3 million shares of our common stock in connection with forward sale agreements between us and affiliates of the underwriters. We did not receive any proceeds from the sale of shares of our common stock by the forward purchasers. We expect to settle the forward sale agreements and receive proceeds, subject to certain adjustments, from the sale of those shares upon one or more future physical settlements of the forward sale agreements on a date or dates specified by us by February 28, 2008. The forward sale arrangements allow us to take down the proceeds as needed over the next year at a pre-determined price, but without immediately diluting our existing shares.

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In addition, at March 1, 2007, we have immediate availability under our secured revolving credit arrangement of approximately $75.1 million and we may access up to approximately $44.4 million pursuant to our forward sale arrangement (described below) prior to February 28, 2008. We also expect to enter into another secured credit arrangement in the near future that we expect will provide approximately $42.0 million in availability. At March 1, 2007, we had unused proceeds of approximately $28.0 million from our sale of shares of our common stock in February 2007.

Investing Activities

During the year ended December 31, 2006, we made investments in eight existing healthcare facilities with an aggregate investment value of $115.5 million, and net cash outlays of $112.9 million, after subtracting contingent payments and facility improvement reserves. We invested an additional $8.5 million in properties owned at December 31, 2005. We also invested $114.4 million in our development projects. In 2006, we made loans with a total principal value of $68.1 million, and net cash outlays of $66.4 million, after subtracting contingent payments and facility improvement reserves. Our primary loans in 2006 were two first mortgage loans of $65.0 million. In September 2006, Vibra reduced the principal amount of its loans by $3.8 million following the repurchase of one of its properties. In January 2007, Vibra further reduced the principal amount of its loans by $7.7 million. Our expectations about future investing activities are described above under Liquidity and Capital Resources.

Results of Operations

We began operations during the second quarter of 2004. Since then, we have substantially increased our income earning investments each year, and we expect to continue to materially add to our investment portfolio. Accordingly, we expect that future results of operations will vary materially from our historical results. The results of operations presented below for the year ended December 31, 2005, have been adjusted to reflect the operations of two facilities which are recorded as discontinued operations at December 31, 2006.

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Net income for the year ended December 31, 2006 was $30,159,698 compared to net income of $19,640,347 for the year ended December 31, 2005.

A comparison of revenues for the years ended December 31, 2006 and 2005 is as follows:

	2006		2005		Change
Base rents	$ 29,806,171	59.1%	$ 18,608,236	61.1%	$ 11,197,935
Straight-line rents	5,952,442	11.8%	4,764,527	15.7%	1,187,915
Percentage rents	2,384,601	4.7%	2,259,230	7.4%	125,371
Interest from loans	11,893,339	23.6%	4,704,369	15.4%	7,188,970
Fee income	434,879	0.8%	116,183	0.4%	318,696
Total revenue	$ 50,471,432	100.0%	$ 30,452,545	100.0%	$ 20,018,887

Revenue for the year ended December 31, 2006, was comprised of rents (75.6%) and interest and fee income from loans (24.4%). All of this revenue was derived from properties that we have acquired since July 1, 2004. Our base and

straight-line rents increased in 2006 due to the acquisition of 10 facilities and opening of two developments in 2006. Interest income from loans in the year ended December 31, 2006, increased primarily based on the timing and amount of the Alliance mortgage loan made in 2005, and on the two mortgage loans made in 2006.

Vibra accounted for 55.0% and 86.2% of our gross revenues in 2006 and 2005, respectively, This includes percentage rents of approximately $2.4 million and $2.3 million in 2006 and 2005, respectively. In 2006, Vibra accounted for 61.5% of our total rent revenues. We expect that the portion of our total revenues attributable to Vibra will decline in relation to our total revenue. At December 31, 2006, assets leased and loaned to Vibra comprised 29.0% of our total assets. In January, 2007, Vibra reduced its acquisition loan balance by approximately $7.7 million to approximately $29.9 million. This payment allows Vibra to reduce its annual percentage rent payments to us from 2% of net revenues to 1% of net revenues.

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Depreciation and amortization during the year ended December 31, 2006 was $6,704,924, compared to $4,182,731 during the year ended December 31, 2005. The increase is due to the timing and amount of acquisitions and developments in 2006 and 2005. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses during the years ended December 31, 2006 and 2005, totaled $10,190,850 and $8,016,992, respectively, which represents an increase of 27.1%. The increase is due primarily to approximately $3.1 million of non-cash share based compensation expense from restricted shares and deferred stock units granted to employees, officers and directors during 2006. We expect non-cash share based compensation to increase in 2007 because shares that were awarded in 2006 but do not vest until certain performance hurdles are met must nonetheless be expensed beginning in the year of the award based on our estimate of the likelihood of achieving those performance hurdles.

Interest income (other than from loans) for the years ended December 31, 2006 and 2005, totaled $515,038 and $2,091,132, respectively. Interest income decreased due to the timing and amount of offering proceeds temporarily invested in short-term cash equivalent instruments in 2005.

Interest expense for the years ended December 31, 2006 and 2005 totaled $4,417,955 and $1,521,169, respectively. Interest expense in 2006 and 2005 excludes interest of approximately $6.2 million and $3.1 million, respectively, which has been capitalized as part of the cost of development projects under construction during 2006 and 2005. We expect interest expense to increase during 2007 due to the issuance of $263.0 million in fixed rate notes in the second half of 2006 and the cessation of capitalization of interest on approximately $155.3 million in development projects that were placed in service in 2006 and that we expect to be placed in service in 2007.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Net income for the year ended December 31, 2005 was $19,640,347 compared to net income of $4,576,349 for the year ended December 31, 2004.

A comparison of revenues for the years ended December 31, 2005 and 2004, is as follows:

	2005		2004		Change
Base rents	$ 18,608,236	61.1%	$ 6,162,278	56.6%	$ 12,445,958
Straight-line rents	4,764,527	15.7%	2,449,065	22.5%	2,315,462
Percentage rents	2,259,230	7.4%			2,259,230
Interest from loans	4,704,369	15.4%	2,282,116	20.9%	2,422,253
Fee income	116,183	0.4%			116,183
Total revenue	$ 30,452,545	100.0%	$ 10,893,459	100.0%	$ 19,559,086

Revenue for the year ended December 31, 2005, was comprised of rents (84.2%) and interest and fee income from loans (15.8%). All of this revenue was derived from properties that we have acquired since July 1, 2004. Our base and straight-line rents increased in 2005 due to the timing of 2004 acquisitions, plus the acquisition and development of seven new facilities in 2005. In 2005, we received percentage rents of approximately $2.3 million from Vibra. Pursuant to our lease terms with Vibra, we were not eligible to receive percentage rent in 2004. Interest income from

loans in the year ended December 31, 2005, increased primarily based on the timing and amount of Vibra loan advances and repayments in 2004 and 2005, and on the origination of the Denham Springs loan in 2005. Vibra accounted for 86.2% and 100.0% of our gross revenues in 2005 and 2004, respectively. In 2005, Vibra accounted for 85.1% of our total rent revenues. We expect that the portion of our total revenues attributable to Vibra will decline in relation to our acquisition of properties leased to tenants other than Vibra. At December 31, 2005, assets leased and loaned to Vibra comprised 38.3% of our total assets.

Depreciation and amortization during the year ended December 31, 2005 was $4,182,731, compared to $1,478,470 during the year ended December 31, 2004. The increase is due to the timing and amount of acquisitions and developments in 2004 (six properties owned for less than six months) and 2005 (six properties owned for a full

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year and eight properties placed in service throughout the year). We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses during the years ended December 31, 2005 and 2004, totaled $8,016,992 and $5,150,786, respectively, which represents an increase of 55.6%. The increase is due primarily to approximately $1.2 million of share based compensation expense (42% of the increase in general and administrative expenses) as a result of restricted shares granted to employees, officers and directors during 2005. In addition, we incurred incremental legal and professional expenses in 2005 related to our reporting and other compliance requirements as a public company. During 2005 we also incurred additional compensation expense related to the increased number of employees in 2005.

Interest income (other than from loans) for the years ended December 31, 2005 and 2004, totaled $2,091,132 and $930,260, respectively. Interest income increased due to the timing and amount of offering proceeds temporarily invested in short-term cash equivalent instruments and to higher interest rates in 2005.

Interest expense for the years ended December 31, 2005 and 2004 totaled $1,521,169 and $32,769, respectively. Interest expense in 2005 excludes interest of approximately $3.1 million which has been capitalized as part of the cost of development projects under construction during 2005.

Discontinued Operations

We entered into a contract for the disposition of two assets in 2006. On October 22, 2006, two of our subsidiaries terminated their respective leases with Stealth, L.P. (Stealth). The leases were for the hospital and medical office building (MOB), 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 MOB 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. In 2006, we recorded revenue of approximately $7.4 million from the leases and loans with Stealth. In connection with entering into the leases with Stealth, we also made working capital loans to Stealth in an aggregate amount, including accrued interest and after applying offsetting credits, of approximately $3.2 million. Subsequent to the lease termination, we received the full proceeds of a letter of credit issued to us by Stealth in the amount of $1.3 million, which was used to reduce the amount outstanding under the loans.

Stealth had not obtained managed care provider contracts that we believed were 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 to lease or sell the facilities. These negotiations resulted in the ultimate sale of the hospital and MOB in January, 2007, for a sales price of approximately $71.7 million. During the period from the lease termination to the date of sale, the hospital was operated by a new third party operator under contract to the hospital. We also made loans to the operating company in amount of approximately $5.5 million, which we expect to recover from the net revenues which the hospital and the MOB generated during the interim period. The revenues and expenses from our leases and loans to Stealth for the Houston Town and Country Hospital are shown in the accompanying consolidated financial statements as discontinued operations.

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

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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 years ended December 31, 2006 and 2005:

	For the Years Ended December 31,	
	2006	**2005**
Net income	$ 30,159,698	$ 19,640,347
Depreciation and amortization	6,704,924	4,182,731
Funds from operations FFO	$ 36,864,622	$ 23,823,078

Per diluted share amounts:

	For the Years Ended December 31,	
	2006	**2005**
Net income	$ .76	$ .61
Depreciation and amortization	.17	.13
Funds from operations FFO	$ .93	$ .74

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. It is our current intention to comply with these requirements and maintain such status going forward.

The table below is a summary of our distributions paid or declared since January 1, 2005:

Declaration Date	**Record Date**	**Date of Distribution**	**Distribution per Share**
February 15, 2007	March 29, 2007	April 12, 2007	$ .27
November 16, 2006	December 14, 2006	January 11, 2007	$ .27
August 18, 2006	September 14, 2006	October 12, 2006	$ .26

May 18, 2006	June 15, 2006	July 13, 2006	$	.25
February 16, 2006	March 15, 2006	April 12, 2006	$	.21
November 18, 2005	December 15, 2005	January 19, 2006	$	.18
August 18, 2005	September 15, 2005	September 29, 2005	$	.17
May 19, 2005	June 20, 2005	July 14, 2005	$	.16
March 4, 2005	March 16, 2005	April 15, 2005	$	.11
November 11, 2004	December 16, 2004	January 11, 2005	$	.11

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

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ITEM 7.A. ***Quantitative and Qualitative Disclosures about Market Risk***

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

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

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

We currently have no assets denominated in a foreign currency, nor do we have any assets located outside of the United States.

Our exchangeable notes are exchangeable into 60.3346 shares of our stock for each $1,000 note. This equates to a conversion price of $16.57 per share. This conversion price adjusts based on a formula which considers increases to our dividend subsequent to the issuance of the notes in November, 2007. Our dividend declared in November, 2006, went ex-dividend on December 12, 2006, at which time our conversion price adjusted to $16.56 per share. Future changes to the conversion price will depend on our level of dividends which cannot be predicted at this time. We have declared a dividend of $.27 cents per share to stockholders of record on March 29, 2007. Any adjustments for dividend increases until the notes are settled in 2011 will affect the price of the notes and the number of shares for which they will eventually be settled.

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

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ITEM 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Medical Properties Trust, Inc.:

We have audited the accompanying consolidated balance sheets of Medical Properties Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules III and IV. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medical Properties Trust, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Medical Properties Trust, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Birmingham, Alabama
March 15, 2007

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
Real estate assets		
Land	$ 33,809,594	$ 21,430,000
Buildings and improvements	387,770,513	203,905,369
Construction in progress	57,432,264	45,913,085
Intangible lease assets	15,787,615	9,666,192
Mortgage loans	105,000,000	40,000,000
Real estate held for sale	63,324,381	56,187,747
Gross investment in real estate assets	663,124,367	377,102,392
Accumulated depreciation	(10,758,514)	(5,260,219)
Accumulated amortization	(1,297,908)	(622,612)
Net investment in real estate assets	651,067,945	371,219,561
Cash and cash equivalents	4,102,873	59,115,832
Interest and rent receivable	11,893,513	2,236,732
Straight-line rent receivable	12,686,976	7,213,591
Other loans	45,172,830	45,813,486
Other assets of discontinued operations	6,890,919	2,224,295
Other assets	12,941,689	7,629,220
Total Assets	**$ 744,756,745**	**$ 495,452,717**
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Debt	$ 304,961,898	$ 65,010,178
Debt real estate held for sale	43,165,650	35,474,342
Accounts payable and accrued expenses	30,045,642	17,611,195
Liabilities of discontinued operations	341,216	2,317,705
Deferred revenue	14,615,609	5,201,488
Lease deposits and other obligations to tenants	6,853,759	11,386,801
Total liabilities	399,983,774	137,001,709
Minority interests	1,051,835	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 39,585,510 shares at December 31, 2006 and 39,345,105 shares at December 31, 2005, and	39,586	39,345
Additional paid-in capital	356,678,018	359,588,362

Distributions in excess of net income	(12,996,468)	(3,350,565)
Total stockholders equity	343,721,136	356,277,142
Total Liabilities and Stockholders Equity	**$ 744,756,745**	**$ 495,452,717**

See accompanying notes to consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Revenues			
Rent billed	$ 32,190,772	$ 20,867,466	$ 6,162,278
Straight-line rent	5,952,442	4,764,527	2,449,066
Interest income from loans	12,328,218	4,820,552	2,282,115
Total revenues	50,471,432	30,452,545	10,893,459
Expenses			
Real estate depreciation and amortization	6,704,924	4,182,731	1,478,470
General and administrative	10,190,850	8,016,992	5,150,786
Costs of terminated acquisitions			585,345
Total operating expenses	16,895,774	12,199,723	7,214,601
Operating income	33,575,658	18,252,822	3,678,858
Other income (expense)			
Interest income	515,038	2,091,132	930,260
Interest expense	(4,417,955)	(1,521,169)	(32,769)
Net other (expense) income	(3,902,917)	569,963	897,491
Income from continuing operations	29,672,741	18,822,785	4,576,349
Income from discontinued operations	486,957	817,562	
Net income	**$ 30,159,698**	**$ 19,640,347**	**$ 4,576,349**
Net income per common share basic			
Income from continuing operations	$ 0.75	$ 0.58	$ 0.24
Income from discontinued operations	0.01	0.03	
Net income	**$ 0.76**	**$ 0.61**	**$ 0.24**
Weighted average shares outstanding basic	**39,537,877**	**32,343,019**	**19,310,833**
Net income per share diluted			
Income from continuing operations	$ 0.75	$ 0.58	$ 0.24
Income from discontinued operations	0.01	0.03	
Net income	**$ 0.76**	**$ 0.61**	**$ 0.24**
Weighted average shares outstanding diluted	**39,701,976**	**32,370,089**	**19,312,634**

See accompanying notes to consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity (Deficit)
For the Years Ended December 31, 2006, 2005 and 2004

	Preferred Par		Common	Par	Additional Paid-in	Distributions in Excess	Total Stockholders Equity
	Shares	Value	Shares	Value	Capital	of Net Income	(Deficit)
Balance at December 31, 2003			1,630,435	1,630		(1,023,276)	(1,021,646)
Redemption of founders shares			(1,108,527)	(1,108)	1,108		
Issuance of common stock (net of offering costs)			25,560,954	25,561	233,476,082		233,501,643
Value of warrants issued					24,500		24,500
Deferred stock units issued to directors					125,000		125,000
Distributions declared ($.21 per common share)						(5,477,402)	(5,477,402)
Net income						4,576,349	4,576,349
Balance at December 31, 2004			26,082,862	26,083	233,626,690	(1,924,329)	231,728,444
Deferred stock units issued to directors					182,603	(10,852)	171,751
Retirement of deferred stock units					(75,000)		(75,000)
Restricted shares issued to employees			52,220	52	1,174,952		1,175,004
Proceeds from exercise of warrant			35,000	35	325,465		325,500
Issuance of common stock (net of offering costs)			13,175,023	13,175	124,353,652		124,366,827
Distributions declared ($.62 per common share)						(21,055,731)	(21,055,731)

Net income				19,640,347	19,640,347
Balance at December 31, 2005	39,345,105	39,345	359,588,362	(3,350,565)	356,277,142
Dividends declared ($.99 per common share)				(39,761,220)	(39,761,220)
Deferred stock units issued to directors			311,631	(44,381)	267,250
Restricted shares issued to employees in lieu of cash bonus	22,125	22	219,680		219,702
Restricted shares issued to employees and directors	218,280	219	2,848,335		2,848,554
Cost of call spread transaction			(6,289,990)		(6,289,990)
Net income				30,159,698	30,159,698
Balance at December 31, 2006	$ 39,585,510	$ 39,586	$ 356,678,018	$ (12,996,468)	$ 343,721,136

See accompanying notes to consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Operating activities			
Net income	$ 30,159,698	$ 19,640,347	$ 4,576,349
Adjustments to reconcile net income to net cash provided by (used for) operating activities			
Depreciation and amortization	8,318,303	4,567,675	1,517,530
Amortization of deferred financing costs	1,068,770	932,249	
Straight-line rent revenue	(6,876,051)	(5,460,148)	(2,449,066)
Share based payments	3,115,804	1,346,755	125,000
Deferred revenue and fee income	(1,192,231)	(270,727)	
Provision for uncollectible receivables and loans	3,313,061		
Interest cost recorded as addition to debt	1,253,236		
Other adjustments	(419,469)	(96,677)	(734,887)
Increase in:			
Interest and rent receivable	(285,717)	(486,521)	(419,776)
Other assets	(2,407,394)	(2,312,681)	(309,769)
Increase (decrease) in:			
Accounts payable and accrued expenses	6,982,887	4,700,558	6,644,130
Deferred revenue	107,390	1,420,030	210,000
Lease deposits and other obligations to tenants	(1,054.946)	174,527	
Net cash provided by operating activities	42,083,341	24,155,387	9,159,511
Investing activities			
Real estate acquired	(121,408,474)	(97,667,724)	(127,372,195)
Proceeds from sale of real estate	7,642,332		
Principal received on loans receivable		7,890,958	
Investment in loans receivable	(67,597,349)	(45,999,178)	(44,317,263)
Construction in progress	(114,362,232)	(78,778,843)	(23,151,797)
Other investments	(1,135,799)		
Net cash used for investing activities	(296,861,522)	(214,554,787)	(194,841,255)
Financing activities			
Proceeds from debt	362,128,450	104,474,342	56,200,000
Payments of debt	(118,607,528)	(60,645,833)	(300,000)
Deferred financing costs	(1,237,947)	(1,461,342)	(3,869,767)
Distributions paid	(36,105,732)	(16,730,414)	(2,608,286)
Proceeds from sale of common shares, net of offering costs		125,272,302	233,703,474
Sale of partnership units		1,137,500	
Cost of call spread transactions	(6,289,990)		
Other	(122,031)	(75,000)	
Net cash provided by financing activities	199,765,222	151,971,555	283,125,421

(Decrease) increase in cash and cash equivalents for the year	(55,012,959)	(38,427,845)	97,443,677
Cash and cash equivalents at beginning of year	59,115,832	97,543,677	100,000
Cash and cash equivalents at end of year	**$ 4,102,873**	**$ 59,115,832**	**$ 97,543,677**
Interest paid, including capitalized interest of $6,220,427 in 2006 and $3,107,966 in 2005	$ 5,351,450	$ 3,461,654	$
Supplemental schedule of non-cash investing activities:			
Construction period rent and interest receivable recorded as deferred revenue	$ 9,083,201	$ 5,259,006	$ 757,787
Real estate acquisitions and new loans receivable recorded as lease and loan deposits	218,257	8,603,075	5,906,807
Real estate acquisitions and new loans receivable recorded as deferred revenue	1,184,000	577,500	
Construction and acquisition costs charged to loans and real estate	1,455,395	774,479	
Lease deposit applied to loan receivable	3,768,864		
Loan receivable settled by acquisition of real estate		6,000,000	
Construction in progress transferred to land and building	94,660,739	56,409,377	
Supplemental schedule of non-cash financing activities:			
Deferred offering costs charged to proceeds from sale of common stock	$	$ 579,975	$ 201,832
Distributions declared and paid in the following year	10,849,920	7,194,432	2,869,116
Minority interest granted for contribution of land to development project			1,000,000
Other common stock transactions	264,302	10,904	

See accompanying notes to consolidated financial statements.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

1. Organization

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

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

From the time of the Company s initial capitalization in April 2004 through completion of the February 28, 2007, follow-on offering, the Company has issued approximately 47.8 million shares of common stock and realized net proceeds of approximately $496.5 million. The Company has also issued $125.0 million in fixed rate term notes and $138.0 million in fixed rate exchangeable notes. At March 1, 2007, the Company has in place a $150.0 million secured revolving credit facility with an available borrowing base of approximately $90.1 million.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation: Property holding entities and other subsidiaries of which the Company owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which the Company owns less than 100% of the equity interest, the Company consolidates the property if it has the direct or indirect ability to make decisions about the entities activities based upon the terms of the respective entities ownership agreements. For these entities, the Company records a minority interest representing equity held by minority interests. 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 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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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Continued)

Cash and Cash Equivalents: Certificates of deposit and short-term investments with original maturities of three months or less and money-market mutual funds are considered cash equivalents. Cash and cash equivalents which have been pledged as security for letters of credit are recorded in other assets.

Deferred Costs: Costs incurred prior to the completion of offerings of stock or other capital instruments that directly relate to the offering are deferred and netted against proceeds received from the offering. Costs incurred in connection with anticipated financings and refinancing of debt are capitalized as deferred financing costs in other assets and amortized over the lives of the related loans as an addition to interest expense. For debt with defined principal re-payment terms, the deferred costs are amortized to produce a constant effective yield on the loan (interest method). For debt without defined principal repayment terms, such as revolving credit agreements, the deferred costs are amortized on the straight-line method over the term of the debt. Costs that are specifically identifiable with, and incurred prior to the completion of, probable acquisitions are deferred and, to the extent not collected from the seller s proceeds at acquisition, capitalized upon closing. The Company begins deferring costs when the Company and the seller have executed a letter of intent (LOI), commitment letter or similar document for the purchase of the property by the Company. Deferred acquisition costs are expensed when management determines that the acquisition is no longer probable. Leasing commissions and other leasing costs directly attributable to tenant leases are capitalized as deferred leasing costs and amortized on the straight-line method over the terms of the related lease agreements. Costs identifiable with loans made to lessees are recognized as a reduction in interest income over the life of the loan by the interest method.

Revenue Recognition: The Company receives income from operating leases based on the fixed, minimum required rents (base rents) and from additional rent based on a percentage of tenant revenues once the tenant s revenue has exceeded an annual threshold (percentage rents). Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for acquired properties. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. The straight-line method has the effect of recording more rent revenue from a lease than a tenant is required to pay during the first half of the lease term. During the last half of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue as recorded on the straight-line method in the consolidated statement of operations is shown as two amounts. Billed rent revenue is the amount of base rent actually billed to the customer each period as required by the lease. Unbilled rent revenue is the difference between base rent revenue earned based on the straight-line method and the amount recorded as billed base rent revenue. The Company records the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to unbilled rent receivable. Percentage rents are recognized in the period in which revenue thresholds are met. Rental payments received prior to their recognition as income are classified as rent received in advance. The Company may also receive additional rent (contingent rent) under some leases when the U.S. Department of Labor consumer price index exceeds the annual minimum percentage increase in the lease. Contingent rents are recorded as billed rent revenue in the period received.

The Company begins recording base rent income from its development projects when the lessee takes physical possession of the facility, which may be different from the stated start date of the lease. Also, during construction of its development projects, the Company is generally entitled to accrue rent based on the cost paid during the construction period (construction period rent). The Company accrues construction period rent as a receivable and deferred revenue during the construction period. When the lessee takes physical possession of the facility, the Company begins recognizing the accrued construction period rent on the straight-line method over the remaining term

of the lease.

Fees received from development and leasing services for lessees are initially recorded as deferred revenue and recognized as income over the initial term of an operating lease to produce a constant effective yield on the lease (interest method). Fees from lending services are recorded as deferred revenue and recognized as income over the life of the loan using the interest method.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Continued)

Acquired Real Estate Purchase Price Allocation: The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of SFAS No. 141, *Business Combinations.* In making estimates of fair values for purposes of allocating purchase prices, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

The Company records above-market and below-market in-place lease values, if any, for its facilities 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. The Company amortizes any resulting capitalized above-market lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The Company amortizes 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 the Company s strategy largely involves the origination of long-term lease arrangements at market rates, management does not expect the above-market and below-market in-place lease values to be significant for many anticipated transactions.

The Company measures the aggregate value of other intangible assets acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. Management s estimates of value are expected to be 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. Management also considers information obtained about each targeted facility as a result of 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 are expected to range primarily from three to eighteen months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal 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 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.

The Company amortizes the value of in-place leases, if any, to expense over the initial term of the respective leases, which range primarily from ten 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.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Continued)

Real Estate and Depreciation: Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets, as follows:

Buildings and improvements	40 years
Tenant origination costs	Remaining terms of the related leases
Tenant improvements	Term of related leases
Furniture and equipment	3-7 years

Real estate is carried at depreciated cost. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Significant renovations and improvements which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives. In accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long- Lived Assets to Be Disposed Of* the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets, including an estimated liquidation amount, during the expected holding periods are less than the carrying amounts of those assets. Impairment losses are measured as the difference between carrying value and fair value of assets. For assets held for sale, impairment is measured as the difference between carrying value and fair value, less cost of disposal. Fair value is based on estimated cash flows discounted at a risk-adjusted rate of interest. The Company classifies real estate assets as held for sale when the Company has commenced an active program to sell the assets, and in the opinion of the Company s management, it is probable the asset will be sold within the next 12 months. The Company records the results of operations from material property sales or planned sales (which include real property, loans and any receivables) as discontinued operations in the consolidated statements of operations for all periods presented. Results of discontinued operations include interest expense from debt which secures the property sold or held for sale or which the company can otherwise reasonably allocate to the property.

Construction in progress includes the cost of land, the cost of construction of buildings, improvements and equipment, and costs for design and engineering. Other costs, such as interest, legal, property taxes and corporate project supervision, which can be directly associated with the project during construction, are also included in construction in progress.

Loans: Loans consists of mortgage loans, working capital loans and other long-term loans. Interest income from loans is recognized as earned based upon the principal amount outstanding. The mortgage loans are secured by interests in real property. The working capital and other long-term loans are generally secured by interests in receivables and corporate and individual guarantees.

Losses from Rent Receivables and Loans: A provision for losses on rent receivables and loans is recorded when it becomes probable that the receivable or loan will not be collected in full. The provision is an amount which reduces the rent or loan to its estimated net realizable 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, the Company discontinues recording interest income on the loan or rent receivable from the tenant.

Net Income Per Share: The Company reports earnings per share pursuant to SFAS No. 128, *Earnings Per Share.* Basic net income per share is computed by dividing the net income (loss) to common stockholders by the weighted average number of common shares and contingently issuable common shares outstanding during the period. Diluted net income per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the assumed conversion of all potentially dilutive outstanding shares, warrants and options.

Income Taxes: For the period from January 1, 2004 through April 5, 2004, the Company had elected Sub-chapter S status for income tax purposes, at which time the Company filed its final tax returns as a Sub-chapter S company. Since April 6, 2004, the Company has conducted its business as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code. In 2005, the Company filed its initial tax

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Continued)

return as a REIT for the period from April 6, 2004, through December 31, 2004, at which time it formally made an election to be taxed as a REIT. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to currently distribute to shareholders at least 90% of its ordinary taxable income. As a REIT, the Company generally is not subject to federal income tax on taxable income that it distributes to its shareholders. If the Company fails to qualify as a REIT in any taxable year, it will then be subject to federal income taxes on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost, unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially adversely affect the Company s net income and net cash available for distribution to shareholders. However, the Company intends to operate in such a manner so that the Company will remain qualified as a REIT for federal income tax purposes.

The Company s financial statements include the operations of a taxable REIT subsidiary, MPT Development Services, Inc. (MDS) that is not entitled to a dividends paid deduction and is subject to federal, state and local income taxes. MDS is authorized to provide property development, leasing and management services for third-party owned properties and makes loans to lessees and operators.

Stock-Based Compensation: The Company currently sponsors the Amended and Restated Medical Properties Trust, Inc. 2004 Equity Incentive Plan (the Equity Incentive Plan) that was established in 2004. The Company accounts for its stock option plan under the recognition and measurement provisions of SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*. Awards of restricted stock and stock options with service conditions are amortized to compensation expense over the vesting periods which range from three to five years, using the straight-line method. Awards of deferred stock units vest when granted and are charged to expense at the date of grant. Awards of restricted stock which contain performance criteria are amortized to compensation expense over the vesting periods, which correspond to the period over which services are performed, which range from three to five years, using the straight-line method. Awards of restricted stock with performance conditions are amortized over the service period in which the performance conditions are measured, adjusted for the probability of achieving the performance conditions.

Derivative Financial Investments and Hedging Activities. The Company accounts for its derivative and hedging activities using SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 137, 138 and 149 and interpreted, which requires all derivative instruments to be carried at fair value on the balance sheet.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedge transaction, the nature of the risk being hedged and how the hedging instrument s effectiveness in hedging the exposure to the hedged transaction s variability in cash flows attributable to the hedged risk will be assessed. Both at the inception of the hedge and on an ongoing basis, the Company assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. The Company discontinues hedge accounting if a derivative is not determined to be highly effective as a hedge or has ceased to be a highly effective hedge. We are not currently a party to any derivatives contracts that require accounting under SFAS No. 133.

Emerging Issues Task Force (EITF) No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* provides guidance on the accounting and reporting for free-standing derivative financial instruments and for embedded derivatives which are indexed to and settled in the Company s stock. EITF No. 00-19 provides criteria by which certain derivative financial instruments should be reported as liabilities or equity. It also provides guidance as to when embedded derivatives should be separated or bifurcated from the host instrument. The Company follows the provisions of this EITF to account for the conversion feature and capped call transactions related to its debt which is exchangeable for shares of the Company s common stock.

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In December 2006, the FASB ratified the consensus reached by the EITF regarding EITF 00-19-2, *Accounting for Registration Payment Arrangements.* The guidance specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, *Accounting for Contingencies*. The guidance is effective for periods beginning after December 15, 2006. However, early adoption is allowed for periods in which financial statements have not previously been issued.

Fair Value of Financial Instruments: The Company has various assets and liabilities that are considered financial instruments. The Company estimates that the carrying value of cash and cash equivalents, interest receivable and accounts payable and accrued expenses approximates their fair values. The Company estimates the fair value of unbilled rent receivable based on expected payment dates, discounted at a rate which the Company considers appropriate for such assets considering their credit quality and maturity. The Company estimates the fair value of loans based on the present value of future payments, discounted at a rate which the Company considers appropriate for such assets considering their credit quality and maturity. The Company estimates that the carrying value of the Company s revolving credit facility should approximate fair value because the debt is variable rate and adjusts daily with changes in the underlying interest rate index. The Company determines the fair value of its exchangeable notes based on quotes from securities dealers and market makers. The Company estimates the fair value of its senior notes based on the present value of future payments, discounted at a rate which the Company considers appropriate for such debt.

Reclassifications: Certain reclassifications have been made to the 2005 and 2004 consolidated financial statements to conform to the 2006 consolidated financial statement presentation. These reclassifications have no impact on stockholders equity or net income.

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.

3. Real Estate and Loans Receivable

Acquisitions

The Company has recorded the following assets from its acquisitions in 2006 and 2005:

	2006	2005
Land	$ 7,685,622	$ 10,760,000
Buildings	101,374,559	92,296,506
Intangible lease assets	6,478,579	4,351,229
	$ 115,538,760	$ 107,407,735

In 2006, the Company used funds from its revolving credit facility as well as Senior and Exchangeable Notes to fund acquisitions and developments. The Company funded the 2005 acquisitions and developments from its 2004 private placement, its 2005 IPO and from borrowings on its term loan and revolving credit facility. The Company entered into 15 year leases with the operators of the facilities (with the exception of a 10 year lease of the medical

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Notes To Consolidated Financial Statements (Continued)

office building), which in certain instances were also the sellers of the facilities. Each lease has renewal options which are generally for three five year periods. The leases also contain base rent escalation provisions based on the greater of a fixed percentage or general levels of inflation. Some leases contain provisions for the payment of percentage rents based on the tenant exceeding a certain level of revenues in their operations.

The Company recorded amortization expense of approximately $727,000 and $456,000 in 2006 and 2005, respectively, and expects to recognize amortization expense from existing lease intangible assets of approximately $1.1 million in each of the next five years. Capitalized lease intangibles have a weighted average remaining life of approximately 14 years.

Development Projects

In addition to properties acquired and placed in service during 2005 and 2006, the Company has the following development projects in various stages of completion at December 31, 2006 (in millions):

	Original Commitment	Cost Incurred	Remaining Commitment
Bucks County, PA women s hospital and medical office building	$ 38.0	$ 35.8	$ 2.2
Portland, OR acute care hospital	21.8	17.1	4.7
Total	$ 59.8	$ 52.9	$ 6.9

In each of these two development projects, the Company has 15 year leases with options to renew. During the construction period, the Company is accruing and deferring rent based on the cost paid during the construction period. The Company will recognize the accrued construction period rent, including interest on the unpaid amount, over the 15 year terms of the leases. The Company s commitments include loans of up to $4.0 million.

Leasing Operations

Minimum rental payments due in future periods under operating leases which have non-cancelable terms extending beyond one year at December 31, 2006, are as follows:

2007	$ 44,824,307
2008	45,574,139
2009	46,658,476
2010	47,768,821
2011	48,905,803
Thereafter	487,014,760
	$ 720,746,306

For the years ended December 31, 2006 and 2005, Vibra Healthcare, LLC accounted for approximately 55% and 86%, respectively, of the Company s total revenues from continuing operations and affiliates of Prime Healthcare Services, Inc. accounted for 19% and 10%, respectively of the Company s total revenues from continuing operations.

Loans

In conjunction with the Company s purchase of six healthcare facilities in July and August 2004, the Company also made loans aggregating $49.1 million to Vibra Healthcare, LLC (Vibra). As of December 31, 2006, Vibra has reduced the balance of the loans to approximately $37.6 million. In January, 2007, Vibra further reduced its loan to a balance of approximately $29.9 million. The Company has determined that Vibra is a variable interest entity. The

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Notes To Consolidated Financial Statements (Continued)

Company has also determined that it is not the primary beneficiary of Vibra and, therefore, has not consolidated Vibra in the Company s consolidated financial statements.

In December, 2005, the Company made a $40.0 million mortgage loan which is secured by a community hospital facility located in Odessa, Texas. The loan requires payment of interest only during its 15 year terms with principal due in full at maturity. Interest is paid monthly and increases each year based on the greater of a fixed percentage or the annual change in the consumer price index. The loans may be prepaid under certain specified conditions.

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.

4. Debt

The following is a summary of debt:

	As of December 31, 2006		As of December 31, 2005	
	Balance	Interest Rate	Balance	Interest Rate
Revolving credit facility	$ 45,996,359	7.800%	$ 65,010,178	7.14 %
Senior unsecured notes fixed rate through July and October, 2011, due July and October, 2016	125,000,000	7.333% -7.871%		
Exchangeable senior notes due November, 2011	133,965,539	6.125%		
	$ 304,961,868		$ 65,010,178	

As of December 31, 2006, principal payments due for our senior unsecured and exchangeable notes were as follows:

2007	$
2008	
2009	
2010	
2011	133,965,539
Thereafter	125,000,000

Total	$ 258,965,539

In October, 2005, the Company signed a Credit Agreement for a secured revolving credit facility to replace an existing term loan. The agreement has a four year term and has an interest rate of the 30-day LIBOR plus a spread ranging from 235 to 275 basis points (7.80% at December 31, 2006) depending upon the Company s overall leverage ratio. Outstanding balances are secured by properties with a book value of $140.8 million and a mortgage loan with a book value of $40.0 million at December 31, 2006. The Company may borrow up to $150.0 million depending on the value of collateral properties. The Company currently may borrow up to approximately $90.1 million, which may be increased to the maximum by substituting or by adding other properties as the Company may elect. The Company may also request to increase the available line of credit to a maximum of $175.0 million, with the payment of additional fees.

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Notes To Consolidated Financial Statements (Continued)

During 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 ranging from 7.333% to 7.715% through October 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.

In November 2006, the Company s Operating Partnership issued and sold, in a private offering, $138.0 million of Exchangeable Senior Notes (the Exchangeable Notes). The Exchangeable Notes will pay interest semi-annually at a rate of 6.125% per annum (with an effective yield of 6.86%) and mature on November 15, 2011. The Exchangeable Notes have an initial exchange rate of 60.3346 Company common shares per $1,000 principal amount of the notes, representing an exchange price of approximately $16.57 per common share. The initial exchange rate is subject to adjustment under certain circumstances. The Exchangeable Notes are exchangeable, prior to the close of business on the second business day immediately preceding the stated maturity date at any time beginning on August 15, 2011 and also upon the occurrence of specified events, for cash up to their principal amount and the Company s common shares for the remainder of the exchange value in excess of the principal amount. Net proceeds from the offering of the Exchangeable Notes were approximately $134.0 million, after deducting the initial purchasers discount.

Concurrently with the pricing of the Exchangeable Notes, the Operating Partnership entered into a capped call transaction with affiliates of the initial purchasers (the option counterparties) in order to increase the effective exchange price of the Exchangeable Notes to $18.94 per common share. The capped call transaction is expected to reduce the potential dilution with respect to the Company s common stock upon exchange of the Exchangeable Notes to the extent the then market value per share of the Company s common stock does not exceed $18.94 during the observation period relating to an exchange. The Company has reserved approximately 8.3 million shares which may be issued in the future to settle the Exchangeable Notes. The premium of $6.3 million paid for the capped call transaction has been recorded as a permanent reduction to additional paid in capital in the consolidated statement of stockholders equity.

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. On January 17, 2007, the two properties securing these loans were sold and the loans were paid in full. Therefore, these loans are presented as Debt held-for-sale real estate as of December 31, 2006 and 2005. The interest rate on these loans as of December 31, 2006 and 2005 was 7.838% and 6.640%, respectively.

Each of these debt agreements contains financial covenants which are typical for each of the agreements. The Company was in compliance with all such covenants at December 31, 2006.

In February, 2007, the Company agreed to the terms of a $42.0 million secured revolving bank credit facility. The terms are for five years with interest at the 30-day LIBOR plus 1.50%. The amount available under the facility will decrease by $800,000 per year beginning in the third year. The facility will be secured by real estate with a book value of approximately $61.7 million at December 31, 2006.

5. Income Taxes

Earnings and profits, which determine the taxability of distributions to shareholders, will differ from net income reported for financial reporting purposes due to differences in cost basis, differences in the estimated useful

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Notes To Consolidated Financial Statements (Continued)

lives used to compute depreciation, and differences between the allocation of the Company s net income and loss for financial reporting purposes and for tax reporting purposes.

Total common distributions declared were $0.99 per common share in 2006, $0.62 per common share in 2005 and $0.21 per common share in 2004. Of the dividends declared in 2004, $0.129177 per common share is treated as ordinary income for federal income tax purposes for the year ended December 31, 2004. The remaining distribution of $0.080823 is treated as ordinary income for federal income tax purposes in the year ended December 31, 2005. Of the dividends declared in 2005, $0.536168 per common share is treated as ordinary income for federal income tax purposes for the year ended December 31, 2005. The remaining distribution of $.083832 is treated as ordinary income for federal income tax purposes in the year ending December 31, 2006. Of the dividends declared in 2006, $0.531249 per common share is treated as ordinary income for federal income tax purposes for the year ended December 31, 2006, $0.181671 is treated as a return of capital and $.007080 will be treated as total capital gain, all of which is unrecaptured Sec. 1250 gain. The remaining distribution of $.27 is treated as income for federal income tax purposes in the year ending December 31, 2007.

6. Earnings Per Share

The following is a reconciliation of the weighted average shares used in net income per common share basic to the weighted average shares used in net income per common share assuming dilution:

	For the Years Ended December 31,		
	2006	2005	2004
Weighted average number of shares issued and outstanding	39,498,712	32,326,939	19,308,511
Vested deferred stock units	39,165	16,080	2,322
Weighted average shares basic	39,537,877	32,343,019	19,310,833
Restricted stock awards	164,099	26,115	
Common stock warrants		955	1,801
Weighted average shares diluted	39,701,976	32,370,089	19,312,634

7. 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 common stock options, restricted stock, 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 4,631,330 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 operations during the year ended December 31, 2006, nor in any prior period, because substantially all of the Company s stock based compensation is in the form of restricted share and deferred stock unit awards. The Company s policy for recording expense from restricted share and deferred stock unit awards was not affected by SFAS No. 123(R). Under SFAS No. 123(R), the

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Notes To Consolidated Financial Statements (Continued)

additional compensation expense which the Company would have recorded for stock options in the years ended December 31, 2006, 2005 and 2004 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 December 31, 2006, are as follows:

Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Remaining Contractual Life (years)
$ 10.00	100,000	80,000	7.8

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%. At December 31, 2006, the intrinsic value of options exercisable and outstanding is approximately $424,000 and $530,000, respectively.

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 activity 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	(240,405)	$	10.09
Forfeited			
Outstanding at December 31, 2006	610,054	$	10.43

The value of restricted share awards is charged to compensation expense over the vesting periods. In the year ended December 31, 2006 and 2005, the Company recorded approximately $2.9 million and $1.2 million, respectively, of non-cash compensation expense for restricted shares. The remaining unrecognized cost from share based compensation at December 31, 2006, is approximately $5.1 million and will be recognized over a weighted average period of approximately 1.5 years. During the year ended December 31, 2006, restricted shares which vested had a value of approximately $2.7 million on the vesting dates.

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Notes To Consolidated Financial Statements (Continued)

8. Commitments and Contingencies

The Company has provided approximately $2.2 million of bank letters of credit to two municipalities as security for its obligations in two development projects. The Company has deposited an equal amount of cash in separate accounts with the bank as security for these letters of credit. The cash deposited is recorded as other assets in the consolidated balance sheet at December 31, 2006.

Fixed minimum payments due under operating leases with non-cancelable terms of more than one year at December 31, 2006 are as follows:

2007	743,248
2008	750,741
2009	758,270
2010	701,740
2011	500,177
Thereafter	38,911,660
	$ 42,365,836

The total amount to be received from non-cancellable subleases at December 31, 2006, is approximately $25.0 million.

The Company is a party to various legal proceedings incidental to its 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 the financial position, results of operations or cash flows of the Company.

9. Common Stock

On February 22, 2007, the Company completed the sale of 12,000,000 shares of common stock at a price of $15.60 per shares, less an underwriting commission of five percent. The underwriters have an option to purchase an additional 1,800,000 shares at the same price, less an underwriting commission of five percent, pursuant to their over-allotment option. Of the 12 million shares being sold, the underwriters are borrowing from third parties and selling 3,000,000 shares of Company common stock in connection with forward sale agreements between the Company and affiliates of the underwriters (the forward purchasers). The Company will not initially receive any proceeds from the sale of shares of Company common stock by the forward purchasers. The Company expects to settle the forward sale agreements and receive proceeds, subject to certain adjustments, from the sale of those shares only upon one or more future physical settlements of the forward sale agreements on a date or dates specified by the Company by February 28, 2008. The Company may elect to settle the forward sale agreements in cash, in which case the Company may not receive any proceeds and may owe cash to the forward purchasers. Cash settlement is based on the difference between the then current forward price and the current market price of the total shares remaining to be settled under the forward sale agreements.

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Notes To Consolidated Financial Statements (Continued)

10. Fair Value of Financial Instruments

	December 31, 2006		December 31, 2005	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	$ 4,102,873	$ 4,102,873	$ 59,115,832	$ 59,115,832
Interest and other receivables	11,893,513	12,110,029	2,236,732	2,165,350
Straight-line rent receivable	12,686,976	4,995,269	7,213,591	2,800,694
Loans	150,172,830	173,597,486	85,813,486	95,404,391
Debt	304,961,898	319,113,009	65,010,178	65,010,178
Accounts payable and accrued expenses	30,045,642	30,045,642	17,611,195	17,611,195

11. Discontinued Operations

The Company entered into a contract for the disposition of two assets in 2006. On October 22, 2006, two of the Company s subsidiaries terminated their respective leases with Stealth, L.P. (Stealth). The leases were for the hospital and medical office building (MOB), 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 MOB 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. In 2006, the Company recorded revenue of approximately $7.4 million or 12.8% of total revenue from the leases and loans with Stealth. In connection with entering into the leases with Stealth, the Company also made working capital loans to Stealth in an aggregate amount, including accrued interest and after applying offsetting credits, of approximately $3.2 million. Subsequent to the lease termination, the Company received the full proceeds of a letter of credit issued by Stealth in the amount of $1.3 million, which was used to reduce the amount outstanding under the loans.

Stealth had not obtained managed care provider contracts that were necessary for profitable operation of the hospital. Accordingly, and pursuant to the Company s rights under the leases, the Company terminated the leases and began negotiations directly with other hospital systems to lease or sell the facilities. These negotiations resulted in the ultimate sale of the hospital and MOB in January, 2007, for a sales price of approximately $71.7 million. During the period from the lease termination to the date of sale, the hospital was operated by a new third party operator under contract to the hospital. The Company also made loans to that operating company and incurred other costs in the amount of approximately $6.9 million, which the Company expects to recover from the net revenues which the hospital and MOB generated during the interim period. For the third party operator to repay the loan, it must collect its accounts receivable and liquidate other assets. Its accounts receivable are largely claims from Medicare and commercial payers. As a new operator, the collections from Medicare depend largely on yet to be determined cost reimbursement rates. The final reimbursement rates will not be determined until the operator submits its cost reports and undergoes an audit by Medicare. As a result, the ability of the operator to repay its loan from the Company will depend to a large extent on its final reimbursement rates as determined by Medicare. The Company has made no

provision for any loss on this loan as of December 31, 2006. However, the Company does not expect that any loss which could occur would have a material effect on its financial condition or results of operations as of December 31, 2006. The revenues and expenses from leases and loans to Stealth for the Houston Town and Country Hospital are shown in the accompanying consolidated financial statements as discontinued operations.

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MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Continued)

At the time of the termination, the Company had net loans and receivables, including accrued interest receivable, from Stealth and has recorded provisions for losses of approximately $1.9 million, which includes a non-cash charge of approximately $1.6 million from straight-line rent receivable. The following table presents the results of discontinued operations for the years ended December 31, 2006 and 2005 (there were no operations in 2004):

	For the Years Ended December 31,	
	2006	2005
Revenues	$ 7,428,770	$ 1,096,654
Net profit	486,957	817,562
Earnings per share basic and diluted	$ 0.01	$ 0.03

12. Quarterly Financial Data (unaudited)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2006 and 2005:

	For the Three Month Periods in 2006 Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 10,757,672	$ 10,909,814	$ 12,915,676	$ 15,888,270
Income from continuing operations	$ 7,059,218	$ 6,958,362	$ 7,817,498	$ 7,837,663
Income (loss) from discontinued operations	$ 918,392	$ 956,709	$ 856,049	$ (2,244,193)
Net income	$ 7,977,610	$ 7,915,071	$ 8,673,547	$ 5,593,470
Net income per share basic	$ 0.20	$ 0.20	$ 0.22	$ 0.14
Weighted average shares outstanding basic	39,428,071	39,519,695	39,529,687	39,634,127
Net income per share diluted	$ 0.20	$ 0.20	$ 0.22	$ 0.14
Weighted average shares outstanding diluted	39,501,723	39,757,723	39,857,355	39,937,776

	For the Three Month Periods in 2005 Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 6,480,528	$ 7,241,777	$ 8,204,941	$ 8,525,299
Income from continuing operations	$ 3,559,934	$ 4,379,811	$ 5,256,091	$ 5,626,949
Income from discontinued operations	$	$	$	$ 817,562
Net income	$ 3,559,934	$ 4,379,811	$ 5,256,091	$ 6,444,511

Net income per share	basic	$ 0.14	$ 0.17	$ 0.14	$ 0.16
Weighted average shares outstanding basic		26,099,195	26,096,021	37,606,480	39,359,578
Net income per share	diluted	$ 0.14	$ 0.17	$ 0.14	$ 0.16
Weighted average shares outstanding diluted		26,103,259	26,110,119	37,654,576	39,382,139

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ITEM 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

ITEM 9A. ***Controls and Procedures***

Evaluation of Disclosure 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 period 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.

Changes in Internal Controls over Financial Reporting

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.

Management s Report on Internal Control over Financial Reporting

Management of Medical Properties Trust, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company s annual financial statements, management has undertaken an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006. The assessment was based upon the framework described in Integrated Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included an evaluation of the design of internal control over financial reporting and testing of the operational effectiveness of

internal control over financial reporting. We have reviewed the results of the assessment with the Audit Committee of our Board of Directors.

Based on our assessment under the criteria set forth in COSO, management has concluded that, as of December 31, 2006, Medical Properties Trust, Inc. maintained effective internal control over financial reporting.

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Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Medical Properties Trust, Inc.:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Medical Properties Trust, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Medical Properties Trust, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Medical Properties Trust, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Medical Properties Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Medical Properties Trust, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2006 and the related financial statement schedules, and our

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report dated March 15, 2007, expressed an unqualified opinion on those consolidated financial statements and financial statement schedules.

/s/ KPMG, LLP

Birmingham, Alabama
March 15, 2007

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ITEM 9B. ***Other Information***

None.

PART III

ITEM 10. ***Directors and Executive Officers of the Registrant***

The information required by this Item 10 is incorporated by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed by us with the Commission not later than April 17, 2007.

ITEM 11. ***Executive Compensation***

The information required by this Item 11 is incorporated by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed by us with the Commission not later than April 17, 2007.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item 12 is incorporated by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed by us with the Commission not later than April 17, 2007.

ITEM 13. ***Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item 13 is incorporated by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed by us with the Commission not later than April 17, 2007.

ITEM 14. ***Principal Accountant Fees and Services.***

The information required by this Item 14 is incorporated by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed by us with the Commission not later than April 17, 2007.

PART IV

ITEM 15. ***Exhibits and Financial Statement Schedules.***

(a) Financial Statements and Financial Statement Schedules

Index of Financial Statements of Medical Properties Trust, Inc. which are included in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm	37
Consolidated Balance Sheets as of December 31, 2006 and 2005	38
Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004	39
Consolidated Statements of Stockholders Equity for the Years Ended December 31, 2006, 2005 and 2004	40
Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004	41
Notes to Consolidated Financial Statements	42
Index of Consolidated Financial Statement Schedules	
Schedule III Real Estate and Accumulated Depreciation	65

Schedule IV Mortgage Loan on Real Estate 67

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(b) Exhibits

Exhibit Number	Exhibit Title
3.1(1)	Registrant s Second Articles of Amendment and Restatement
3.2(2)	Registrant s Amended and Restated Bylaws
3.3(3)	Articles of Amendment of Registrant s Second Articles of Amendment and Restatement
4.1(1)	Form of Common Stock Certificate
4.2(4)	Indenture, dated July 14, 2006, among Registrant, MPT Operating Partnership, L.P. and the Wilmington Trust Company, as trustee
4.3(5)	Indenture, dated November 6, 2006, among Registrant, MPT Operating Partnership, L.P. and the Wilmington Trust Company, as trustee
4.4(5)	Registration Rights Agreement among Registrant, MPT Operating Partnership, L.P. and UBS Securities LLC and J.P. Morgan Securities Inc., as representatives of the initial purchasers, dated as of November 6, 2006
10.1(1)	First Amended and Restated Agreement of Limited Partnership of MPT Operating Partnership, L.P.
10.2(1)	Amendment to the First Amended and Restated Agreement of Limited Partnership of MPT Operating Partnership, L.P.
10.3(6)	Amended and Restated 2004 Equity Incentive Plan
10.4(7)	Form of Stock Option Award
10.5(7)	Form of Restricted Stock Award
10.6(7)	Form of Deferred Stock Unit Award
10.7(1)	Employment Agreement between Registrant and Edward K. Aldag, Jr., dated September 10, 2003
10.8(1)	First Amendment to Employment Agreement between Registrant and Edward K. Aldag, Jr., dated March 8, 2004
10.9(1)	Employment Agreement between Registrant and R. Steven Hamner, dated September 10, 2003
10.10(1)	Amended and Restated Employment Agreement between Registrant and William G. McKenzie, dated September 10, 2003
10.11(1)	Employment Agreement between Registrant and Emmett E. McLean, dated September 10, 2003
10.12(1)	Employment Agreement between Registrant and Michael G. Stewart, dated April 28, 2005
10.13(1)	Form of Indemnification Agreement between Registrant and executive officers and directors
10.14(8)	Credit Agreement dated October 27, 2005, among MPT Operating Partnership, L.P., as borrower, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc., as Administrative Agent and Lender, and Additional Lenders from Time to Time a Party thereto
10.15(1)	Third Amended and Restated Lease Agreement between 1300 Campbell Lane, LLC and 1300 Campbell Lane Operating Company, LLC, dated December 20, 2004
10.16(1)	First Amendment to Third Amended and Restated Lease Agreement between 1300 Campbell Lane, LLC and 1300 Campbell Lane Operating Company, LLC, dated December 31, 2004
10.17(1)	Second Amended and Restated Lease Agreement between 92 Brick Road, LLC and 92 Brick Road, Operating Company, LLC, dated December 20, 2004
10.18(1)	First Amendment to Second Amended and Restated Lease Agreement between 92 Brick Road, LLC and 92 Brick Road, Operating Company, LLC, dated December 31, 2004
10.19(1)	Ground Lease Agreement between West Jersey Health System and West Jersey/Mediplex Rehabilitation Limited Partnership, dated July 15, 1993
10.20(1)	Third Amended and Restated Lease Agreement between San Joaquin Health Care Associates Limited Partnership and 7173 North Sharon Avenue Operating Company, LLC, dated December 20, 2004
10.21(1)	

First Amendment to Third Amended and Restated Lease Agreement between San Joaquin Health Care Associates Limited Partnership and 7173 North Sharon Avenue Operating Company, LLC, dated December 31, 2004

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Exhibit Number	Exhibit Title
10.22(1)	Second Amended and Restated Lease Agreement between 8451 Pearl Street, LLC and 8451 Pearl Street Operating Company, LLC, dated December 20, 2004
10.23(1)	First Amendment to Second Amended and Restated Lease Agreement between 8451 Pearl Street, LLC and 8451 Pearl Street Operating Company, LLC, dated December 31, 2004
10.24(1)	Second Amended and Restated Lease Agreement between 4499 Acushnet Avenue, LLC and 4499 Acushnet Avenue Operating Company, LLC, dated December 20, 2004
10.25(1)	First Amendment to Second Amended and Restated Lease Agreement between 4499 Acushnet Avenue, LLC and 4499 Acushnet Avenue Operating Company, LLC, dated December 31, 2004
10.26(1)	Lease Agreement between MPT of Victorville, LLC and Desert Valley Hospital, Inc., dated February 28, 2005
10.27(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bucks County Hospital, L.P., Bucks County Oncoplastic Institute, LLC, Jerome S. Tannenbaum, M.D., M. Stephen Harrison and DSI Facility Development, LLC, dated March 3, 2005
10.28(1)	Amendment to Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bucks County Hospital, L.P., Bucks County Oncoplastic Institute, LLC, DSI Facility Development, LLC, Jerome S. Tannenbaum, M.D., M. Stephen Harrison and G. Patrick Maxwell, M.D., dated April 29, 2005
10.29(1)	Lease Agreement between Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.30(1)	Development Agreement among DSI Facility Development, LLC, Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.31(1)	Funding Agreement among DSI Facility Development, LLC, Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.32(1)	Purchase and Sale Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.33(1)	Contract for Purchase and Sale of Real Property between North Cypress Property Holdings, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.34(1)	Sublease Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.35(1)	Net Ground Lease between North Cypress Property Holdings, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.36(1)	Lease Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.37(1)	Net Ground Lease between Northern Healthcare Land Ventures, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.38(1)	Construction Loan Agreement between North Cypress Medical Center Operating Company, Ltd. and MPT Finance Company, LLC, dated June 1, 2005
10.39(1)	Purchase, Sale and Loan Agreement among MPT Operating Partnership, L.P., MPT of Covington, LLC, MPT of Denham Springs, LLC, Covington Healthcare Properties, L.L.C., Denham Springs Healthcare Properties, L.L.C., Gulf States Long Term Acute Care of Covington, L.L.C. and Gulf States Long Term Acute Care of Denham Springs, L.L.C., dated June 9, 2005
10.40(1)	Lease Agreement between MPT of Covington, LLC and Gulf States Long Term Acute Care of Covington, L.L.C., dated June 9, 2005
10.41(1)	Promissory Note made by Denham Springs Healthcare Properties, L.L.C. in favor of MPT of Denham Springs, LLC, dated June 9, 2005
10.42(1)	

	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Redding, LLC, Vibra Healthcare, LLC and Northern California Rehabilitation Hospital, LLC, dated June 30, 2005
10.43(1)	Lease Agreement between Northern California Rehabilitation Hospital, LLC and MPT of Redding, LLC, dated June 30, 2005

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Exhibit Number	Exhibit Title
10.44(1)	Ground Lease Agreement between National Medical Specialty Hospital of Redding, Inc. and Guardian Postacute Services, Inc., dated November 14, 1997
10.45(1)	Amendment No. 1 to Ground Lease Agreement between National Medical Specialty Hospital of Redding, Inc. and Ocadian Care Centers, Inc., dated November 29, 2001
10.46(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bloomington, LLC, Southern Indiana Medical Park II, LLC and Monroe Hospital, LLC, dated October 7, 2005
10.47(1)	Lease Agreement between Monroe Hospital, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.48(1)	Development Agreement among Monroe Hospital, LLC, Monroe Hospital Development, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.49(1)	Funding Agreement between Monroe Hospital, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.50(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Chino, LLC, Prime Healthcare Services, LLC, Veritas Health Services, Inc., Prime Healthcare Services, Inc., Desert Valley Hospital, Inc. and Desert Valley Medical Group, Inc., dated November 30, 2005
10.51(1)	Lease Agreement among Veritas Health Services, Inc., Prime Healthcare Services, LLC and MPT of Chino, LLC, dated November 30, 2005
10.52(1)	Loan Agreement among MPT Operating Partnership, L.P., MPT of Odessa Hospital, L.P., Alliance Hospital, Ltd. and SRI-SAI Enterprises, Inc., dated December 23, 2005
10.53(1)	Promissory Note by Alliance Hospital, Ltd. in favor of MPT of Odessa Hospital, L.P., dated December 23, 2005
10.54(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Sherman Oaks, LLC, Prime A Investments, L.L.C., Prime Healthcare Services II, LLC, Prime Healthcare Services, Inc., Desert Valley Medical Group, Inc. and Desert Valley Hospital, Inc., dated December 30, 2005
10.55(1)	Lease Agreement between MPT of Sherman Oaks, LLC and Prime Healthcare Services II, LLC, dated December 30, 2005
10.56(9)	Forward Sale Agreement between Registrant and UBS AG, London Branch, dated February 22, 2007
10.57(9)	Forward Sale Agreement between Registrant and Wachovia Bank, National Association, dated February 22, 2007
21.1(10)	Subsidiaries of Registrant
23.1(10)	Consent of KPMG LLP
31.1(10)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2(10)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32(10)	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(10)	Consolidated Financial Statements of Vibra Healthcare, LLC as of June 30, 2006

(1) Incorporated by reference to Registrant s Registration Statement on Form S-11 filed with the Commission on October 26, 2004, as amended (File No. 333-119957).

(2) Incorporated by reference to Registrant s quarterly report on Form 10-Q for the quarter ended June 30, 2005, filed with the Commission on July 26, 2005.

(3) Incorporated by reference to Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the Commission on November 10, 2005.

(4) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on July 20, 2006.

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(5) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on November 13, 2006.

(6) Incorporated by reference to Registrant s definitive proxy statement on Schedule 14A, filed with the Commission on September 13, 2005.

(7) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on October 18, 2005.

(8) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on November 2, 2005.

(9) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on February 28, 2007.

(10) Included in this Form 10-K.

(11) 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 Annual Report on Form 10-K. 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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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
(Principal Financial and
Accounting Officer)

Date: March 15, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Edward K. Aldag, Jr. Edward K. Aldag, Jr.	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2007
/s/ Virginia A. Clarke Virginia A. Clarke	Director	March 15, 2007
/s/ Sherry A. Kellett Sherry A. Kellett	Director	March 15, 2007
/s/ R. Steven Hamner R. Steven Hamner	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 15, 2007
G. Steven Dawson	Director	
/s/ Robert E. Holmes Robert E. Holmes, Ph.D.	Director	March 15, 2007
/s/ William G. McKenzie William G. McKenzie	Vice Chairman of the Board	March 15, 2007

/s/ L. Glenn Orr, Jr.	Director	March 15, 2007
L. Glenn Orr, Jr.		

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SCHEDULE III REAL ESTATE INVESTMENTS AND ACCUMULATED DEPRECIATION
December 31, 2006

	Initial Costs		Additions Subsequent to Acquisition		Cost at December 31, 2006			
	Land	Buildings	Improvements	Carrying Costs	Land	Buildings(1)	Total	Accumulated Depreciation
$	3,070,000	$ 33,570,541	$	$	$ 3,070,000	$ 33,570,541	$ 36,640,541	$ 2,098,159
	2,130,000	6,013,142			2,130,000	6,013,142	8,143,142	350,767
	1,550,000	16,363,153			1,550,000	16,363,153	17,913,153	1,022,697
		30,903,051				30,903,051	30,903,051	1,931,441
	1,400,000	19,772,169			1,400,000	19,772,169	21,172,169	1,153,376
	2,000,000	24,994,553		31,270	2,000,000	25,025,823	27,025,823	1,147,016
	821,429	10,238,246		13,843	821,429	10,252,089	11,073,518	405,722
	428,571	5,340,130		48,842	428,571	5,388,972	5,817,543	145,981
		19,952,023		8,170		19,960,193	19,960,193	748,735
	5,290,000	13,586,688		30,721	5,290,000	13,617,409	18,907,409	341,091
	2,220,000	18,027,131		55,514	2,220,000	18,082,645	20,302,645	490,799
	8,039,948	31,360,555	5,196,853		11,547,737	33,049,619	44,597,356	984,235
	1,534,727	15,474,146	3,249,170		1,534,727	18,723,317	20,258,044	546,783
	2,456,579	31,209,055			2,456,579	31,209,055	33,665,634	285,431
	1,500,000	17,419,269			1,500,000	17,419,269	18,919,269	181,451
	1,000,000	13,588,870			1,000,000	13,588,870	14,588,870	112,700
	937,500	10,906,871			937,500	10,906,871	11,844,371	45,445
	937,500	10,906,871			937,500	10,906,871	11,844,371	45,445
	1,875,000	21,813,742			1,875,000	21,813,742	23,688,742	90,891
	811,026	9,344,667			811,026	9,344,667	10,155,693	19,468
		10,197,664				10,197,664	10,197,664	21,245

624,596	7,196,605			624,596	7,196,605	7,821,201	14,993
4,757,393	56,237,712			4,757,393	56,237,712	60,995,105	105,661
$ 43,384,269	$ 434,416,854	$ 8,446,023	$ 188,360	$ 46,892,058	$ 439,543,449	$ 486,435,507	$ 12,289,532

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	December 31, 2006	December 31, 2005	December 31, 2004
COST			
Balance at beginning of period	$ 281,523,115	$ 122,057,232	$
Acquisitions	109,060,181	102,898,770	
Transfers from construction in progress	94,660,739	56,409,377	
Additions	8,476,648	157,736	122,057,232
Dispositions	(7,285,176)		
Balance at end of period	$ 486,435,507	$ 281,523,115	$ 122,057,232

	December 31, 2006	December 31, 2005	December 31, 2004
ACCUMULATED DEPRECIATION			
Balance at beginning of period	$ 5,260,219	$ 1,311,757	$
Depreciation	7,287,428	3,948,462	1,311,757
Depreciation on disposed properties	(258,115)		
Balance at end of period	$ 12,289,532	$ 5,260,219	$ 1,311,757

(1) The gross cost for federal income tax purposes is $502,223,122.

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SCHEDULE IV MORTGAGE LOAN ON REAL ESTATE
MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages	Principal Amount of Loans Subject to Delinquent Principal or Interest
Long-term first mortgage loan:			Payable in monthly installments of interest plus principal payable in full at maturity				
Alliance Hospital(1)	10.0%	2020		(2)	$ 40,000,000	$ 40,000,000	(3)
Centinela Hospital	10.0%	2021		(2)	25,000,000	25,000,000	(3)
Daniel Freeman Marina Hospital	10.0%	2021		(2)	40,000,000	40,000,000	(3)
					$ 105,000,000	**$ 105,000,000**	

See accompanying notes to this schedule on the following page.

(1) Included in eligible properties which serve as collateral for our revolving credit facility.

(2) There were no prior liens on loans as of December 31, 2006.

(3) The mortgage loan was not delinquent with respect to principal or interest.

(4) Reconciliation of Mortgage Loans on Real Estate:

	Year Ended December 31,		
	2006	2005	2004

Balance at beginning of year	$ 40,000,000	$	$
Additions during year:			
New mortgage loans and additional advances on existing loans	65,000,000	46,000,000	
Interest income added to principal			
Amortization of discount			
	105,000,000	46,000,000	
Deductions during year:			
Settled through acquisition of real estate		6,000,000	
Collection of principal			
Foreclosure			
		6,000,000	
Balance at end of year	$ 105,000,000	$ 40,000,000	$

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Title
3.1(1)	Registrant s Second Articles of Amendment and Restatement
3.2(2)	Registrant s Amended and Restated Bylaws
3.3(3)	Articles of Amendment of Registrant s Second Articles of Amendment and Restatement
4.1(1)	Form of Common Stock Certificate
4.2(4)	Indenture, dated July 14, 2006, among Registrant, MPT Operating Partnership, L.P. and the Wilmington Trust Company, as trustee
4.3(5)	Indenture, dated November 6, 2006, among Registrant, MPT Operating Partnership, L.P. and the Wilmington Trust Company, as trustee
4.4(5)	Registration Rights Agreement among Registrant, MPT Operating Partnership, L.P. and UBS Securities LLC and J.P. Morgan Securities Inc., as representatives of the initial purchasers, dated as of November 6, 2006
10.1(1)	First Amended and Restated Agreement of Limited Partnership of MPT Operating Partnership, L.P.
10.2(1)	Amendment to the First Amended and Restated Agreement of Limited Partnership of MPT Operating Partnership, L.P.
10.3(6)	Amended and Restated 2004 Equity Incentive Plan
10.4(7)	Form of Stock Option Award
10.5(7)	Form of Restricted Stock Award
10.6(7)	Form of Deferred Stock Unit Award
10.7(1)	Employment Agreement between Registrant and Edward K. Aldag, Jr., dated September 10, 2003
10.8(1)	First Amendment to Employment Agreement between Registrant and Edward K. Aldag, Jr., dated March 8, 2004
10.9(1)	Employment Agreement between Registrant and R. Steven Hamner, dated September 10, 2003
10.10(1)	Amended and Restated Employment Agreement between Registrant and William G. McKenzie, dated September 10, 2003
10.11(1)	Employment Agreement between Registrant and Emmett E. McLean, dated September 10, 2003
10.12(1)	Employment Agreement between Registrant and Michael G. Stewart, dated April 28, 2005
10.13(1)	Form of Indemnification Agreement between Registrant and executive officers and directors
10.14(8)	Credit Agreement dated October 27, 2005, among MPT Operating Partnership, L.P., as borrower, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc., as Administrative Agent and Lender, and Additional Lenders from Time to Time a Party thereto
10.15(1)	Third Amended and Restated Lease Agreement between 1300 Campbell Lane, LLC and 1300 Campbell Lane Operating Company, LLC, dated December 20, 2004
10.16(1)	First Amendment to Third Amended and Restated Lease Agreement between 1300 Campbell Lane, LLC and 1300 Campbell Lane Operating Company, LLC, dated December 31, 2004
10.17(1)	Second Amended and Restated Lease Agreement between 92 Brick Road, LLC and 92 Brick Road, Operating Company, LLC, dated December 20, 2004
10.18(1)	First Amendment to Second Amended and Restated Lease Agreement between 92 Brick Road, LLC and 92 Brick Road, Operating Company, LLC, dated December 31, 2004
10.19(1)	Ground Lease Agreement between West Jersey Health System and West Jersey/Mediplex Rehabilitation Limited Partnership, dated July 15, 1993
10.20(1)	Third Amended and Restated Lease Agreement between San Joaquin Health Care Associates Limited Partnership and 7173 North Sharon Avenue Operating Company, LLC, dated December 20, 2004
10.21(1)	

	First Amendment to Third Amended and Restated Lease Agreement between San Joaquin Health Care Associates Limited Partnership and 7173 North Sharon Avenue Operating Company, LLC, dated December 31, 2004
10.22(1)	Second Amended and Restated Lease Agreement between 8451 Pearl Street, LLC and 8451 Pearl Street Operating Company, LLC, dated December 20, 2004

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Exhibit Number	Exhibit Title
10.23(1)	First Amendment to Second Amended and Restated Lease Agreement between 8451 Pearl Street, LLC and 8451 Pearl Street Operating Company, LLC, dated December 31, 2004
10.24(1)	Second Amended and Restated Lease Agreement between 4499 Acushnet Avenue, LLC and 4499 Acushnet Avenue Operating Company, LLC, dated December 20, 2004
10.25(1)	First Amendment to Second Amended and Restated Lease Agreement between 4499 Acushnet Avenue, LLC and 4499 Acushnet Avenue Operating Company, LLC, dated December 31, 2004
10.26(1)	Lease Agreement between MPT of Victorville, LLC and Desert Valley Hospital, Inc., dated February 28, 2005
10.27(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bucks County Hospital, L.P., Bucks County Oncoplastic Institute, LLC, Jerome S. Tannenbaum, M.D., M. Stephen Harrison and DSI Facility Development, LLC, dated March 3, 2005
10.28(1)	Amendment to Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bucks County Hospital, L.P., Bucks County Oncoplastic Institute, LLC, DSI Facility Development, LLC, Jerome S. Tannenbaum, M.D., M. Stephen Harrison and G. Patrick Maxwell, M.D., dated April 29, 2005
10.29(1)	Lease Agreement between Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.30(1)	Development Agreement among DSI Facility Development, LLC, Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.31(1)	Funding Agreement among DSI Facility Development, LLC, Bucks County Oncoplastic Institute, LLC and MPT of Bucks County, L.P., dated September 16, 2005
10.32(1)	Purchase and Sale Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.33(1)	Contract for Purchase and Sale of Real Property between North Cypress Property Holdings, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.34(1)	Sublease Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.35(1)	Net Ground Lease between North Cypress Property Holdings, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.36(1)	Lease Agreement between MPT of North Cypress, L.P. and North Cypress Medical Center Operating Company, Ltd., dated as of June 1, 2005
10.37(1)	Net Ground Lease between Northern Healthcare Land Ventures, Ltd. and MPT of North Cypress, L.P., dated as of June 1, 2005
10.38(1)	Construction Loan Agreement between North Cypress Medical Center Operating Company, Ltd. and MPT Finance Company, LLC, dated June 1, 2005
10.39(1)	Purchase, Sale and Loan Agreement among MPT Operating Partnership, L.P., MPT of Covington, LLC, MPT of Denham Springs, LLC, Covington Healthcare Properties, L.L.C., Denham Springs Healthcare Properties, L.L.C., Gulf States Long Term Acute Care of Covington, L.L.C. and Gulf States Long Term Acute Care of Denham Springs, L.L.C., dated June 9, 2005
10.40(1)	Lease Agreement between MPT of Covington, LLC and Gulf States Long Term Acute Care of Covington, L.L.C., dated June 9, 2005
10.41(1)	Promissory Note made by Denham Springs Healthcare Properties, L.L.C. in favor of MPT of Denham Springs, LLC, dated June 9, 2005
10.42(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Redding, LLC, Vibra Healthcare, LLC and Northern California Rehabilitation Hospital, LLC, dated June 30, 2005
10.43(1)	

	Lease Agreement between Northern California Rehabilitation Hospital, LLC and MPT of Redding, LLC, dated June 30, 2005
10.44(1)	Ground Lease Agreement between National Medical Specialty Hospital of Redding, Inc. and Guardian Postacute Services, Inc., dated November 14, 1997
10.45(1)	Amendment No. 1 to Ground Lease Agreement between National Medical Specialty Hospital of Redding, Inc. and Ocadian Care Centers, Inc., dated November 29, 2001

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Exhibit Number	Exhibit Title
10.46(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Bloomington, LLC, Southern Indiana Medical Park II, LLC and Monroe Hospital, LLC, dated October 7, 2005
10.47(1)	Lease Agreement between Monroe Hospital, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.48(1)	Development Agreement among Monroe Hospital, LLC, Monroe Hospital Development, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.49(1)	Funding Agreement between Monroe Hospital, LLC and MPT of Bloomington, LLC, dated October 7, 2005
10.50(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Chino, LLC, Prime Healthcare Services, LLC, Veritas Health Services, Inc., Prime Healthcare Services, Inc., Desert Valley Hospital, Inc. and Desert Valley Medical Group, Inc., dated November 30, 2005
10.51(1)	Lease Agreement among Veritas Health Services, Inc., Prime Healthcare Services, LLC and MPT of Chino, LLC, dated November 30, 2005
10.52(1)	Loan Agreement among MPT Operating Partnership, L.P., MPT of Odessa Hospital, L.P., Alliance Hospital, Ltd. and SRI-SAI Enterprises, Inc., dated December 23, 2005
10.53(1)	Promissory Note by Alliance Hospital, Ltd. in favor of MPT of Odessa Hospital, L.P., dated December 23, 2005
10.54(1)	Purchase and Sale Agreement among MPT Operating Partnership, L.P., MPT of Sherman Oaks, LLC, Prime A Investments, L.L.C., Prime Healthcare Services II, LLC, Prime Healthcare Services, Inc., Desert Valley Medical Group, Inc. and Desert Valley Hospital, Inc., dated December 30, 2005
10.55(1)	Lease Agreement between MPT of Sherman Oaks, LLC and Prime Healthcare Services II, LLC, dated December 30, 2005
10.56(9)	Forward Sale Agreement between Registrant and UBS AG, London Branch, dated February 22, 2007
10.57(9)	Forward Sale Agreement between Registrant and Wachovia Bank, National Association, dated February 22, 2007
21.1(10)	Subsidiaries of Registrant
23.1(10)	Consent of KPMG LLP
31.1(10)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2(10)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32(10)	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(10)	Consolidated Financial Statements of Vibra Healthcare, LLC as of June 30, 2006

(1) Incorporated by reference to Registrant s Registration Statement on Form S-11 filed with the Commission on October 26, 2004, as amended (File No. 333-119957).

(2) Incorporated by reference to Registrant s quarterly report on Form 10-Q for the quarter ended June 30, 2005, filed with the Commission on July 26, 2005.

(3) Incorporated by reference to Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the Commission on November 10, 2005.

(4)

Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on July 20, 2006.

(5) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on November 13, 2006.

(6) Incorporated by reference to Registrant s definitive proxy statement on Schedule 14A, filed with the Commission on September 13, 2005.

(7) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on October 18, 2005.

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(8) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on November 2, 2005.

(9) Incorporated by reference to Registrant s current report on Form 8-K, filed with the Commission on February 28, 2007.

(10) Included in this Form 10-K.

(11) 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 Annual Report on Form 10-K. 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.