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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number 001-32559

MEDICAL PROPERTIES TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND **(State or other jurisdiction of incorporation or organization)**	**20-0191742** **(I. R. S. Employer Identification No.)**
1000 URBAN CENTER DRIVE, SUITE 501 **BIRMINGHAM, AL** **(Address of principal executive offices)**	**35242** **(Zip Code)**

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (205) 969-3755

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No o

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

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

As of August 9, 2006, the registrant had 40,195,564 shares of common stock, par value $.001, outstanding.

MEDICAL PROPERTIES TRUST, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30,2006

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Real estate assets		
Land	$ 34,512,464	$ 31,004,675
Buildings and improvements	256,486,426	250,518,440
Construction in progress	96,931,759	45,913,085
Intangible lease assets	9,666,192	9,666,192
Mortgage loan	40,000,000	40,000,000
Gross investment in real estate assets	437,596,841	377,102,392
Accumulated depreciation	(8,444,279)	(5,260,219)
Accumulated amortization	(944,818)	(622,612)
Net investment in real estate assets	428,207,744	371,219,561
Cash and cash equivalents	1,833,614	59,115,832
Interest and rent receivable	11,190,702	6,923,091
Straight-line rent receivable	10,470,081	7,909,213
Loans receivable	49,848,111	48,205,611
Other assets	8,709,365	7,800,238
Total Assets	**$ 510,259,617**	**$ 501,173,546**
Liabilities and Stockholders' Equity		
Liabilities		
Debt	$ 101,453,178	$ 100,484,520
Accounts payable and accrued expenses	26,736,716	19,928,900
Deferred revenue	13,947,179	10,922,317
Lease deposits and other obligations to tenants	10,313,533	11,386,801
Total liabilities	152,450,606	142,722,538
Minority interests	2,295,577	2,173,866
Stockholders' equity		
Preferred stock, $0.001 par value. Authorized 10,000,000 shares; no shares outstanding	—	—
Common stock, $0.001 par value. Authorized 100,000,000 shares; issued and outstanding - 39,471,670 shares at June 30, 2006, and 39,345,105 shares at December 31, 2005	39,472	39,345
Additional paid in capital	361,408,197	359,588,362
Distributions in excess of net income	(5,934,235)	(3,350,565)
Total stockholders' equity	355,513,434	356,277,142
Total Liabilities and Stockholders' Equity	**$ 510,259,617**	**$ 501,173,546**

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Revenues				
Rent billed	$ 9,233,759	$ 4,692,328	$ 18,169,855	$ 8,615,377
Straight-line rent	1,259,411	1,432,298	2,560,868	2,777,739
Interest income from loans	2,671,201	1,117,151	5,125,915	2,329,189
Total revenues	13,164,371	7,241,777	25,856,638	13,722,305
Expenses				
Real estate depreciation and amortization	1,762,400	973,996	3,506,267	1,816,403
General and administrative	2,855,142	1,415,067	5,400,013	3,165,877
Total operating expenses	4,617,542	2,389,063	8,906,280	4,982,280
Operating income	8,546,829	4,852,714	16,950,358	8,740,025
Other income (expense)				
Interest income	62,486	358,214	238,547	741,986
Interest expense	(637,473)	(831,117)	(1,174,513)	(1,542,266)
Net other expense	(574,987)	(472,903)	(935,966)	(800,280)
Income before minority interests	7,971,842	4,379,811	16,014,392	7,939,745
Minority interests in consolidated partnerships	(56,771)	—	(121,711)	—
Net income	**$ 7,915,071**	**$ 4,379,811**	**$ 15,892,681**	**$ 7,939,745**
Net income per share — basic	$ 0.20	$ 0.17	$ 0.40	$ 0.30
Weighted average shares outstanding — basic	39,519,695	26,096,021	39,480,684	26,096,813
Net income per share — diluted	$ 0.20	$ 0.17	$ 0.40	$ 0.30
Weighted average shares outstanding — diluted	39,757,723	26,110,119	39,633,158	26,105,844

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended June 30, 2006	2005
Operating activities		
Net income	$ 15,892,681	$ 7,939,745
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,629,981	1,886,454
Amortization of deferred financing costs	494,231	449,762
Straight-line rent revenue	(2,560,868)	(2,777,739)
Deferred fee revenue	(857,368)	—
Share-based compensation	1,583,025	122,766
Other adjustments	149,209	(129,768)
Increase in:		
Interest and rent receivable	(765,775)	(775,523)
Other assets	(292,133)	(1,088,749)
Increase (decrease) in:		
Accounts payable and accrued expenses	4,174,397	(3,493,372)
Deferred revenue	147,894	1,264,502
Lease deposits and other obligations to tenants	(1,100,766)	70,493
Net cash provided by operating activities	20,494,508	3,468,571
Investing activities		
Real estate acquired	(9,475,775)	(56,513,944)
Principal received on loans receivable	—	7,725,958
Investment in loans receivable	(1,410,000)	(4,934,772)
Construction in progress	(51,018,674)	(26,420,931)
Equipment acquired	(1,233,729)	(122,066)
Net cash used for investing activities	(63,138,178)	(80,265,755)
Financing activities		
Additions to debt	29,968,658	19,000,000
Payments of debt	(29,000,000)	(1,795,833)
Deferred financing costs	(1,211)	(1,786,178)
Restricted shares issued to employees in lieu of cash bonus	—	(75,000)
Distributions paid	(15,605,995)	(2,869,116)
Proceeds from sale of partnership units	—	1,137,500
Net cash provided by (used for) financing activities	(14,638,548)	13,611,373
Decrease in cash and cash equivalents for period	(57,282,218)	(63,185,811)
Cash and cash equivalents at beginning of period	59,115,832	97,543,677
Cash and cash equivalents at end of period	**$ 1,833,614**	**$ 34,357,866**
Interest paid, including capitalized interest of $2,582,531 in 2006 and $1,003,779 in 2005	$ 3,262,813	$ 2,096,283
Supplemental schedule of non-cash investing activities:		
Unbilled rent receivables recorded as deferred revenue	$ 3,501,836	$ 1,474,387
Real estate and loans receivable recorded as lease and loan deposits	—	8,773,312
Real estate and loans receivable recorded as deferred revenue	232,500	389,309
Supplemental schedule of non-cash financing activities:		
Distributions declared, not paid	$ 10,047,552	$ 4,186,377
Additional paid-in capital from deferred stock units from sale of common stock	17,236	126,475
Shares issued in lieu of cash bonus	219,701	—
Shares issued for vested common stock	105	—

See accompanying notes to consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

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

The Company succeeded to the business of Medical Properties Trust, LLC, a Delaware limited liability company, which was formed in December 2002. On the day of formation, the Company issued 1,630,435 shares of common stock, and the membership interests of Medical Properties Trust, LLC were transferred to the Company. Medical Properties Trust, LLC had no assets, but had incurred liabilities for costs and expenses related to acquisition due diligence, a planned offering of common stock, consulting fees and office overhead in an aggregate amount of approximately $423,000, which was assumed by the Operating Partnership.

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

On April 6, 2004, the Company completed the sale of 25.6 million shares of common stock in a private placement to qualified institutional buyers and accredited investors. The Company received $233.5 million after deducting offering costs. On July 7, 2005, the Company completed the sale of 11,365,000 shares of common stock in an initial public offering (IPO) at a price of $10.50 per share. On August 5, 2005, the underwriters purchased an additional 1,810,023 shares at the same offering price, less an underwriting commission of seven percent and expenses, pursuant to their over-allotment option. The proceeds have been used to purchase properties, make mortgage loans, to pay debt and accrued expenses, for working capital, and general corporate purposes.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation: Property holding entities and other subsidiaries of which the Company owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which the Company owns less than 100% of the equity interest, the Company consolidates the property if it has the direct or indirect ability to make decisions about the entities' activities based upon the terms of the respective entities' ownership agreements. For entities in which the Company owns less than 100% and does not have the direct or indirect ability to make decisions but does exert significant influence over the entities' activities, the Company records its ownership in the entity using the equity method of accounting.

The Company periodically evaluates all of its transactions and investments to determine if they represent variable interests in a variable interest entity as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) (FIN 46-R), *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. If the Company determines that it has a variable interest in a variable interest entity, the Company determines if it is the primary beneficiary of the variable interest entity. The Company consolidates each variable interest entity in which the Company, by virtue of its transactions with or investments in the entity, is considered to be the primary beneficiary. The Company re-evaluates its status as primary beneficiary when a variable interest entity or potential variable interest entity has a material change in its variable interests.

Unaudited Interim Consolidated Financial Statements: The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, including rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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

3. Real Estate and Lending Activities

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

For the three months ended June 30, 2006 and 2005, revenue from Vibra Healthcare, LLC accounted for 52.9% and 87.4%, respectively, of total revenue. For the six months ended June 30, 2006 and 2005, revenue from Vibra Healthcare, LLC accounted for 53.7% and 91.7% of total revenue. For the three months and six months ended June 30, 2006, the combined revenues of two other operators accounted for 31.9% and 31.5%, respectively, of total revenue.

Transactions Subsequent to June 30, 2006: 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. In August, 2006, the Company acquired a general acute care hospital located in California at a cost of $20.0 million and entered into an operating lease with the operator. The lease has a 15 year fixed term and contains annual rent escalation at the greater of a fixed percentage or the general increase in the consumer price index.

4. Debt

The following is a summary of debt:

	As of June 30, 2006		As of December 31, 2005	
	Balance	Interest Rate	Balance	Interest Rate
Revolving credit facility	$ 58,010,178	8.10%	$ 65,010,178	7.14%
Term loans	43,443,000	7.85%	35,474,342	6.64%
	$101,453,178		$100,484,520	

As of June 30, 2006, principal payments due for our term loans were as follows:

2006	$ 277,350
2007	598,818
2008	42,566,832
	$43,443,000

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.

Transactions Subsequent to June 30, 2006: In July, 2006, the Company completed a $65.0 million private placement of Senior Unsecured Notes due July 30, 2016 (the “Notes”). The Notes were placed in a private transaction exempt from registration under the Securities Act of 1933, as amended, (the “Securities Act”). The Notes will pay interest quarterly at a fixed annual rate of 7.871% through July 30, 2011, and, thereafter, at a floating annual rate of three-month LIBOR plus 2.30%. The Notes may be called at par value by MPT at any time on or after July 30, 2011. In August, 2006, the Company issued an additional $20.0 million of Senior Unsecured Notes. These Notes have the same terms and conditions as the $65.0 million of Notes issued in July, except that the annual interest rate through October 30, 2011, is 7.715%. The Company has the option to issue up to an additional $15.0 million of Notes on the same terms at any time prior to October 30, 2006.

5. Stock Awards

The Company has adopted the Medical Properties Trust, Inc. 2004 Amended and Restated Equity Incentive Plan (the Equity Incentive Plan) which authorizes the issuance of options to purchase shares of common stock, restricted stock awards, restricted stock units, deferred stock units, stock appreciation rights and performance units. The Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. The Company has reserved 4,691,180 shares of common stock for awards under the Equity Incentive Plan. The Equity Incentive Plan contains a limit of 300,000 shares as the maximum number of shares of common stock that may be awarded to an individual in any fiscal year. Awards under the Equity Incentive Plan are subject to forfeiture due to termination of employment prior to vesting. In the event of a change in control of the Company, all outstanding and unvested awards will immediately vest. The term of the awards is set by the Compensation Committee, though Incentive Stock Options may not have terms of more than ten years. Forfeited awards are returned to the Equity Incentive Plan and are then available to be re-issued as future awards.

SFAS No. 123(R), *Share-Based Payment*, became effective for annual and interim periods beginning January 1, 2006. The adoption of SFAS No. 123(R) had no material effect on the results of our operations during the three months and six months ended June 30, 2006, nor in any prior period, because substantially all of the Company’s stock based compensation is in the form of restricted share and deferred stock unit awards. The Company’s policy for recording expense from restricted share and deferred stock unit awards was not affected by SFAS No. 123(R). Under SFAS No. 123(R), the additional compensation expense which the Company would have recorded for stock options in the three months and six months ended June 30, 2006 and 2005 was not material.

The Company awarded 60,000 stock options to three independent directors in March, 2005, with an estimated grant date fair value of $1.86 per option. With those awards, the Company has awarded a total of 100,000 options, all of which were to independent directors. No options have been awarded since that date and none have been exercised. All options have an exercise price of $10 per option (which was the per share value at date of grant) and vested one-third upon grant. The remainder vest one-half on each of the first and second anniversaries of the date of grant, and expire ten years from the date of grant. No other options have been granted. In May, 2006, the members of the Compensation Committee of the Board of Directors awarded each of the five independent directors 5,000 deferred stock units (“DSUs”). These DSUs vested immediately upon grant and will be exchanged for shares of the Company’s common stock at the end of five years. The Company recorded a non-cash expense of $267,250 on the date of grant based on the market value of the Company’s common stock.

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

Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Remaining Contractual Life (years)
$10.00	100,000	80,000	8.3

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

Restricted stock awards vest over periods of three to five years, valued at the average price per share of common stock on the date of grant. Certain officers of the Company elected to receive their 2005 incentive bonus in shares of restricted stock in lieu of cash. Such shares vest at the rate of 25% on the date grant, and 37.5% on January 1 in each of the following two years. Shares granted under this plan are equivalent to 135% of the amount of cash bonus which the officer would otherwise receive. The price per share was based on the average market price per share on the date of approval of the bonuses by the Compensation Committee. The Compensation Committee awarded 140,500 shares of restricted common stock in May, 2006, to Company officers. These shares vest over a period of five years beginning July 1, 2006, based on a combination of service and performance criteria. The following summarizes restricted stock awarded in 2006:

	Shares	Weighted Average Value at Award Date
Outstanding at January 1, 2006	621,460	$10.10
Awarded — bonus election shares	88,499	$ 9.93
Awarded — other	140,500	$11.60
Vested	(126,565)	$10.08
Forfeited	—	—
Outstanding at June 30, 2006	723,894	$10.37

The value of outstanding restricted shares is charged to compensation expense over the vesting periods. In the three months and six months ended June 30, 2006, the Company recorded $710,000 and $1,316,000, respectively, of non-cash compensation expense for restricted shares. The remaining unrecognized cost from share based compensation at June 30, 2006, is approximately $6.6 million and will be recognized over a weighted average period of approximately 1.36 years. During the three months and six months ended June 30, 2006, restricted shares which vested had a value of approximately $566,000 and $1,297,000 on the vesting dates.

6. Earnings Per Share

The following is a reconciliation of the weighted average shares used in net income per common share to the weighted average shares used in net income per common share — assuming dilution for the three months and six months ended June 30, 2006 and 2005, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Weighted average number of shares issued and outstanding	39,471,096	26,082,862	39,437,959	26,082,862
Vested deferred stock units	48,599	13,159	42,725	13,951
Weighted average shares — basic	39,519,695	26,096,021	39,480,684	26,096,813
Common stock warrants, restricted stock and stock options	238,028	14,098	152,474	9,031
Weighted average shares — diluted	39,757,723	26,110,119	39,633,158	26,105,844

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the consolidated financial condition and consolidated results of operations should be read together with the consolidated financial statements of Medical Properties Trust, Inc. and notes thereto contained in this Form 10-Q and the financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

Forward-Looking Statements.

This report on Form 10-Q contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or future performance, achievements or transactions or events to be materially different from those expressed or implied by such forward-looking statements, including, but not limited to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. Such factors include, among others, the following:

- National and local economic, business, real estate and other market conditions;
- The competitive environment in which the Company operates;
- The execution of the Company's business plan;
- Financing risks;
- Acquisition and development risks;
- Potential environmental and other liabilities;
- Other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- Our ability to attain and maintain our status as a REIT for federal and state income tax purposes;
- Our ability to attract and retain qualified personnel; and,
- Federal and state healthcare regulatory requirements.

Overview

We were incorporated under Maryland law on August 27, 2003 primarily for the purpose of investing in and owning net-leased healthcare facilities across the United States. We have operated as a real estate investment trust ("REIT") since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of our calendar year 2004 Federal income tax return. We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases. We also make mortgage loans to healthcare operators secured by their real estate assets. We selectively make loans to certain of our operators through our taxable REIT subsidiary, the proceeds of which are used for acquisitions and working capital.

At June 30, 2006, we owned 14 operating healthcare facilities and held a mortgage loan secured by another facility. In addition, we were in the process of developing three additional healthcare facilities that were not yet in operation. We had one acquisition loan outstanding, the proceeds of which our tenant used for the acquisition of six hospital operating companies. The 17 facilities we owned and the one facility on which we had made a mortgage loan were in nine states, had a carrying cost of approximately $428.2 million and comprised approximately 83.9% of our total assets. Our acquisition and other loans of approximately $49.8 million represented approximately 9.8% of our total assets. We do not expect such non-mortgage loan assets at any time to exceed 20% of our total assets.

At August 1, 2006, we had 20 employees. Over the next 12 months, we expect to add four to six additional employees as we acquire new properties and make new mortgage loans and manage our existing properties and loans.

Key Factors that May Affect Our Operations

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

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

- the historical and prospective operating margins (measured by a tenant’s earnings before interest, taxes, depreciation, amortization and facility rent) of each tenant and of each facility;
- the ratio of our tenants’ operating earnings both to facility rent and to facility rent plus other fixed costs, including debt costs;
- trends in the source of our tenants’ revenue, including the relative mix of Medicare, Medicaid/MediCal, managed care, commercial insurance, and private pay patients; and
- the effect of evolving healthcare regulations on our tenants’ profitability.

Certain business factors, in addition to those described above that directly affect our tenants, will likely materially influence our future results of operations. These factors include:

- trends in the cost and availability of capital, including market interest rates, that our prospective tenants may use for their real estate assets instead of financing their real estate assets through lease structures;
- unforeseen changes in healthcare regulations that may limit the opportunities for physicians to participate in the ownership of healthcare providers and healthcare real estate;
- reductions in reimbursements from Medicare, state healthcare programs, and commercial insurance providers that may reduce our tenants’ profitability and our lease rates, and;
- competition from other financing sources.

CRITICAL ACCOUNTING POLICIES

In order to prepare financial statements in conformity with accounting principles generally accepted in the United States, we must make estimates about certain types of transactions and account balances. We believe that our estimates of the amount and timing of lease revenues, credit losses, fair values and periodic depreciation of our real estate assets, stock compensation expense, and the effects of any derivative and hedging activities will have significant effects on our financial statements. Each of these items involves estimates that require us to make subjective judgments. We rely on our experience, collect historical data and current market data, and develop relevant assumptions to arrive at what we believe to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. Our accounting estimates include the following:

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

Accordingly, our management determines, in its judgment, to what extent the straight-line rent receivable applicable to each specific tenant is collectible. We review each tenant’s straight-line rent receivable on a quarterly basis and take into consideration the tenant’s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area in which the facility is located. In the event that the collectibility of straight-line rent with respect to any given tenant is in doubt, we are required to record an increase in our allowance for uncollectible accounts or record a direct write-off of the specific rent receivable, which would have an adverse effect on our net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease our total assets and stockholders’ equity. At that time, we stop accruing additional straight-line rent income.

Our development projects normally allow for us to earn what we term “construction period rent”. Construction period rent accrues to us during the construction period based on the funds which we invest in the facility. During the construction period, the unfinished facility does not generate any earnings for the lessee/operator which can be used to pay us for our funds used to build the facility. In such cases, the lessee/operator pays the accumulated construction period rent over the term of the lease beginning when the lessee/operator takes physical possession of the facility. We record the accrued construction period rent as deferred revenue during the construction period, and recognize earned revenue as the construction period rent is paid to us by the lessee/operator.

We make loans to our tenants and from time to time may make construction or mortgage loans to facility owners or other parties. We recognize interest income on loans as earned based upon the principal amount outstanding. These loans are generally secured by interests in real estate, receivables, the equity interests of a tenant, or corporate and individual guarantees. As with straight-line rent receivables, our management must also periodically evaluate loans to determine what amounts may not be collectible. Accordingly, a provision for losses on loans receivable is recorded when it becomes probable that the loan will not be collected in full. The provision is an amount which reduces the loan to its estimated net receivable value based on a determination of the eventual amounts to be collected either from the debtor or from the collateral, if any. At that time, we discontinue recording interest income on the loan to the tenant.

Investments in Real Estate. We record investments in real estate at cost, and we capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. While our tenants are generally responsible for all operating costs at a facility, to the extent that we incur costs of repairs and maintenance, we expense those costs as incurred. We compute depreciation using the straight-line method over the estimated useful life of 40 years for buildings and improvements, five to seven years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We are required to make subjective assessments as to the useful lives of our facilities for purposes of determining the amount of depreciation expense to record on an annual basis with respect to our investments in real estate improvements. These assessments have a direct impact on our net income because, if we were to shorten the expected useful lives of our investments in real estate improvements, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

We have adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 requires that the operations related to facilities that have been sold, or that we intend to sell, be presented as discontinued operations in the statement of operations for all periods presented, and facilities we intend to sell be designated as “held for sale” on our balance sheet.

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

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

We measure the aggregate value of other intangible assets to be acquired based on the difference between (i) the property valued with existing leases adjusted to market rental rates and (ii) the property valued as if vacant. Management's estimates of value are made using methods similar to those used by independent appraisers (*e.g.*, discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to range primarily from three to 18 months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets to be acquired, if any, is further allocated to in-place lease values and customer relationship intangible values based on management's evaluation of the specific characteristics of each prospective tenant's lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality, and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We amortize the value of in-place leases to expense over the initial term of the respective leases, which range primarily from 10 to 15 years. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and customer relationship intangibles would be charged to expense.

Accounting for Derivative Financial Investments and Hedging Activities. We expect to account for our derivative and hedging activities, if any, using SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137 and SFAS No. 149, which requires all derivative instruments to be carried at fair value on the balance sheet.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We expect to formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. We plan to review periodically the effectiveness of each hedging transaction, which involves estimating future cash flows. Cash flow hedges, if any, will be accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in other comprehensive income within stockholders' equity. Amounts will be reclassified from other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, which we expect to affect the Company primarily in the form of interest rate risk or variability of interest rates, are considered fair value hedges under SFAS No. 133. We are not currently a party to any derivatives contracts.

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

Stock-Based Compensation. Prior to 2006, we used the intrinsic value method to account for the issuance of stock options under our equity incentive plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) became effective for our annual and interim periods beginning January 1, 2006, but had no material effect on the results of our operations. During the three months and six months ended June 30, 2006, we recorded $977,000 and $1,583,000, respectively, of expense for share based compensation, related to grants of restricted common stock and deferred stock units.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2006, we had approximately $1.8 million in cash and temporary liquid investments. In October 2005, we entered into a four-year $100.0 million secured revolving credit facility. The loan, which has a balance of $74.2 million at August 1, 2006, is secured by a collateral pool comprised of several of our properties. The six properties currently in the collateral pool provide available borrowing capacity of approximately $74.2 million. We believe we have sufficient value in our other properties to increase the availability under the credit facility to its present maximum of $100.0 million. Under the terms of the credit agreement, we may increase the maximum commitment to $175.0 million subject to adequate collateral valuation and payment of customary commitment fees. We have begun discussions with the lender to expand the revolving credit facility to an amount greater than the maximum $175.0 million commitment. However, we can not provide assurance that we will enter into a larger revolving credit facility with the lender or with any other potential lender.

In July, 2006, we completed a $65.0 million private placement of Senior Unsecured Notes due July 30, 2016 (the “Notes”). The Notes were placed in a private transaction exempt from registration under the Securities Act of 1933, as amended, (the “Securities Act”). The Notes will pay interest quarterly at a fixed annual rate of 7.871% through July 30, 2011, and, thereafter, at an annual floating rate of three-month LIBOR plus 2.30%. We may call the Notes at par value at any time on or after July 30, 2011. In August, 2006, we issued an additional $20.0 million of Senior Unsecured Notes. These Notes have the same terms and conditions as the $65.0 million of Notes issued in July, except the annual interest rate through October 30, 2011, is 7.715%. Under the terms of the Placement Agreement for the Senior Unsecured Notes, we have the option to issue up to an additional $15.0 million of Notes on the same terms at any time prior to October 30, 2006. We expect to use the net proceeds from the Notes, after deducting fees and expenses, primarily for funding future acquisitions of healthcare real estate or mortgage loans. In July, 2006, we made two 15 year interest only mortgage loans totaling $65.0 million which we funded using the proceeds from the Senior Unsecured Notes. In August, 2006, we used $20 million of proceeds to acquire a general acute care hospital in California, which we then leased to the operator under a 15 year operating lease.

At June 30, 2006, we had remaining commitments to complete the funding of three development projects as described below (in millions):

	Original Commitment	Cost Incurred	Remaining Commitment
North Cypress community hospital	$ 64.0	$ 48.4	$ 15.6
Bucks County women’s hospital and medical office building	38.0	17.9	20.1
Monroe County community hospital	35.5	30.2	5.3
Total	$ 137.5	$ 96.5	$ 41.0

Short-term Liquidity Requirements: We believe that our existing cash and temporary investments, funds available under our existing loan agreements, additional financing arrangements and cash from operations will be sufficient for us to complete the developments described above, acquire as much as $235 million in additional assets, provide for working capital, and make required distributions to our stockholders through the remainder of 2006. We expect that such additional financing arrangements will include various types of new debt, possibly including long-term, fixed-rate mortgage loans, variable-rate term loans, and construction financing facilities. Generally, we believe we will be able to finance up to approximately 50-60% of the cost of our healthcare facilities; however, there is no assurance that we will be able to obtain or maintain those levels of debt on our portfolio of real estate assets on favorable terms in the future. If we are not able to obtain or maintain these levels of debt, we believe that our ability to acquire up to $235 million of additional assets during the remainder of 2006 will be adversely affected.

Long-term Liquidity Requirements: We believe that cash flow from operating activities subsequent to 2006 will be sufficient to provide adequate working capital and make required distributions to our stockholders in compliance with our requirements as a REIT. However, in order to continue acquisition and development of healthcare facilities after 2006, we will require access to more permanent external capital, including equity capital. If equity capital is not available at a price that we consider appropriate, we may increase our debt, selectively dispose of assets, utilize other forms of capital, if available, or reduce our acquisition activity.

Financing Activities

In the first quarter of 2006, we used $29.0 million of available cash to temporarily reduce the balance on our revolving credit facility. In the second quarter of 2006, we borrowed an additional $22.0 million on our revolving credit facility. In the first six months of 2006, we also borrowed an additional $8.0 million on our construction loans for our West Houston Town and Country Hospital and Medical Office Building projects.

Investing Activities

In the first six months of 2006, we invested $51.2 million in our three development projects. We also invested $9.5 million in our current operating facilities, primarily the West Houston Town and Country Hospital and Medical Office Building projects. Our expectations about future investing activities are described above under Liquidity and Capital Resources.

Results of Operations

Our historical operations are generated substantially by investments we have made since we completed our private offering and raised approximately $233.5 million in common equity in the second quarter of 2004 and since we completed our IPO and raised approximately $124.7 million in common equity in the third quarter of 2005. We also are in the process of developing additional healthcare facilities that have not yet begun generating revenue, and we expect to acquire additional existing healthcare facilities in the foreseeable future. Accordingly, we expect that future results of operations will vary materially from our historical results.

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Net income for the three months ended June 30, 2006, was $7,915,071 compared to net income of $4,379,811 for the three months ended June 30, 2005, a 80.7% increase.

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

	2006	% of Total	2005	% of Total	Year over Year Change
Base rents	$ 8,487,113	64.4%	$ 4,087,915	56.4%	107.6%
Straight-line rents	1,259,411	9.6%	1,432,298	19.8%	(12.1%)
Percentage rents	655,888	5.0%	604,413	8.3%	8.52%
Contingent rents	90,758	0.7%	—	—	—
Fee income	260,490	2.0%	19,116	0.3%	1,262.7%
Interest from loans	2,410,711	18.3%	1,098,035	15.2%	119.6%
Total revenue	$13,164,371	100.0%	$ 7,241,777	100.0%	81.8%

Revenue of $13,164,371 in the three months ended June 30, 2006, was comprised of rents (79.7%) and interest from loans and fee income (20.3%). In the second quarter of 2006, we owned 14 rent producing properties compared to nine in the second quarter of 2005, which accounted for the increase in base rents. While minimum guaranteed base rent increases are included in straight-line rents, any amounts in excess of these minimums are recorded as contingent rent. During the second quarter of 2006, we received percentage rents of approximately $656,000 from Vibra, a $52,000 increase from the second quarter of 2005, due to higher revenues at the original six Vibra facilities. Interest income from loans in the quarter ended June 30, 2006 compared to the same period in 2005 increased due to origination of a $40,000,000 mortgage loan in the fourth quarter of 2005. Vibra accounted for 52.9% and 87.4% of our gross revenues during the three months ended June 30, 2006 and 2005, respectively.

We expect our revenue to continue to increase in future quarters as a result of expected acquisitions and mortgage loans and completion of projects currently under development. We also expect that the relative portion of our revenue that is paid by Vibra will continue to decline as a result of continued tenant diversification.

Depreciation and amortization during the second quarter of 2006, was $1,762,400, compared to $973,996, during second quarter of 2005, an 81.0% increase. All of this increase is related to an increase in the number of rent producing properties from nine at June 30, 2005 to 14 at June 30, 2006. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses in the second quarters of 2006 and 2005 totaled $2,855,142, and $1,415,067, respectively, an increase of 101.8%. We recorded approximately $977,000 for share-based compensation in the second quarter of 2006 as compared to $47,000 in the second quarter of 2005, accounting for approximately 64.6% of the increase. Share based compensation for 2006 includes approximately $267,000 for 25,000 deferred stock units (DSU's) awarded to the five independent members of our Board of Directors in May, 2006, at our annual meeting of shareholders. These DSU's vested immediately upon award. Based on our existing director compensation policies and Board composition, a similar number of DSU's will be awarded and expensed (based on the market price of our common stock) on the date of future annual meetings. The remaining share-based compensation expense recorded in 2006 represents the expense from grants of restricted shares to employees, officers and directors in 2005 and 2006. We record the expense from restricted share awards over the vesting period of three to five years.

Interest income (other than from loans) for the quarters ended June 30, 2006 and 2005, totaled $62,486 and $358,214, respectively. Interest income decreased primarily due to lower cash balances in the three months ended June 30, 2006. We used our cash balances of $59.1 million at December 31, 2005 to reduce debt, pay dividends and invest in our development projects.

Interest paid for the quarters ended June 30, 2006 and 2005, totaled $1,843,773 and $1,132,905, respectively. Capitalized interest for the quarters ended June 30, 2006 and 2005, totaled $1,453,113 and $608,378, respectively, resulting in interest expense (which includes amortized financing costs) for the quarters ended June 30, 2006 and 2005, of $637,473 and $831,117, respectively. Interest paid increased due to higher interest rates and larger debt balances in 2006 compared to 2005. Capitalized interest increased due to higher interest rates and developments under construction of $96.9 million at June 30, 2006, compared to $50.5 million under construction at June 30, 2005.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Net income for the six months ended June 30, 2006, was $15,892,681 compared to net income of $7,939,745 for the six months ended June 30, 2005, a 100.2% increase.

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

	2006	% of Total	2005	% of Total	Year over Year Change
Base rents	$16,739,209	64.8%	$ 7,616,422	55.5%	119.8%
Straight-line rents	2,560,868	9.9%	2,777,739	20.2%	(7.81%)
Percentage rents	1,296,596	5.0%	998,955	7.3%	29.8%
Contingent rents	134,050	0.5%	—	—	—
Fee income	332,869	1.3%	84,080	0.6%	295.9%
Interest from loans	4,793,046	18.5%	2,245,109	16.4%	113.5%
Total revenue	$25,856,638	100.0%	$13,722,305	100.0%	88.4%

Revenue of $25,856,638 in the six months ended June 30, 2006, was comprised of rents (80.2%) and interest from loans and fee income (19.8%). At June 30, 2006, we owned 14 rent producing properties compared to nine at June 30, 2005, which accounted for the increase in base rents. While minimum guaranteed base rent increases are included in straight-line rents, any amounts in excess of these minimums are recorded as contingent rent. During the first two quarters of 2006, we received percentage rents of $1,296,596 from Vibra, a $298,000 increase from the first two quarters of 2005, due to higher revenues at the original six Vibra facilities. Interest income from loans in the six months ended June 30, 2006 compared to the same period in 2005 increased due to origination of a $40,000,000 mortgage loan in the fourth quarter of 2005. Vibra accounted for 53.7% and 91.7% of our gross revenues during the six months ended June 30, 2006 and 2005, respectively.

We expect our revenue to continue to increase in future quarters as a result of expected acquisitions and completion of projects currently under development. We also expect that the relative portion of our revenue that is paid by Vibra will continue to decline as a result of continued tenant diversification.

Depreciation and amortization during the six months ended June 30, 2006, was $3,506,267, compared to $1,816,403, during the six months ended June 30, 2005, a 93.0% increase. All of this increase is related to an increase in the number of rent producing properties from nine at June 30, 2005 to 14 at June 30, 2006. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses in the six months ended June 30, 2006 and 2005, totaled $5,400,013, and $3,165,877, respectively, an increase of 70.6%. We recorded approximately $1.6 million for share-based compensation as compared to $122,000 in the first six months of 2005, accounting for approximately 66.2% of the increase. Share based compensation for 2006 includes approximately $267,000 for 25,000 deferred stock units (DSU's) awarded to the five independent members of our Board of Directors in May, 2006, at our annual meeting of shareholders. These DSU's vested immediately upon award. Based on our existing director compensation policies and Board composition, a similar number of DSU's will be awarded and expensed (based on the market price of our common stock) on the date of future annual meetings. The remaining share-based compensation expense recorded in 2006 represents the expense from grants of restricted shares to employees, officers and directors in 2005 and 2006. We record the expense from restricted share awards over the vesting period of three to five years. Finally, in the six months ended June 30, 2006, we settled a legal dispute resulting in incremental general and administrative expense of approximately $200,000.

Interest income (other than from loans) for the quarters ended June 30, 2006 and 2005, totaled $238,547 and $741,986, respectively. Interest income decreased primarily due to lower cash balances in the six months ended June 30, 2006. We used our cash balances of $59.1 million at December 31, 2005 to reduce debt, pay dividends and invest in our development projects.

Interest paid for the six months ended June 30, 2006 and 2005, totaled $3,262,813 and $2,096,283, respectively. Capitalized interest for the six months ended June 30, 2006 and 2005, totaled $2,582,531 and $1,003,779, respectively, resulting in interest expense (which includes amortized financing costs) for the six months ended June 30, 2006 and 2005, of $1,174,513 and $1,542,266, respectively. Interest paid increased due to higher interest rates and larger debt balances in 2006 compared to 2005. Capitalized interest increased due to higher interest rates and developments under construction of $96.9 million at June 30, 2006, compared to $50.5 million under construction at June 30, 2005.

Reconciliation of Non-GAAP Financial Measures

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. While we believe net income available to common stockholders, as defined by generally accepted accounting principles (GAAP), is the most appropriate measure, our management considers FFO an appropriate supplemental measure given its wide use by and relevance to investors and analysts. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation and amortization of real estate assets, which assume that the value of real estate diminishes predictably over time.

As defined by the National Association of Real Estate Investment Trusts, or NAREIT, FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO in accordance with the NAREIT definition. FFO should not be viewed as a substitute measure of the Company's operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs that could materially impact our results of operations.

The following table presents a reconciliation of FFO to net income for the three and six months ended June 30, 2006 and 2005:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$7,915,071	$4,379,811	$15,892,681	$7,939,745
Depreciation and amortization	1,762,400	973,996	3,506,267	1,816,403
Funds from operations — FFO	$9,677,471	$5,353,807	$19,398,948	$9,756,148

Per diluted share amounts:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$ 0.20	$ 0.17	$ 0.40	$ 0.30
Depreciation and amortization	0.04	0.04	0.09	0.07
Funds from operations — FFO	$ 0.24	$ 0.21	$ 0.49	$ 0.37

In addition to adjustments to net income necessary to calculate funds from operations in accordance with the effects of straight-line rent revenue and non-cash share based compensation expense.

Distribution Policy

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

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

Declaration Date	Record Date	Date of Distribution	Distribution per Share
May 18, 2006	June 15, 2006	July 13, 2006	$0.25
February 16, 2006	March 15, 2006	April 12, 2006	$0.21
November 18, 2005	December 15, 2005	January 19, 2006	$0.18
August 18, 2005	September 15, 2005	September 29, 2005	$0.17
May 19, 2005	June 20, 2005	July 14, 2005	$0.16
March 4, 2005	March 16, 2005	April 15, 2005	$0.11
November 11, 2004	December 16, 2004	January 11, 2005	$0.11
September 2, 2004	September 16, 2004	October 11, 2004	$0.10

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $1.2 million per year. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately $1.2 million per year. This assumes that the amount outstanding under our variable rate debt remains approximately $117.7 million, the balance at August 1, 2006.

We currently have no assets denominated in a foreign currency, nor do we have any assets located outside of the United States. We also have no exposure to derivative financial instruments.

Item 4. Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed by the company in the reports that the Company files with the SEC.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1.A. Risk Factors

There have been no material changes to the Risk Factors as presented in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the Commission on March 31, 2006.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Our annual meeting of stockholders was held on May 18, 2006.

Proxies for the annual meeting were solicited pursuant to Regulation 14A under the Exchange Act. There were no solicitations in opposition to management's nominees for the board of directors or other proposals listed in our proxy statement. All nominees listed in the proxy statement were elected and all proposals listed in the proxy statement were approved.

The election of eight directors for the ensuing year was voted upon at the annual meeting. The number of votes cast for and withheld for each nominee for director is set forth below:

Nominee	For	Withheld
Edward K. Aldag, Jr.	30,801,942	1,407,614
Virginia A. Clarke	32,147,141	62,415
G. Steven Dawson	29,557,922	2,651,634
Bryan L. Goolsby	29,603,022	2,606,534
R. Steven Hamner	31,012,262	1,197,294
Robert E. Holmes, Ph.D.	32,103,241	106,315
William G. McKenzie	28,557,543	3,652,013
L. Glenn Orr, Jr.	31,056,922	1,152,634

A proposal to ratify management's selection of KPMG LLP as our independent audit firm for 2006 was voted upon at the annual meeting. The number of votes that were cast for and against this proposal and the number of abstentions and broker non-votes are set forth below:

For:	Against:	Abstentions and Broker Non-Votes:
31,983,789	166,790	58,977

Item 5. Other Information

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

On August 9, 2006, we issued a press release announcing our financial results for the three months and six months ended June 30, 2006. A copy of the press release is furnished as exhibit 99.1 to this report and is incorporated by reference herein. The information in Exhibit 99.1 attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 6. Exhibits

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

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
99.1	Press release dated August 9, 2006 reporting financial results for the three months and six months ended June 30, 2006
99.2	Consolidated Financial Statements of Vibra Healthcare, LLC as of March 31, 2006

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEDICAL PROPERTIES TRUST, INC.

By: /s/ R. Steven Hamner

R. Steven Hamner
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as the Registrant's
Principal Financial and Accounting Officer)

Date: August 10, 2006

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
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32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
99.1	Press release dated August 9, 2006 reporting financial results for the three months ended June 30, 2006
99.2	Consolidated Financial Statements of Vibra Healthcare, LLC as of March 31, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TORULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Edward K. Aldag, Jr., certify that:

1) I have reviewed this quarterly report on Form 10-Q of Medical Properties Trust, Inc.

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2006

/s/ Edward K. Aldag, Jr.
Edward K. Aldag, Jr.
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, R. Steven Hamner, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Medical Properties Trust, Inc.

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2006

/s/ R. Steven Hamner
R. Steven Hamner
Executive Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of Medical Properties Trust, Inc. (the "Company") for the quarter ended June 30, 2006 (the "Report"), each of the undersigned, Edward K. Aldag, Jr. and R. Steven Hamner, certifies, pursuant to Section 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2006

/s/ Edward K. Aldag, Jr.
Edward K. Aldag, Jr.
Chairman, President and Chief Executive Officer

/s/ R. Steven Hamner
R. Steven Hamner
Executive Vice President and Chief Financial Officer

EXHIBIT 99.1

Medical Properties Trust

Contact: Charles Lambert
Finance Director
Medical Properties Trust
(205) 397-8897
clambert@medicalpropertiestrust.com

MEDICAL PROPERTIES TRUST, INC. REPORTS SECOND QUARTER RESULTS

Vibra Healthcare to Reduce Loan Balance

2006 Guidance Adjusted for Acquisitions Timing and Vibra Prepayment

Birmingham, Ala., August 9, 2006 — Medical Properties Trust, Inc. (NYSE: MPW) today announced its operating and other results for the quarter and six months ended June 30, 2006.

HIGHLIGHTS

- Second quarter funds from operations (“FFO”) was $0.24 per diluted share;
- FFO for the first six months of 2006 was $0.49 per diluted share;
- Vibra to repay $12 million of its loan balance and repurchase a hospital;
- The Company closed on $90 million of acquisitions since June 30 at rates in excess of 10%;
- The company issued $85 million in 5-year fixed-rate unsecured notes since June 30;
- A quarterly dividend of $0.25 per common share was declared on May 18, and paid on July 13, 2006.

OPERATING RESULTS

FFO of $9.7 million for the second quarter of 2006 increased 81% over the same period in 2005. On a per diluted share basis, FFO of $0.24 for the second quarter increased 14% over second quarter 2005 FFO per share.

Net income for the quarter ended June 30, 2006 was $7.9 million, or $0.20 per diluted share, which was an increase of 81% and 18% respectively, compared with net income for the corresponding period in 2005.

For the first six months of 2006, FFO increased 99% to $19.4 million from $9.8 million for the first six months in 2005. On a per diluted share basis, FFO was $0.49 per share compared to $0.37 per diluted share for the first six months of 2005.

Net income for the first six months was $15.9 million, or $0.40 per diluted share, which was an increase of 100% and 33%, respectively, compared with net income of $7.9 million and $0.30 per diluted share in the corresponding period in 2005.

General and administrative expenses for the quarter were $2.9 million. Included in this total was a charge for non-cash share based compensation expense of $710 thousand, and annual independent director share based compensation that was awarded and fully vested in May of approximately $300 thousand. The Company restated its expectation that general and administrative expenses, not including share based compensation, will approximate $1.8 million per quarter through the end of 2006.

The Company also announced today that Vibra Healthcare, its largest tenant, has notified MPT of its intention to repay approximately $12.0 million of a $41.4 million loan on or about August 15, 2006. Additionally, Vibra will repurchase the Kentfield, California facility for approximately $7.6 million. Subsequent to the Vibra loan payment and repurchase, the Company's investment in Vibra real estate and loans will approximate 35% of total investments and total pro-forma annualized revenue.

"In just two short years, Brad Hollinger and the Vibra management team have proven themselves as outstanding long-term acute care and inpatient rehabilitation hospital operators," said Edward K. Aldag, Jr., Chairman, President and CEO. "Vibra's lease coverage ratio, calculated on base rent, for the original six hospitals has continually improved and stands at 1.94 times for the first six months of 2006. Vibra's ability to refinance a significant portion of our loan with institutional healthcare lenders validates the MPT strategy of investing with strong and experienced hospital operators."

Based on operating results for the first six months reported by the Company's tenants, MPT's weighted average EBITDAR lease coverage ratio approximated 3.1 times; approximately 60% of all tenants' patient days during the quarter resulted from Medicare patients, while commercial payors, Medicaid, and other reimbursement sources represented 20%, 15% and 5%, respectively of patient days.

ACQUISITIONS AND FUTURE OPERATIONS

MPT also reaffirmed its expectations that it will acquire at least $200 million in hospital real estate and mortgages during 2006. "As previously reported, we recently turned down two acquisitions with an aggregate value of $70 million late in the closing process and that put us behind in our acquisition plans," said Aldag. "However, we continue to see a healthy number of opportunities that generate initial cash yields of 10% and higher from experienced and successful hospital operators."

Because of the Vibra loan prepayment and repurchase of the Kentfield hospital, and the timing of acquisitions as previously noted, the Company updated its expected FFO for the full year of 2006. Based solely on the existing portfolio of investments and management's expectations about the completion of three development projects, 2006 FFO is expected to range between $1.06 and $1.08 per diluted share (previously between $1.16 and $1.20 per share). The Company attributed approximately $0.03 ($0.07 on an annualized basis) per share of the guidance reduction to the effects of the Vibra transactions and substantially all of the remainder to the amount and timing of anticipated acquisitions. Any additional investments made before December 31, 2006 are expected to result in 2006 FFO in excess of the Company's guidance.

CONFERENCE CALL AND WEBCAST

The Company has scheduled a conference call and webcast for Thursday, August 10, 2006 at 11:00 a.m. Eastern Time in order to present the Company's performance and operating results for the quarter and six months ended June 30, 2006. The dial-in number for the conference call is (800) 901-5241 (U.S.) and (617) 786-2963 (International), and the passcode is 38467708. Participants may also access the call via webcast at www.medicalpropertiestrust.com. A dial-in and webcast replay of the call will be available shortly after completion of the call. Callers may dial (888) 286-8010 (U.S.) or (617) 801-6888 (International), and use passcode 11909742 for the replay.

About Medical Properties Trust, Inc.

Medical Properties Trust, Inc. is a Birmingham, Alabama based self-advised real estate investment trust formed to capitalize on the changing trends in healthcare delivery by acquiring and developing net-leased healthcare facilities. These facilities include inpatient rehabilitation hospitals, long-term acute care hospitals, regional acute care hospitals, ambulatory surgery centers and other single-discipline healthcare facilities, such as heart hospitals, orthopedic hospitals and cancer centers.

The statements in this press release that are forward looking are based on current expectations and actual results or future events may differ materially. Words such as "expects," "believes," "anticipates," "intends," "will," "should" and variations of such words and similar expressions are intended to identify such forward-looking statements, which include statements including, but not limited to, concerning the payment of future dividends, if any, completion of projects under development, acquisition of healthcare real estate, completion of additional debt arrangements, the capacity of the Company's tenants to meet the terms of their agreements, the level of general and administrative expense, the timing of Vibra's debt repayment, and net income per share and FFO per share in 2006. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results of the Company or future events to differ materially from those express in or underlying such forward-looking statements, including without limitation: national and economic, business, real estate and other market conditions; the competitive environment in which the Company operations; the execution of the Company's business plan; financing risks; the Company's ability to attain and maintain its status as a REIT for federal income tax *purposes; acquisition and development risks; potential environmental and other liabilities; and other factors affecting the real estate industry generally or the healthcare real estate in particular. For further discussion of the facts that could affect outcomes, please refer to the "Risk Factors" section of the Company's Form 10-K for the year ended December 31, 2005 and the final prospectus for its initial public offering. Except as otherwise required by the federal securities laws, the Company undertakes no obligation to update the information in this press release.*

# # #

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues				
Rent billed	$ 9,233,759	$ 4,692,328	$ 18,169,855	$ 8,615,377
Straight-line rent	1,259,411	1,432,298	2,560,868	2,777,739
Interest income from loans	2,671,201	1,117,151	5,125,915	2,329,189
Total revenues	13,164,371	7,241,777	25,856,638	13,722,305
Expenses				
Real estate depreciation and amortization	1,762,400	973,996	3,506,267	1,816,403
General and administrative	2,855,142	1,415,067	5,400,013	3,165,877
Total operating expenses	4,617,542	2,389,063	8,906,280	4,982,280
Operating income (loss)	8,546,829	4,852,714	16,950,358	8,740,025
Other income (expense)				
Interest income	62,486	358,214	238,547	741,986
Interest expense	(637,473)	(831,117)	(1,174,513)	(1,542,266)
Net other expense	(574,987)	(472,903)	(935,966)	(800,280)
Income before minority interests	7,971,842	4,379,811	16,014,392	7,939,745
Minority interests in consolidated partnerships	(56,771)	—	(121,711)	—
Net income (loss)	**$ 7,915,071**	**$ 4,379,811**	**$ 15,892,681**	**$ 7,939,745**
Net income (loss) per share, basic	**$ 0.20**	**$ 0.17**	**$ 0.40**	**$ 0.30**
Weighted average shares outstanding — basic	**39,519,695**	**26,096,021**	**39,480,684**	**26,096,813**
Net income (loss) per share, diluted	**$ 0.20**	**$ 0.17**	**$ 0.40**	**$ 0.30**
Weighted average shares outstanding — diluted	**39,757,723**	**26,110,119**	**39,633,158**	**26,105,844**

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Real estate assets		
Land	$ 34,512,464	$ 31,004,675
Buildings and improvements	256,486,426	250,518,440
Construction in progress	96,931,759	45,913,085
Intangible lease assets	9,666,192	9,666,192
Mortgage loan	40,000,000	40,000,000
Gross investment in real estate assets	437,596,841	377,102,392
Accumulated depreciation	(8,444,279)	(5,260,219)
Accumulated amortization	(944,818)	(622,612)
Net investment in real estate assets	428,207,744	371,219,561
Cash and cash equivalents	1,833,614	59,115,832
Interest and rent receivable	11,190,702	6,923,091
Straight-line rent receivable	10,470,081	7,909,213
Loans receivable	49,848,111	48,205,611
Other assets	8,709,365	7,800,238
Total Assets	**$ 510,259,617**	**$ 501,173,546**
Liabilities and Stockholders' Equity		
Liabilities		
Debt	$ 101,453,178	$ 100,484,520
Accounts payable and accrued expenses	26,736,716	19,928,900
Deferred revenue	13,947,179	10,922,317
Lease deposits and other obligations to tenants	10,313,533	11,386,801
Total liabilities	152,450,606	142,722,538
Minority interest	2,295,577	2,173,866
Stockholders' equity		
Preferred stock, $0.001 par value. Authorized 10,000,000 shares; no shares outstanding	—	—
Common stock, $0.001 par value. Authorized 100,000,000 shares; issued and outstanding — 39,419,450 shares at March 31, 2006 and 39,345,105 shares at December 31, 2005	39,472	39,345
Additional paid in capital	361,408,197	359,588,362
Distributions in excess of net income	(5,934,235)	(3,350,565)
Total stockholders' equity	355,513,434	356,277,142
Total Liabilities and Stockholders' Equity	**$ 510,259,617**	**$ 501,173,546**

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
Reconciliation of Net Income to Funds From Operations
(Unaudited)

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
FFO information				
Net income	$ 7,915,071	$ 4,379,811	$ 15,892,681	$ 7,939,745
Depreciation and amortization	1,762,399	973,996	3,506,267	1,816,403
Funds from operations	**$ 9,677,470**	**$ 5,353,807**	**$ 19,398,948**	**$ 9,756,148**
Per share data:				
Net income per share, basic and diluted	$ 0.20	$ 0.17	$ 0.40	$ 0.30
Depreciation and amortization	0.04	0.04	0.09	0.07
Funds from operations	$ 0.24	$ 0.21	$ 0.49	$ 0.37
FFO per share, basic	$ 0.24	$ 0.21	$ 0.49	$ 0.37
FFO per share, diluted	$ 0.24	$ 0.21	$ 0.49	$ 0.37

Funds from operations, or FFO, represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. Management considers funds from operations a useful additional measure of performance for an equity REIT because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that funds from operations provides a meaningful supplemental indication of our performance. We compute funds from operations in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating funds from operations utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. Funds from operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as indicators of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

Vibra Healthcare, LLC and Subsidiaries
Consolidated Balance Sheet
March 31, 2006 (Unaudited) and December 31, 2005

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 2,564,324	$ 3,018,829
Patient accounts receivable, net of allowance for doubtful collections of $1,700,000 and $1,689,000 at March 31, 2006 and December 31, 2005, respectively	27,678,467	22,751,868
Third party settlements receivable	334,740	575,658
Prepaid insurance	1,767,934	1,969,240
Other current assets	1,081,147	964,268
Total current assets	33,426,612	29,279,863
Restricted investment	100,000	100,000
Property and equipment, net	17,424,829	17,638,222
Goodwill	22,629,663	22,629,663
Intangible assets	5,140,000	5,140,000
Deposits	4,101,822	4,028,604
Deferred financing and lease costs	1,901,722	1,970,073
Total assets	$ 84,724,648	$ 80,786,425
Liabilities and Member's Deficit		
Current liabilities:		
Current maturities of long-term debt	$ 46,862	$ 58,377
Current maturities of obligations under capital leases	712,863	471,548
Accounts payable	4,677,973	5,080,042
Accounts payable — related parties	254,669	233,977
Accrued liabilities	5,917,283	6,260,283
Accrued insurance claims	1,186,696	1,054,202
Total current liabilities	12,796,346	13,158,429
Accrued insurance claims	2,470,507	2,470,507
Deferred rent	7,083,154	6,501,674
Long-term debt	57,495,423	51,572,156
Long-term obligations under capital leases	17,537,427	17,860,209
Total liabilities	97,382,857	91,562,975
Member's deficit	(12,658,209)	(10,776,550)
Total liabilities and member's deficit	$ 84,724,648	$ 80,786,425

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vibra Healthcare, LLC and Subsidiaries
Consolidated Statement of Operations and Changes in Member's Deficit
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)

	2006 (Unaudited)	2005 (Unaudited)
Revenue:		
Net patient service revenue	$ 35,789,860	$29,328,088
Expenses:		
Cost of services	24,971,636	20,067,059
Rent expense	5,353,640	5,121,583
General and administrative	4,708,166	3,354,649
Interest expense	1,801,748	1,263,356
Management fee – Vibra Management, LLC	740,124	586,593
Depreciation and amortization	508,183	194,293
Bad debt expense	187,866	167,233
Total expenses	38,271,363	30,754,766
Loss from operations	(2,481,503)	(1,426,678)
Non-operating revenue	599,844	533,460
Net loss	(1,881,659)	(893,218)
Member's deficit – beginning	(10,776,550)	(3,814,700)
Member's deficit – ending	$(12,658,209)	$ (4,707,918)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Vibra Healthcare, LLC and Subsidiaries
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)

	2006 (Unaudited)	2005 (Unaudited)
Operating activities:		
Net loss	$ (1,881,659)	$ (893,218)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	508,183	194,293
Provision for bad debts	187,866	167,233
Changes in operating assets and liabilities, net of effects from acquisition of business:		
Patient accounts receivable including third party settlements	(4,873,547)	(2,613,072)
Prepaids and other current assets	84,427	122,010
Deposits	(73,218)	1,375,000
Accounts payable	(381,377)	(1,954,941)
Accrued liabilities	(210,506)	(190,445)
Deferred rent	581,480	1,308,923
Net cash used in operating activities	(6,058,351)	(2,484,217)
Investing activities:		
Purchases of property and equipment	(161,947)	(163,463)
Purchase of restricted investment	—	(100,000)
Net cash used in investing activities	(161,947)	(263,463)
Financing activities:		
Borrowings under revolving credit facility	36,103,365	24,098,291
Repayments of revolving credit facility	(30,174,988)	(13,189,000)
Repayment of capital leases	(145,959)	—
Repayment of notes payable	(16,625)	(7,725,957)
Payment of deferred financing costs	—	(8,450)
Net cash provided by financing activities	5,765,793	3,174,884
Net (decrease) increase in cash and cash equivalents	(454,505)	427,204
Cash and cash equivalents – beginning	3,018,829	2,280,772
Cash and cash equivalents – ending	$ 2,564,324	$ 2,707,976
Supplemental cash flow information:		
Cash paid for interest	$ 1,801,748	$ 1,263,356
Supplemental disclosure of non-cash investing and financing activities:		
Equipment purchases funded by capital lease	$ 64,492	$ —
Deferred financing costs funded by revolving credit facility	$ —	$ 157,025
Business acquisition adjustment of goodwill	$ —	$ 140,504

The accompanying notes are an integral part of these condensed consolidated financial statements.

VIBRA HEALTHCARE, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements of Vibra Healthcare, LLC and Subsidiaries ("Vibra" and the "Company") as of March 31, 2006, and for the three months ended March 31, 2006 and 2005, have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All significant intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2006.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2005, previously included in filings of Medical Properties Trust, Inc. with the Securities and Exchange Commission.

2. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Vibra was formed May 14, 2004, and commenced operations with the acquisition of its subsidiaries consisting of four inpatient rehabilitation hospitals ("IRF") and two long-term acute care hospitals ("LTACH") located throughout the United States on July 1, 2004 and August 17, 2004, respectively. On June 30, 2005, Vibra acquired an IRF that has been converted to an LTACH effective January 1, 2006. Vibra, a Delaware limited liability company, has an infinite life. The members' liability is limited to the capital contribution. Vibra was previously named Highmark Healthcare LLC until a name change in December 2004. Vibra's wholly-owned subsidiaries consist of:

SUBSIDIARIES	LOCATION
92 Brick Road Operating Company LLC	Marlton, NJ
4499 Acushnet Avenue Operating Company LLC	New Bedford, MA
1300 Campbell Lane Operating Company LLC	Bowling Green, KY
8451 Pearl Street Operating Company LLC	Denver, CO
7173 North Sharon Avenue Operating Company LLC	Fresno, CA
1125 Sir Francis Drake Boulevard Operating Company LLC	Kentfield, CA
Northern California Rehabilitation Hospital, LLC	Redding, CA

The Company provides long-term acute care hospital services and inpatient acute rehabilitative hospital care at its hospitals. Patients in the Company's LTACHs typically suffer from serious and often complex medical conditions that require a high degree of care. Patients in the Company's IRFs typically suffer from debilitating injuries including traumatic brain and spinal cord injuries, and require rehabilitation care in the form of physical, psychological, social and vocational rehabilitation services. The Company also operates eleven outpatient clinics affiliated with six of its seven hospitals.

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon a periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages.

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the lease, as appropriate. The general range of useful lives is as follows:

Building under capital lease	Lesser of 15 years or remaining lease term
Leasehold improvements	Lesser of 15 years or remaining lease term
Furniture and equipment	2-7 years

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No 144), the Company reviews the realizability of long-lived assets whenever events or circumstances occur which indicate recorded costs may not be recoverable.

Revenue Recognition

Net patient service revenue consists primarily of charges to patients and are recognized as services are rendered. Net patient service revenue is reported net of provisions for contractual adjustments from third-party payors and patients. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net patient service revenue. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient accounts receivable resulting from such payment arrangements are recorded net of contractual allowances.

A significant portion of the Company's net patient service revenue is generated directly from the Medicare and Medicaid programs. As a provider of services to these programs, the Company is subject to extensive regulations. The inability of a hospital to comply with regulations can result in changes in that hospital's net patient service revenue generated from these programs. The following table shows the percentage of the Company's patient service receivables from Medicare and Medicaid.

	March 31	
	2006	2005
Medicare	67%	46%
Medicaid	11%	22%

The following table represents the Company's net patient service revenues from the Medicare and Medicaid programs as a percentage of total consolidated net patient service revenue:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Medicare	57%	65%
Medicaid	25%	14%

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31, 2006		
	Direct Ownership	Under Capital Leases	Total
Building	$ 26,691	$ 14,087,816	$ 14,114,507
Leasehold improvements	674,615	—	674,615
Furniture and equipment	3,953,028	558,400	4,511,428
	4,654,334	14,646,216	19,300,550
Less: accumulated depreciation and amortization	(1,115,898)	(759,823)	(1,875,721)
Total	$ 3,538,436	$ 13,886,393	$ 17,424,829

Depreciation expense, including amortization of property and equipment under capital leases, was $439,832 and $152,783 for the three months ended March 31, 2006 and 2005, respectively.

4. LONG-TERM DEBT

The components of long-term debt are shown in the following table:

	March 31, 2006
MPT 10.25% hospital acquisition note	$ 41,415,987
Merrill Lynch $20 million revolving credit facility	16,079,436
Other	46,862
	57,542,285
Less: current maturities	46,862
	$ 57,495,423

The hospital acquisition note is interest only through June 2007, and then amortized over the next 12 years with a final maturity in 2019. Substantially all of the assets of Vibra and its subsidiaries, as well as Vibra's membership interests in its subsidiaries, secure the MPT note. In addition the majority member of Vibra, an affiliated company owned by the majority member and Vibra Management, LLC have jointly and severally guaranteed the notes payable to MPT, although the obligation of the majority member is limited to $5 million and his membership interest in Vibra. A default in any of the MPT lease terms will also constitute a default under the notes.

The revolving credit facility has a balloon maturity on February 8, 2008. Interest is payable monthly at the rate of 30 day LIBOR plus 3% (7.83% as of March 31, 2006). The loan is secured by a first position in the Company's patient accounts receivable through an intercreditor agreement with MPT. Up to $20 million can be borrowed based on a formula of qualifying accounts receivable. The Company is subject to various financial and non-financial covenants under the credit facility. A default in any of the MPT note and lease terms will also constitute a default under the credit facility.

Other long-term debt consists of a bank loan for furniture and equipment. The equipment purchased is pledged as collateral for the loan. The loan is payable in monthly installments of $5,000 plus interest at a fixed rate of 6.7%.

Maturities of long-term debt for the next five years are as follows:

March 31	(in thousands)
2007	$ 46,862
2008	17,450,338
2009	1,999,000
2010	2,213,803
2011	2,451,688
Thereafter	33,380,594
	$57,542,285

5. RELATED PARTY TRANSACTIONS

The Company has entered into agreements with Vibra Management, LLC (a company affiliated through common ownership) to provide management services to each hospital. The services include information system support, legal counsel, accounting/tax, human resources, program development, quality management and marketing oversight. The agreements call for management fees equal to 2-3% of net patient service revenue, and are for an initial term of five years with automatic one-year renewals. Management fee expense amounted to $740,124 and $586,593 for the three months ended March 31, 2006 and 2005, respectively. At March 31, 2006, $254,669 was payable to Vibra Management, LLC and is included in accounts payable-related parties in the accompanying consolidated balance sheet.

The spouse of the majority member of the Company provided legal consulting services to the Company on the hospital acquisition and on various operational licensing and financing matters. During the period from inception through December 31, 2004, legal consulting services from this person totaled $176,187, of which $98,137 was payable at December 31, 2004. The balance was paid during 2005. A total of $24,200 was paid for services in 2006.

6. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of its business and have not been finally adjudicated (including claims against the hospitals under prior ownership). In the opinion of management, the outcome of these actions will not have a material effect on consolidated financial position or results of operations of the Company.

California Medicaid

The Company has recently fulfilled change of ownership requirements imposed by Medi-Cal, the California Medicaid administrator that date back to the prior owners' acquisition of the California hospitals. Accounts receivable at March 31, 2006, include $2,060,940 due from Medi-Cal, including $657,000 prior to the acquisition. The Company is in the process of submitting bills for services provided from July 2003 to present. Payments totaling $218,636 were received from Medi-Cal during the three months ended March 31, 2006.

California Seismic Upgrade

For earthquake protection California requires hospitals to receive an approved Structural Performance Category 2 (SPC-2) by January 1, 2008, to maintain its license. Hospitals may request a five year implementation extension. The Fresno and Redding, CA hospitals are expected to meet the SPC-2 standard by January 1, 2008. The Kentfield, CA hospital has received a five year extension to meet the requirement. Management is in preliminary consultations with consulting architects and engineers to develop a plan for Kentfield to meet the requirements. The capital outlay required to meet the standards at Kentfield cannot be determined at this time.

7. OPERATING LEASES

Vibra entered into triple-net long-term real estate operating leases with MPT at each of the six hospitals leased from MPT in 2004. Each lease is for an initial term of 15 years and contains renewal options at Vibra's option for three additional five-year terms. The base rate at commencement is calculated at 10.25% of MPT's adjusted purchase price of the real estate ("APP"). The base rate increases to 12.23% of APP effective July 1, 2005. Beginning January 1, 2006, and each January 1, thereafter, the base rate increases by an inflator of 2.5% (i.e. base rate becomes 12.54% of APP on January 1, 2006).

Each lease also contains a percentage rent provision ("Percentage Rent"). Beginning January 1, 2005, if the aggregate monthly net patient service revenues of the six hospitals exceed an annualized net patient service revenue run rate of $110,000,000, additional rent equal to 2% of monthly net patient service revenue is triggered. The percentage rent is payable within ten days after the end of the applicable quarter. The percentage rent declines from 2% to 1% on a pro rata basis as Vibra repays the $41.416 million in notes to MPT. Percentage rents totaling $642,579 and $404,823 are included in rent expense in the accompanying consolidated statement of operations for the three months ended March 31, 2006 and 2005, respectively. Vibra has the option to purchase the leased property at the end of the lease term, including any extension periods, for the greater of the fair market value of the leased property, or the purchase price increased by 2.5% per annum from the commencement date.

Commencing on July 1, 2005, Vibra must make quarterly deposits to a capital improvement reserve at the rate of $375 per quarter per bed, or $652,500 on an annual basis, for all hospitals leased from MPT. The reserve may be used to fund capital improvements and repairs as agreed to by the parties. To date, Vibra's expenditures for capital improvements have exceeded the deposit requirements and no deposits have been made.

Beginning with the quarter ending September 30, 2006, the MPT leases will be subject to various financial covenants including limitations on total debt to 100% of the total capitalization of the guarantors (as defined) or 4.5 times the 12 month total EBITDAR (as defined) of the guarantors whichever is greater, coverage ratios of 125% of debt service and 150% of rent (as defined), and maintenance of average daily patient census. A default in any of the loan terms will also constitute a default under the leases. All of the MPT leases are cross defaulted.

Vibra has also entered into operating leases for six outpatient clinics which expire on various dates through 2011, and a billing software system that expires November 2007. These leases are classified as "other" in the table below. The Redding hospital land is leased from a prior owner under a triple net lease that expires in November 2075. The lease has monthly payments of $1,483. The lease payments increase annually by 4% each November until lease expiration.

Minimum future lease obligations on the operating leases are as follows (in thousands):

March 31	MPT Rent Obligation	Other	Redding Land Lease	Total
2007	$ 16,182,977	$ 979,265	$ 18,748	$ 17,180,990
2008	16,587,551	835,937	19,498	17,442,986
2009	17,002,240	241,272	20,278	17,263,790
2010	17,427,296	241,272	21,089	17,689,657
2011	17,862,978	241,272	21,933	18,126,183
Thereafter	166,164,261	—	7,982,314	174,146,575
	$ 251,227,303	$ 2,539,018	$ 8,083,860	$ 261,850,181

Substantially, all of the assets of Vibra and its subsidiaries, as well as Vibra's membership interests in its subsidiaries, secure the MPT leases. In addition the member of Vibra, an affiliated Company owned by the member, and Vibra Management, LLC have jointly and severally guaranteed the leases to MPT, although the obligation of the member is limited to $5 million and his membership interest in Vibra.

The Company has sublet a floor of its Marlton, NJ hospital to an independent pediatric rehabilitation provider. Three other hospitals have entered into numerous sublease arrangements. These subleases generated rental income of $374,199 and $433,881 for the three months ended March 31, 2006 and 2005, respectively, which is included in non-operating revenue in the accompanying consolidated statement of operations. The following table summarizes amounts due under sub leases (in thousands):

March 31	
2007	$ 1,150,826
2008	1,176,719
2009	1,203,195
2010	1,230,267
2011	1,257,948
Thereafter	3,044,720
	$ 9,063,675

8. OBLIGATIONS UNDER CAPITAL LEASES

On June 30, 2005, Vibra entered into a triple-net real estate lease with MPT on the Redding, California property. The lease is for an initial term of 15 years and contains renewal options at Vibra's option for three additional five year terms. The initial lease base rate is 10.5% of MPT's APP. Beginning January 1, 2006, and each January 1 thereafter, the base rate increases by the greater of 2.5% or by the increase in the consumer price index from the previous adjustment date. (Rate adjusted to 10.685 at January 1, 2006, based on CPI prorated for July 1, 2005 start date.) An additional $2.75 million can be drawn under the lease agreement upon the completion of certain building renovations and the conversion of the operations to a LTACH.

The Redding lease does not contain a purchase option or percentage rent provisions. Commencing January 1, 2006, Vibra must make quarterly deposits to a capital improvement reserve at the rate of $375 per bed per quarter, or $132,000 on an annual basis. To date, Vibra's expenditures for capital improvements have exceeded the deposit requirements and no deposits have been made.

In March, 2006, Vibra and MPT entered into a lease amendment to delay the measurement of the Redding covenants. Beginning July, 2007, the Redding lease is subject to a covenant limiting total debt to 100% of the total capitalization of the guarantors (as defined) or 4.5 times the 12 month total EBITDAR (as defined) of the guarantors whichever is greater. Redding is also subject to the following financial covenants relating to EBITDAR coverage:

12 Month Period Ending	Fixed Charge Coverage Required	Lease Payment Coverage Required
Six months ended June 30, 2007	100%	120%
Nine months ended September 30, 2007	100%	120%
Twelve months ended December 31, 2007 and thereafter	125%	150%

Other capital leases consist of equipment financing. The equipment is pledged as collateral for the lease.

The following schedule summarizes the future minimum lease payments under capital leases together with the net minimum lease payments:

March 31	MPT Redding Lease	Other	Total
2007	$ 1,934,410	183,681	$ 2,118,091
2008	1,982,770	154,945	2,137,715
2009	2,032,339	126,682	2,159,021
2010	2,083,148	74,452	2,157,600
2011	2,135,226	12,796	2,148,022
Thereafter	22,231,699	—	22,231,699
Total minimum lease payments	32,399,592	552,556	32,952,148
Less amount representing interest (imputed rate 9%)	(14,601,081)	(100,777)	(14,701,858)
Present value of net minimum lease payments	$ 17,798,511	451,779	$ 18,250,290

Substantially, all of the assets of Vibra and its subsidiaries, as well as Vibra's membership interests in its subsidiaries, secure the MPT leases. In addition the member of Vibra, an affiliated Company owned by the member, and Vibra Management, LLC have jointly and severally guaranteed the leases to MPT, although the obligation of the member is limited to $5 million and his membership interest in Vibra.

9. SEGMENT INFORMATION

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers.

The Company's segments consist of (i) IRFs and (ii) LTACHs. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance of the segments based on loss from operations.

The following table summarizes selected financial data for the Company's reportable segments:

For the three months ended Mar. 31, 2006	IRF	LTACH	Other	Total
Net patient service revenue	$14,033,214	$21,756,646	—	$35,789,860
Loss from operations	(1,407,330)	(648,583)	(425,590)	(2,481,503)
Interest expense	802,110	999,638	—	1,801,748
Depreciation and amortization	105,195	364,210	38,778	508,183

As of March 31, 2006	IRF	LTACH	Other	Total
Deferred rent	$ 5,009,701	$ 2,073,453	—	$ 7,083,154
Total assets	34,688,038	48,437,253	1,599,357	84,724,648
Purchases of property and equipment	86,779	19,374	55,794	161,947
Goodwill	16,721,881	5,907,782	—	22,629,663

For the three months ended Mar. 31, 2005	IRF	LTACH	Other	Total
Net patient service revenue	$13,822,924	$15,505,164	—	$29,328,088
Loss from operations	(1,153,003)	(189,409)	(84,266)	(1,426,678)
Interest expense	744,998	518,358	—	1,263,356
Depreciation and amortization	95,348	82,435	16,510	194,293

10. SUBSEQUENT EVENTS

Upon conversion of the Redding, CA hospital from an IRF to a LTACH, Vibra was entitled to draw an additional $2 million from MPT under its capital lease. Vibra borrowed the $2 million in April 2006.

In March 2006, Vibra entered into a purchase agreement with Hacienda Care X, LP to purchase a newly constructed 60 bed LTACH in Dallas, TX for $16,800,000, subject to a 60 day due diligence period and the seller obtaining a certificate of occupancy (COO). In May 2006 Vibra made a $1 million deposit on the LTACH at the end of the due diligence period. The deposit is binding and non-refundable unless the seller defaults, the property is condemned, or the seller does not obtain a COO by December 31, 2006. The $1 million deposit, along with $400,000 for pre-opening expenses, were funded by notes from MPT. The notes bear interest at 10.5% and are due on the earlier of the closing date of the purchase or December 31, 2006. The notes are guaranteed by an affiliated Company owned by the member and Vibra Management, LLC. The purchase is expected to be funded with a lease commitment from MPT. The LTACH is expected to open in September 2006.