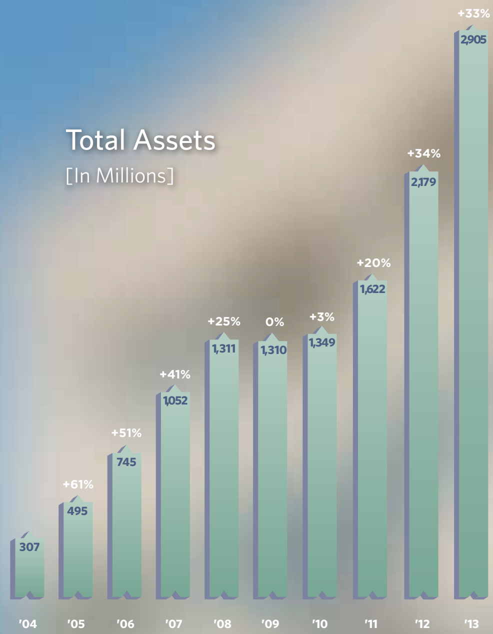
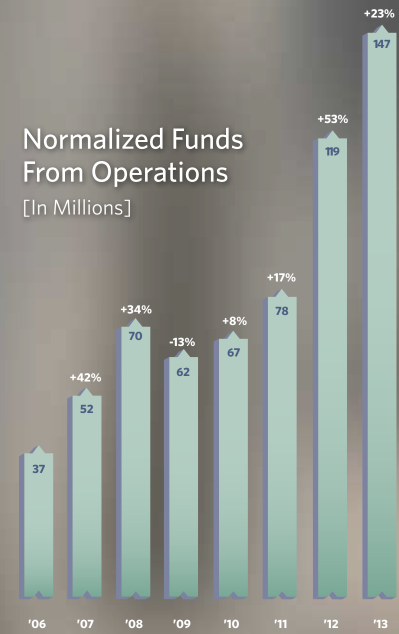
# MEDICAL PROPERTIES TRUST

## A DECADE OF PROGRESS






MEDICAL PROPERTIES TRUST

TEN YEARS OF SOLID GROWTH

## WE ARE HOSPITAL PEOPLE.

Ten years ago, a new real estate investment trust appeared on the healthcare horizon – Medical Properties Trust – claiming distinction as the first healthcare REIT to specialize in hospitals.

Ten years later, MPT is still at it, still meeting the unique capital needs of hospitals through sale-leaseback arrangements that provide up to 100 percent financing for improvements, expansions and technology upgrades while lowering a hospital's overall cost of capital.

Medical Properties Trust's deep knowledge of what it takes to operate a hospital efficiently and profitably, together with its demonstrated understanding of the challenges hospitals face, has attracted a host of leading hospital operators from across the United States and – for the first time – from Europe.

"Germany proved to be the right first step for expanding MPT's horizons internationally while maintaining our focus on hospitals," said Edward K. Aldag, Jr., MPT's Chairman and CEO. "And that was a step we had contemplated from the beginning, 10 years ago."

# Diversifying in the U.S. and Abroad

2013 marked the 10th anniversary of the founding of Medical Properties Trust (MPT), and another year of strong growth. Throughout the year, we continued to leverage our industry-leading expertise in hospital operations and real estate to successfully execute our dynamic operating strategy. We further diversified our portfolio of hospital investments – including our first international investment in Germany – and extended our track record of driving growth and building shareholder value.

Since founding Medical Properties Trust, we have remained true to our commitment to build a different kind of real estate investment trust – one that invests almost exclusively in hospitals, the cornerstone of the U.S. healthcare system. During the past decade, MPT has successfully carved out a unique niche in the largest sector of the U.S. economy. We believe that hospitals will continue to be the foundation of our healthcare delivery system, and that our investment in these vital institutions will continue to generate compelling and sustainable returns for our shareholders for years to come.

## ACHIEVING SUCCESS IN EVERY CATEGORY

Our enduring commitment has led to success across every category we focused on in 2013, including:

- **Acquisitions:** We acquired approximately $700 million in new assets during 2013, well above our announced target of $400 million. These acquisitions included our first transaction outside the United States, and expanded our gross asset base by 33 percent year-over-year. Since 2011, we have grown our asset base by approximately 80 percent.
- **Earnings:** Normalized Funds from Operations grew to $0.96 per share, up 7 percent year-over-year and up 35 percent since 2011.
- **Payout Ratio:** We achieved a normalized FFO payout ratio run rate going into 2014 of 76 percent, which is within our normalized target range of 75 to 80 percent.

• **Best-in-Class Facilities:** In 2013, nine of our facilities were recognized as top performers by The Joint Commission and eight were named "Top 100 Hospitals in the Nation" by Truven Health Analytics (formerly Thomson Reuters). In addition, Prime Healthcare Services – MPT's largest tenant – was ranked by Truven as a "Top 15 Health System" for the second consecutive year.

• **Total Shareholder Return (TSR):** We delivered Total Shareholder Return of 8.4 percent in 2013, outperforming the major REIT indices. Over the last two years, MPT has delivered a strong TSR of 43 percent, again outperforming the major REIT indices.

## SPECIALIZING IN HOSPITALS

Medical Properties Trust is the only U.S. healthcare REIT that exclusively funds hospitals and provides capital to acute care facilities through long-term net leases. MPT offers a compelling value to hospitals by providing 100 percent financing, which allows them to reduce their overall cost of capital. This enables hospital operators to bridge the gap between the growing demand for high quality healthcare and the ability to deliver it cost effectively.

Our expertise in hospitals and the dynamics of the healthcare markets they serve provides MPT with a significant competitive advantage. We understand the importance of maintaining a diversified portfolio by tenant mix and geography, and we have done so. As of the end of 2013, Medical Properties Trust had assembled total real estate and related investments of approximately $2.8 billion comprised of 107 healthcare properties in 25 U.S. states and in Germany that are leased or mortgaged by 27 different hospital operating companies.

## INCREASING OUR TARGET FOR GROWTH

Looking ahead, we are confident of the strength of our existing portfolio and our ability to leverage our investments in acute care hospitals for future growth:

• **Increasing our acquisition target:** For 2014, we are increasing our target for accretive acquisitions and developments to at least $500 million, which would expand our asset base by 15 percent over the next year. Staying true to our proven business model of investing in high yield acute care hospital real estate, we expect every investment we make in 2014 to be immediately accretive.

• **Further diversifying our portfolio:** As of the beginning of 2014, no single property represented more than 3.7 percent of our total portfolio (assuming full funding of our development commitments). In 2014, we expect that many of our investments will be with tenants that are new to MPT and that will further diversify our tenant and geographic mix.

• **Continuing to expand strategic investments in operations:** Since our initial investment in Ernest Health two years ago, the Ernest management team has grown its portfolio from 16 to 20 up-and-running hospitals, with one additional hospital expected to open in 2014 and several other opportunities on the horizon. In addition to the attractive and long-term rental revenues provided by each new Ernest Health hospital, MPT is entitled to 80 percent of the hospital's operating income. We will continue to evaluate these types of strategic investments in operations, particularly under those governed by the RIDEA regulations, in order to generate outsized returns for our investors with little–to–no incremental investment required.

As we move forward, we will continue to make strategic acquisitions, build on our growth trajectory and deliver the strong results our shareholders expect. 2013 was another outstanding year for MPT and we are confident that even greater achievements are to come. We thank you for your continued support and look forward to building on our legacy in the decades ahead.

Sincerely,

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

KLINIK SONNENWENDE
BAD DÜRKHEIM, GERMANY

# Building ON Laurels

**Talk to anyone at Medical Properties Trust** and you will sense an air of accomplishment and well-deserved pride, but you won't find a single team member resting on their laurels.

This is the only real estate investment trust to focus exclusively on investing in hospitals – not nursing homes or senior housing – but on the capital needs of experienced hospital operators.

Over the past two years, MPT has committed more than $1.5 billion in hospital investments, including transactions worth $800 million in 2012 followed by another $700 million in 2013, effectively doubling the company's assets to nearly $3 billion by the end of December.

"We forecast acquisitions of only $400 million for those two years," explained R. Steven Hamner, MPT's Executive Vice President and Chief Financial Officer, "and we clearly exceeded projections. So we're bumping the forecast up a little bit for 2014, to $500 million." But the CFO would be glad to take advantage of even more growth opportunities.

## TWO MAJOR ACQUISITIONS DEFINE ANOTHER STRONG YEAR

Two major acquisitions completed in the last three-and-a-half months of the year propelled the company to a strong finish for 2013. In the first transaction, which closed in late September, Medical Properties Trust acquired the real estate assets of three major acute care hospitals operated by IASIS Healthcare for $281 million. The acquisition included Mountain Vista Medical Center in Mesa, Arizona; Glenwood Regional Medical Center in West Monroe, Louisiana; and The Medical Center of Southeast Texas in Port Arthur.

MPT is the only REIT that invests exclusively in hospitals.

Based in Franklin, Tennessee, IASIS is one of the largest and most respected for-profit hospital operators in the United States and is backed by TPG (formerly Texas Pacific Group), one of the world's top private equity firms.

"The IASIS transaction demonstrated that highly sophisticated and demanding hospital management teams believe sales and leasebacks of their acute care facilities should be part of a diversified capital strategy," said Steve Hamner. "IASIS and TPG engaged advisors to put together a very detailed investment description and marketed it under an auction-like process."

The auction attracted serious competition from other, larger real estate investment trusts that are becoming more and more interested in financing hospital real estate as MPT's success continues to grow. But MPT's offer won the day.

"Medical Properties Trust was most familiar with the solution we needed," said W. Carl Whitmer, CEO of IASIS. "What MPT brings to the table is significant knowledge and expertise about hospitals and patient care settings. They are flexible in how they work with clients and show a lot of respect for proven operations teams."

*"What MPT brings to the table is significant knowledge and expertise about hospitals and patient care settings."*

"You want a partner that understands your operations and your business needs," Whitmer added, "plus MPT demonstrated a lot of flexibility. They also showed a genuine interest in growing their own portfolio with more acute care real estate, so this was a good fit for IASIS and MPT."

MOUNTAIN VISTA MEDICAL CENTER
MESA, ARIZONA
MAIN ENTRANCE

## MPT INVESTS IN EUROPE FOR THE FIRST TIME

The second major transaction closed on November 30th as MPT acquired the real estate assets of 11 German rehabilitation hospitals operated by RHM Klinik- und Altenheimbetriebe GmbH & Co. KG for €184 million (or approximately $245 million).

RHM is a leading rehabilitation hospital operator in Germany, with 18 clinics as well as seven care homes across eleven German states, and this was another highly competitive, professionally marketed transaction in which MPT prevailed once again. But it did not win the business on price alone.

"In both cases, the sellers clearly saw real value in MPT's unique approach to meeting their needs and its ability to understand their challenges," Hamner said.

RHM had never heard of MPT before the two were introduced by RHM's consultants from the United Kingdom. "We had never thought of seeking an

PARK–KLINIK
BAD DÜRKHEIM, GERMANY

American investor for our German rehabilitation portfolio and yet it clicked from the very beginning," said Dr. André M. Schmidt, RHM's Managing Director.

"Getting someone from the U.S. so incredibly interested in our business and knowledgeable about hospital operations really surprised us."

## 'THE BEST PARTNER WE COULD HAVE FOUND'

"MPT turned out to be the best partner we could have ever found," he added, noting that the transaction required almost a year and a half to complete, from initial due diligence through deal closing.

"The discussions were easy from the very first minute," Dr. Schmidt said, "and the questions MPT's due diligence team asked were much deeper than any of its competitors. I thought to myself, nobody has ever asked me these questions before – from the right broad perspective and with such a deep knowledge of the details."

Tom Shultlz
Director of Healthcare

At one point during the discussions, Schmidt was so impressed by the questioning that he turned to one of MPT's team members, Tom Schultz, and asked, "Are you a doctor?"

Schultz, who is not a physician but has more than 25 years of healthcare experience, smiled as he said, "No, sir."

"I would venture to say there is no group of people anywhere in the world with more knowledge about hospital real estate than the team at MPT," Steve Hamner observed. "I don't think there's any question that it was our knowledge and passion for their business that won over both of these clients."

## MPT UNDERSTANDS THE CHALLENGES HOSPITAL OPERATORS FACE

"We are not just real estate people, we're healthcare people, and when it comes time for the initial meeting with a potential client, that expertise shows up front and center," Hamner noted. And when it's time to send teams to the hospitals for onsite due diligence meetings, MPT sends hospital people.

"They're not asking about square footage and what kind of roof you've got, they're asking healthcare questions and understanding how the real estate fits into that," Hamner emphasized. MPT knows the problems hospital operators face and helps them anticipate what they are going to have to deal with, not just in the next few years of the lease, but over the next 30 years. The operators know that MPT is a funding source that understands all that and knows how to be flexible in helping them adapt to the inevitable changes that will come.

"Look at everything that's happened in healthcare over the last 30 years," MPT's CFO said, "and you know changes will be exponential over the next 30 years."

"MPT was knowledgeable, deeply interested in what we do and tough in negotiations, but at the right points," Dr. Schmidt noted. "They were also very flexible on those points...I didn't feel that I had to extract everything because we are partners that want to stay together over the next 27 years (the term of the master lease negotiated with MPT). "

"We were able to focus on the common ground that we share, and that helped things go smoothly," RHM's CEO noted. "I'm sure MPT will tell you the same thing – sometimes we were closer together than our own lawyers were."

Medical Properties Trust deployed a quarter of a billion dollars in its first acquisition outside the United States and that turned out to be not only the right first step abroad but also one in keeping with MPT CEO Ed Aldag's original vision when the company was launched in 2003.

## THE RIGHT FIRST STEP ABROAD

"Ed Aldag, Steve Hamner and Emmett McLean – the company's founders – have been clear that one good way to further diversify the company's portfolio while maintaining its focus on hospitals is to add properties outside the U.S.," said Frank Williams, MPT's Senior Vice President and Senior Managing Director of Acquisitions.

"We were able to find an opportunity in a stable, economically strong jurisdiction that we like and feel very comfortable with (Germany). We were able to find a company (RHM) with a fantastic management team backed by a European private equity firm called Waterland. And the deal was of enough scale that it made sense for us to do," Williams said.

The acquisition was very well received by European investors. As a result of the highly attractive returns and long-term stability and inflation protection offered by the 27-year lease, MPT successfully completed a €200 million (approximately $275 million) offering of low interest, fixed rate bonds to fund the acquisition. By originating Euro-denominated financing, MPT avoided most of the currency risk that would otherwise have accompanied the transaction.

## EUROPEAN INVESTORS VALIDATE MPT'S MODEL

"The Eurobond buyers really understood what MPT is all about," said Ed Aldag. "It was one of the best offerings I've ever done, as virtually every European investor that we met with bought in – the offering was highly oversold."

*"The Eurobond buyers really understood what MPT is all about."*

"In my mind, this is a further validation of MPT's business model," Frank Williams concluded. "The company founders have never wavered from the original plan of investing exclusively in licensed hospitals – facilities where patients are admitted by doctors."

"Our business model is straightforward, but it takes a lot of effort to execute. Fortunately, we've developed that idea into a very valuable asset over the past 10 years by building a team of highly competent, highly professional people who understand hospitals from the inside out – and from the outside in," said Emmett McLean, Executive Vice President and COO.

Although they may not be doctors, this team may well be the best friend that doctors, nurses, patients and hospital operators could ever have.

**Frank Williams,** Senior Vice President and Senior Managing Director of Acquisitions

Mountain Vista CEO Tony Marinello with
Communications Director Michelle Swafford

MEASURING EVERYTHING

# Secrets of IASIS's Success

Spend a morning with the CEO of Mountain Vista Medical Center in sunny Mesa, Arizona, and you will begin to understand how IASIS Healthcare became one of the leading proprietary healthcare systems in the United States, employing nearly 13,000 people and operating 16 general acute care hospitals.

Tony Marinello, who began his healthcare career as a lab technician and worked his way up to hospital CEO, loves his work and it shows. He's devoted to everyone he encounters in his hospital, whether it's a patient, doctor, staff member or volunteer.

He calls people by their first names and wants to know firsthand what they are experiencing at Mountain Vista, an expansive, resort-like facility situated in the East Valley, just 30 miles east of Phoenix.

"What's going on? What's good? What's bad?" the CEO asks patients and staff members as he walks through the beautiful, 405,000 square-foot building.

"Are you getting everything you need? We're dedicated to being a five-star facility..."

But Marinello doesn't dispense mere feel-good affections. His concerns go much deeper and his standards are much higher. And both are undergirded by the discipline of metrics.

"We measure everything," he explains, "because you can talk a good game, but if you don't have the data to support it, it's worthless."

## CONTINUOUSLY MONITORING CARE

IASIS makes sure Marinello and his leadership team are equipped with the data they need to continuously monitor patient care and continuously improve hospital operations.

The sophisticated Hospital Medical Management Quality Program that IASIS developed for all of its hospitals beginning in 2007 (the year Mountain Vista opened) enables the hospital to identify and prioritize patient care goals and desired outcomes.

"We push to be better every day," Marinello said, "through weekly team meetings and monthly reviews of operations – to determine exactly what we need to improve, what we have improved and what we can share with other IASIS facilities."

*"We push to be better every day"*

Marinello's career with IASIS spans nearly nine years, including three as CEO of another IASIS hospital in Las Vegas. And he benefits from a long view and a long-standing relationship with IASIS's CEO Carl Whitmer.

"There's a relationship from the top to the bottom in this company," Marinello said, "and it's based on good, two-way communication."

## PAYING CLOSE ATTENTION TO INDIVIDUAL MARKETS

"Carl always asks the CEOs, *'What are you seeing locally in this market?'* and *'What do we need to do differently to deliver high-quality healthcare at lower costs?'"* Marinello said.

"We learn from each other and share best practices from facility to facility, customizing them to each market."

"When the MPT team came in, they were very friendly and knowledgeable – *and they listened,*" Marinello noted. "I've dealt with them a couple of

**IASIS Healthcare,** one of the largest hospital systems in the U.S., is owned by private equity leader TPG. In selecting Medical Properties Trust to finance three large, acute care facilities after a rigorous evaluation of proposals from REITs and others, IASIS and TPG confirmed MPT as the leading source of real estate capital for hospitals.

times now and it's been a great process. Their attitude is, 'Let's work together, let's get to know your business,' because this is an investment for both of us."

The questions that impressed Marinello the most were posed by Tom Schultz, MPT's Director of Healthcare, and they ran perfectly parallel to the central questions Carl Whitmer had asked – *"What do you see for the future of healthcare?"* and *"What's your vision?"*

"We talked about that for three hours," Marinello said. "The MPT folks are sharp and we learn a lot from them every time they come. The more we learn together from their broad perspective, the better healthcare we can deliver here."

## THE EMERGENCY ROOM AS A PATIENT ACCESS POINT

Mountain Vista's Emergency Room, which has become an access point to care for many people, often looks like Grand Central Station as staff members scurry to take care of patients quickly.

"People want to be seen rapidly," Marinello said, "so wait times are tracked and the medical director of our Emergency Room keeps his finger on the pulse. If he sees a patient sitting in the waiting room, he will personally bring them back himself."

"If we find that people are leaving the waiting room because of delays, we change our process."

## IASIS ADMINISTRATORS MAKE ROUNDS, TOO

Like all his administrative directors, Marinello makes rounds in the hospital to see things for himself and make sure five-star care is delivered every day, one patient at a time. "We don't leave the rounding to just doctors and nurses, we go ourselves," Marinello said, "and I've got to say it's probably the best part of my day."

*"When patients are discharged, they should be saying, 'What a place!'"*

"Our goal is to be the best of the best, and when patients are discharged, they should be saying, 'What a place!'"

"People share their experiences a lot, especially through social media," Marinello reflected, "and we get some great feedback that we use to recognize our staff and make improvements when necessary. We strive to be the best hospital we can be so that, whenever they are here, people will feel that *this* is the patient's home."

FIRST CHOICE ER

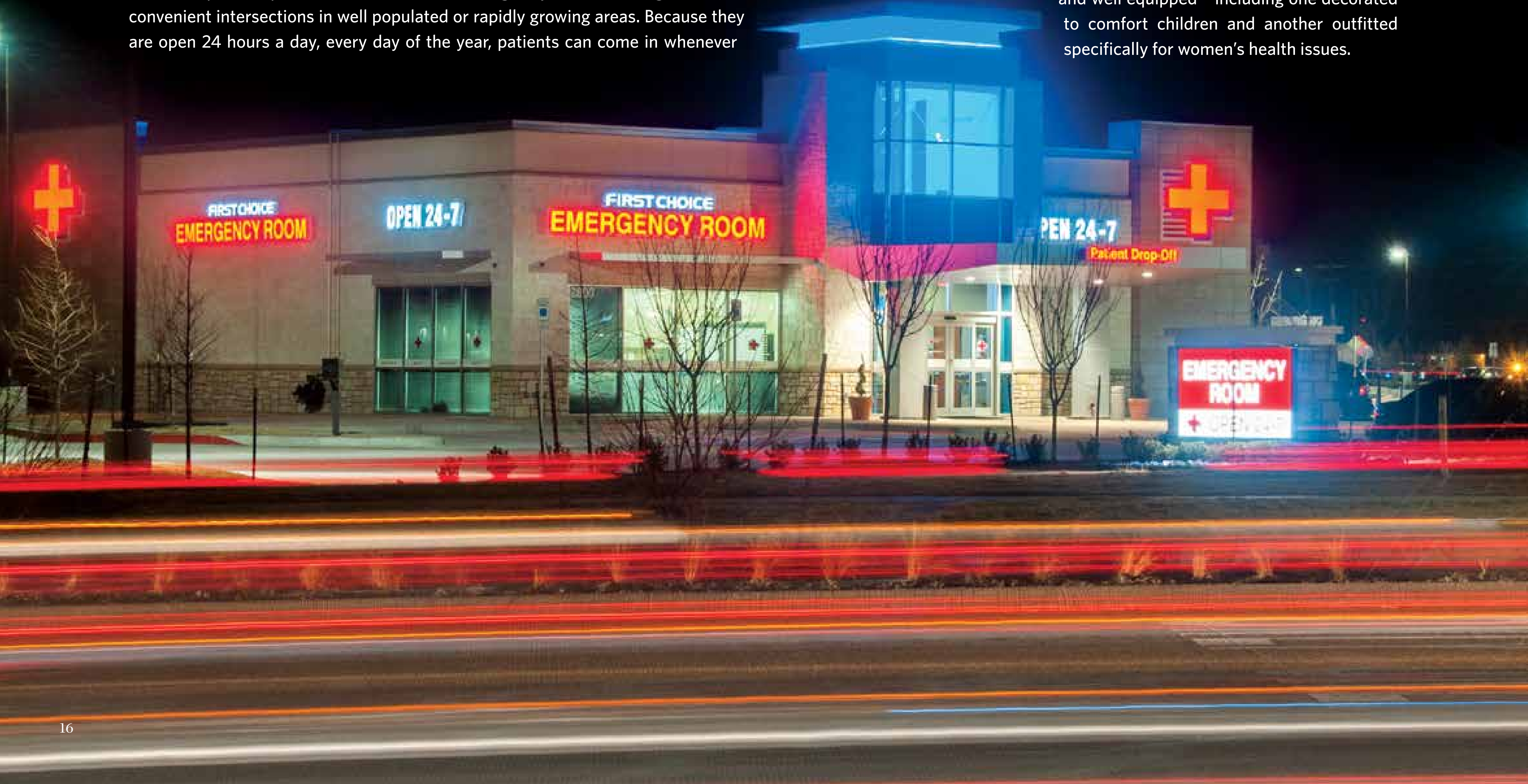
# Responsive Medicine

If you're having an emergency, the last thing you need is a long drive over congested streets just to get to an emergency room – or a long wait when you finally arrive.

First Choice Emergency Room, based in Lewisville, Texas, is on a mission to change all that, with the help of a $100 million investment from Medical Properties Trust.

The concept is simple. First Choice ERs are strategically located in neighborhoods at convenient intersections in well populated or rapidly growing areas. Because they are open 24 hours a day, every day of the year, patients can come in whenever they need to and be seen by a board certified physician and emergency-trained registered nurses in a state-of-the-art setting.

Usually, there is no waiting and each freestanding emergency room is furnished with the latest technology, including a CT scanner, digital X-ray machine, ultrasound equipment and its own lab. Treatment rooms are spacious, private and well equipped – including one decorated to comfort children and another outfitted specifically for women's health issues.



## HELPING BUSY PEOPLE SAVE TIME

"If I have a patient who needs a CT scan, I just look over my shoulder and ask our radiology technologist to take the patient in and do it. Twenty to 30 minutes later, I've got a report from a radiologist," said Dr. Ken Deeb, medical director of the new First Choice ER in Little Elm, Texas (near Dallas) that opened in December.

"I can do a full cardiac workup on someone having chest pains in about an hour," Dr. Deeb explained. "You really can't get that done in most hospital emergency rooms that quickly." He should know. He's been practicing medicine for more than 30 years, including almost 25 in a hospital based emergency department, and he is board certified in emergency medicine.

"I honestly believe that we may change the way emergency medicine is practiced throughout the United States and possibly the world," Dr. Deeb suggested.

"This is not an urgent care clinic," noted Frank Williams, MPT's Senior Vice President and Senior Managing Director of Acquisitions. "When you walk in the door, it looks and feels like an emergency room in a hospital, which is what it is. But here, you will be seen in a much shorter period of time."

*"I honestly believe that we may change the way emergency medicine is practiced"*

Williams introduced First Choice ER's President and Chief Executive Officer Tom Hall to MPT's CEO Ed Aldag in 2012 and it was a good fit.

"I view Medical Properties Trust as a very sophisticated, and yet common sense, type of business," Hall said. "The executive team is very approachable and easy to work with, and they fully understand our concept."

**Tom Hall**, CEO
First Choice ER

WHY I BECAME A NURSE

# Taking Time for Patients

Felicia Smith loves working at the new First Choice Emergency Room in Little Elm, Texas, a fast- growing suburb of Dallas. It reminds her of why she became a nurse.

"Here, I actually have time to talk with patients and build a relationship," she said. "I can talk to them about their diagnosis, answer questions about the medications they are taking, and educate them about the disease or illness they are facing."

*"I could see that there's a healing process in the relationship"*

It's a far cry from the hospital intensive care unit where she worked on open-heart surgeries, or the hospital trauma unit where she saw patients "being run in and out like cattle."

First Choice ER at Little Elm, which is equipped with the latest technology, including its own CT scanner and its own lab, can handle just about anything that a hospital ER can – except usually a lot faster.

"We run all of our own labs within less than 12 minutes," explained Felicia, who serves as Little Elm's nurse manager and facility administrator. CT scans can be done and read by a radiologist within about 20 minutes, which usually translates into rapid treatment of the problem that brought the patient to First Choice ER in the first place.

That leaves time to get to know her patients better, to be at someone's bedside when they are going through a critical time, or to hold their hand while they are hurting.

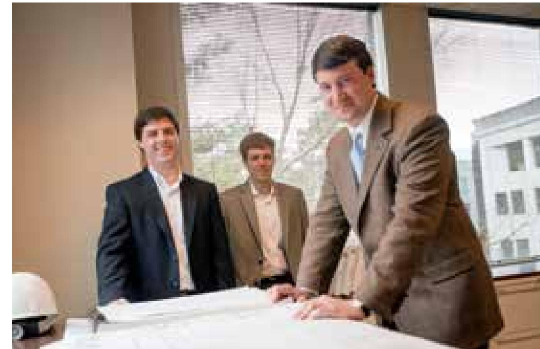
"That's a really big deal to me and that's something I really pride myself in," said the woman who started volunteering as a candy striper in a hospital when she was only 14.

"When I could make a person smile, when I could bring them a little joy, I could see that there's a healing process in the relationship," she reflected. "And now, years later, that's what I love about being a First Choice ER nurse."

"I feel like the patients that I take care of become my family," she said, "and I take care of them as if they were my family."



RAPIDLY EXPANDING ITS FOOTPRINT



At the end of March, First Choice ER operated more than 30 free-standing ERs, including 14 facilities in Dallas/Fort Worth, 13 in Greater Houston, one in San Antonio and one near Denver. MPT's investment has enabled First Choice ER to open three new facilities since early December, with 11 others under construction and three more on the drawing boards. By the end of 2014, First Choice ER may have as many as 50 locations open, according to its CEO.

"This is clearly part of a national trend," said Rosa Hooper, MPT's Director of Underwriting and Asset Management. "It's responsive medicine – responding to the demands of busy people who don't have time to spend five or six hours waiting for treatment in a hospital emergency room."

"This isn't the result of healthcare reform or insurance reform," she noted. "It's the inspiration of smart, motivated people in the hospital business working hard to find ways to deliver better, more cost effective medicine."

"Who would have thought five years ago that we would be seeing free-standing emergency rooms," Hooper asked. "And who knows what the next five years will bring?"

"First Choice ER is proving to be an exciting investment for us," said Frank Williams. "It's a good way for us to continue our thesis of investing in the future of healthcare."

Rosa Hooper
Director of Underwriting and Asset Management

First Choice ER is bringing emergency care to neighborhoods, with MPT's help.

RHEIN-HAARDT-KLINIK
BAD DÜRKHEIM, GERMANY

ANATOMY OF A GOOD DEAL

# The Perfect Match

It was a match made in Germany, with a decidedly American flavor – and many common bonds.

Dr. André M. Schmidt, the entrepreneurial Managing Director ("CEO") of RHM, a German rehabilitation hospital company, was looking for growth capital.

Edward K. Aldag, Jr., the entrepreneurial CEO ("Managing Director") of Medical Properties Trust, an American real estate investment trust, was looking for investment opportunities abroad.

When they came together in the private dining room of one of RHM's immaculate facilities for the equivalent of a "first date," it didn't take either executive long to see a lot of harmony in the potential relationship.

"When Ed came to Germany and we had dinner, my first impression was of an extremely entrepreneurial leader of an American company – and that fit in very well with the entrepreneurial spirit of RHM," Dr. Schmidt said. "Finding an investment company run by entrepreneurs was something special – it made a big difference."

## ENTREPRENEURS ON BOTH SIDES

"André is very impressive himself," observed Frank Williams, MPT's Senior Vice President and Senior Managing Director of Acquisitions, who had come to Germany earlier to scout the RHM opportunity.

"He was a consultant at McKinsey & Company when he helped a European private equity firm known as Waterland conduct its due diligence of RHM, before it decided to invest," Williams explained. "In the process, Waterland was so impressed with André that they recruited him to become RHM's CEO."

André M. Schmidt
CEO, RHM

Ed Aldag came to Germany to conduct his own due diligence. He wanted to review the facilities and see if the German healthcare system was something MPT could embrace. He wanted to meet RHM's people and get comfortable with their knowledge and ability to run a healthcare facility. And he wanted to see if MPT's potential financing of RHM would be competitive.

"My first impression when I arrived was that this was going to be a little different from the U.S. healthcare system," Aldag explained. "When you go into the lobby of a German rehab hospital, it's more like a hotel setting than a hospital setting, but once you get past that point, it's very much a hospital setting. I was able to determine that they do everything our rehab hospitals do, but their facilities are more like a combination of a rehab hospital and a long-term acute care facility."

## SHARED UNDERSTANDING OF BUSINESS AND MEDICINE

Aldag was pleased that Schmidt could answer all of his technical questions, and gratified to learn that their business philosophies were almost identical. "André clearly understood both the business side and the medical side of healthcare and that was very reassuring," Aldag noted.

FONTANA-KLINIK
BAD LIEBENWERDA, GERMANY

"From the beginning, we realized that we had a common perspective on how to run hospitals profitably," Schmidt explained. "It was wonderful to see MPT's very broad perspective and its strategic approach, which fit in very well with our approach."

"From the moment we said hello, it was a very comfortable relationship," Aldag added. As he toured several of the RHM facilities, which range from 150 to 260 beds, he was glad to see that every RHM employee knew who André was and treated him with great respect. And patients were quick to share how pleased they were with the care they were receiving.

"After I left that evening, I called home and said, 'This is certainly an operator that we want to do business with,'" Aldag concluded.

VESALIUS-KLINIK
BAD RAPPENAU, GERMANY

## EXPANDING INTERNATIONALLY WAS ALWAYS PART OF MPT'S PLAN

Expanding outside the United States was part of MPT's business plan from the very beginning, in 2003, and it was part of the company's original presentations to potential investors.

"We made a decision early on to specialize in hospital investments," MPT's CEO explained. "That's our background, that's what we know, and that's what we do very well. So how do we diversify and protect ourselves and our investors?"

"Healthcare in the United States is truly a localized business," he continued, "but from a payor standpoint, it's essentially the same system across all 50 states. By investing internationally, we are able to spread the investment risks over different reimbursement situations and different political jurisdictions."

"That way, if something were to happen in the U.S. economy to cause us to put our acquisitions on hold, or if there were uncertainties in the U.S. healthcare market, we would still be able to continue to grow abroad."

Growth was on the mind of André Schmidt as well when RHM entered into the relationship with MPT. "We don't know what will happen in 10 years – maybe the indications will change and we may need to adapt our clinics to different needs in the future," he said.

"For that reason, we need a real estate partner who understands our need to continually invest in our real estate – to make sure our facilities remain very beautiful, very high-level clinics that can be adapted to meet market needs," Schmidt said. "That will allow us to grow in Germany and buy more real estate, which we will be happy to sell on a contract basis to MPT."

*"We are always talking about strategy, planning, financing and all the numbers. And yet, I still believe that what counts most is the personal side."*

"In business, we are always talking about strategy, planning, financing and all the numbers. And yet, I still believe that what counts most is the personal side. Things like reliability, whether you like each other, and whether everything fits together naturally."

"At the very end, I believe those personal qualities contribute more to success than all the careful planning."

# MPT – By the Numbers

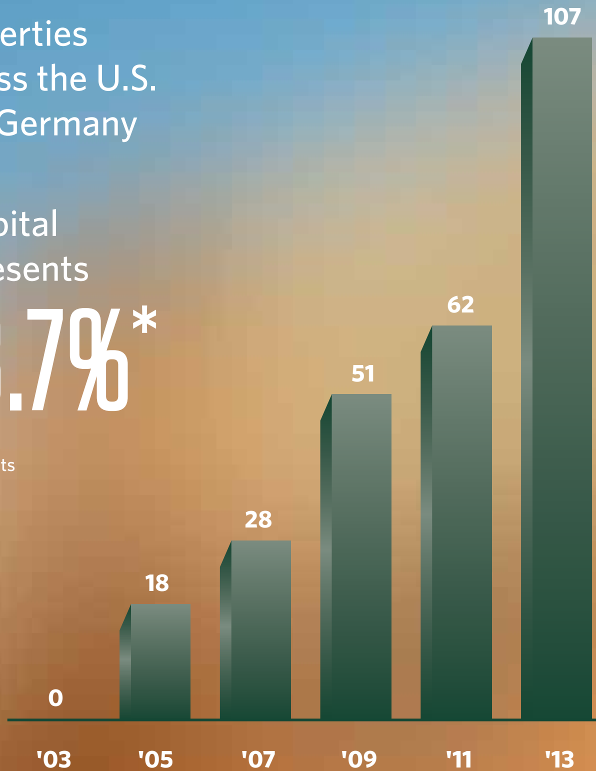
As of December 31, 2013

## HOSPITAL PROPERTIES OWNED

**107** Properties across the U.S. and Germany

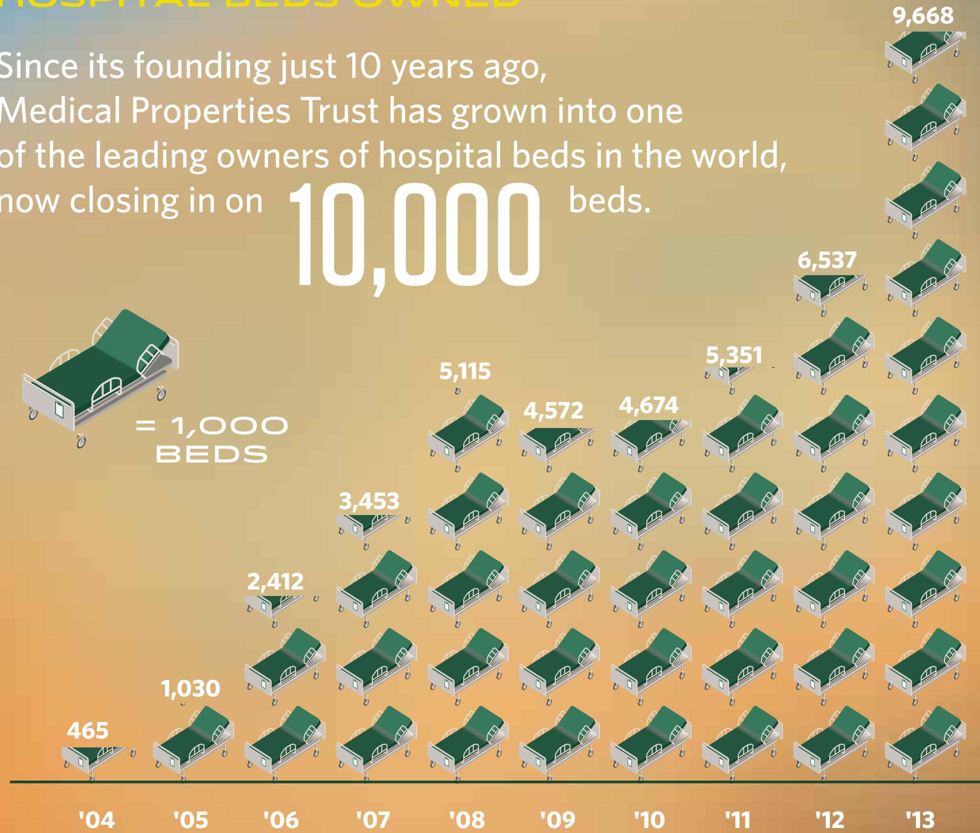
No single hospital property represents more than **3.7%*** of MPT's portfolio.

*Assuming full funding of development commitments

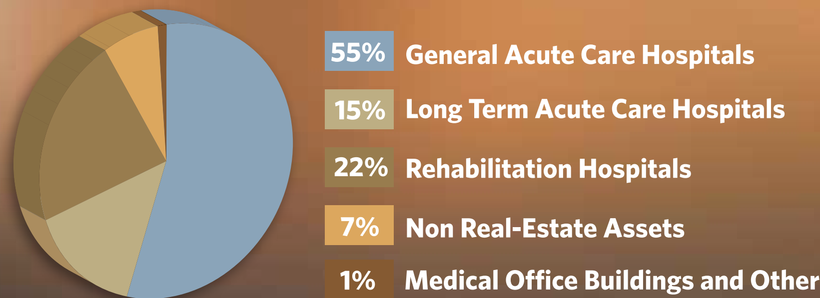



## HOSPITAL BEDS OWNED

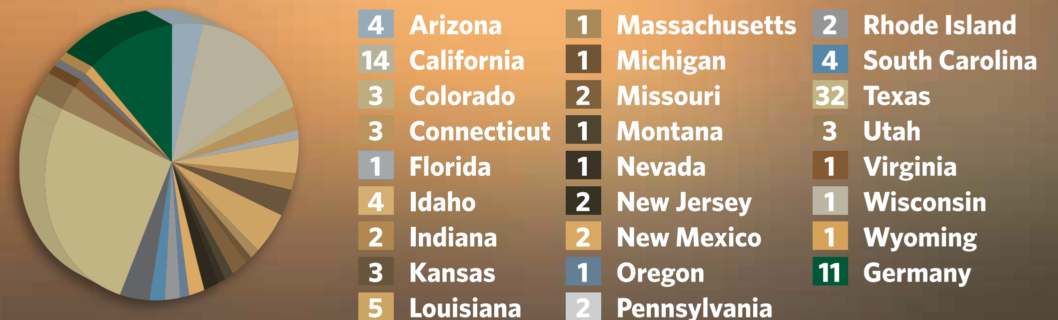
Since its founding just 10 years ago, Medical Properties Trust has grown into one of the leading owners of hospital beds in the world, now closing in on **10,000** beds.




## INVESTMENTS BY ASSET TYPE




## FACILITIES BY LOCATION

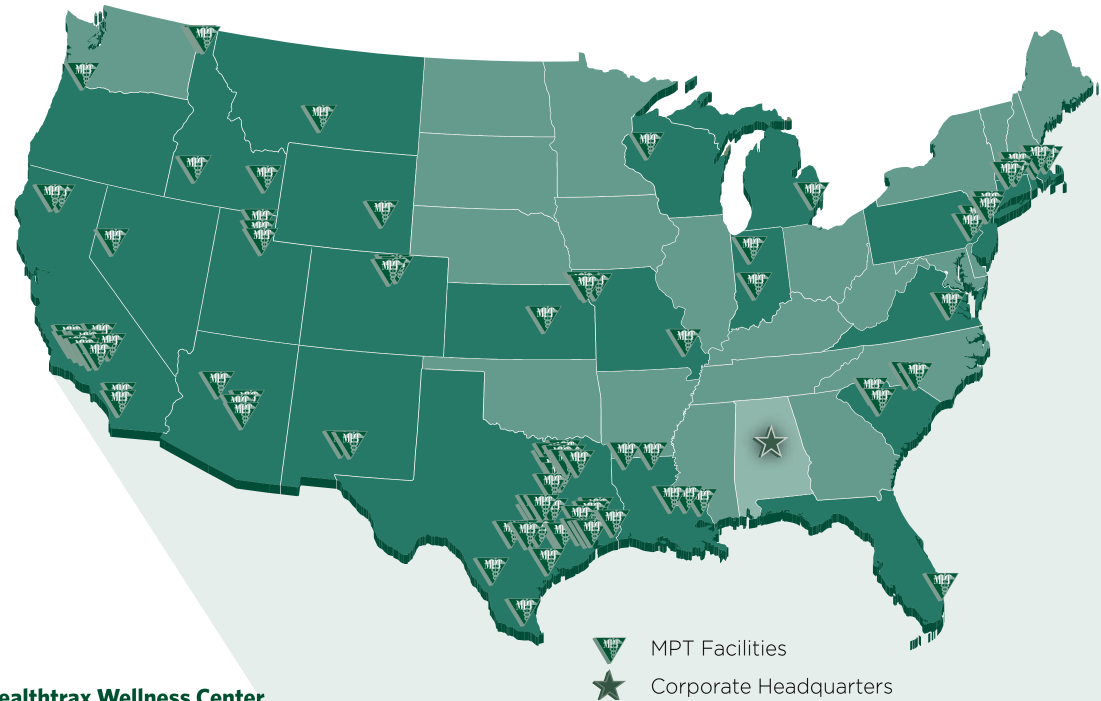


# Current Portfolio

As of December 31, 2013, Medical Properties Trust's portfolio included 107 facilities – 96 across the U.S. plus 11 in Germany – representing an investment of approximately $2.8 billion.

## INVESTING IN THE FUTURE OF HEALTHCARE

Medical Properties Trust provides stockholders an opportunity to earn attractive returns from profitable hospital facilities at home and abroad and participate in the largest sectors of the U.S. and German economies.




### ARIZONA

**Florence Hospital at Anthem**
Florence, Arizona

**Gilbert Hospital**
Gilbert, Arizona

**Mountain Valley Regional Rehabilitation Hospital**
Prescott Valley, Arizona

**Mountain Vista Medical Center**
Mesa, Arizona

### CALIFORNIA

**Alvarado Hospital**
San Diego, California

**Centinela Hospital Medical Center**
Inglewood, California

**Chino Valley Medical Center**
Chino, California

**Desert Valley Hospital**
Victorville, California

**Garden Grove Medical Center and Medical Office Building**
Garden Grove, California

**La Palma Intercommunity Hospital**
La Palma, California

**Vibra Hospital of Northern California**
Redding, California

**Olympia Medical Center**
Los Angeles, California

**Paradise Valley Hospital**
San Diego, California

**San Dimas Community Hospital and Medical Office Building**
San Dimas, California

**Shasta Regional Medical Center**
Redding, California

**West Anaheim Medical Center**
Anaheim, California

### COLORADO

**Advanced Care Hospital of Northern Colorado**
Johnstown, Colorado

**First Choice ER**
1 Facility Under Construction

**Northern Colorado Rehabilitation Hospital**
Johnstown, Colorado

### CONNECTICUT

**Healthtrax Wellness Center**
Bristol, Connecticut

**Healthtrax Wellness Center**
Enfield, Connecticut

**Healthtrax Wellness Center**
Newington, Connecticut

### FLORIDA

**Sunrise Rehabilitation Hospital**
Fort Lauderdale, Florida

### IDAHO

**Mountain View Hospital**
Idaho Falls, Idaho

**Northern Idaho Advanced Care Hospital**
Post Falls, Idaho

**Southwest Idaho Advanced Care Hospital**
Boise, Idaho

**Rehabilitation Hospital of the Northwest**
Post Falls, Idaho

### INDIANA

**Lafayette Regional Rehabilitation Hospital**
Lafayette, Indiana

**Monroe Hospital**
Bloomington, Indiana

### KANSAS

**Providence Medical Center**
Kansas City, Kansas

**Saint John Hospital**
Leavenworth, Kansas

**Wesley Rehabilitation Hospital**
Wichita, Kansas

### LOUISIANA

**AMG Specialty Hospital**
Denham Springs, Louisiana

**Cornerstone Hospital of Bossier City**
Bossier City, Louisiana

**Glenwood Regional Medical Center**
West Monroe, Louisiana

**Post Acute Northshore Specialty Hospital**
Covington, Louisiana

**Post Acute Specialty Hospital of Hammond**
Hammond, Louisiana

### MASSACHUSETTS

**Healthtrax Wellness Center**
West Springfield, Massachusetts

### MICHIGAN

**Vibra Hospital of Southeastern Michigan**
Lincoln Park, Michigan

### MISSOURI

**Kindred Hospital Northland**
Kansas City, Missouri

**Poplar Bluff Regional Medical Center**
Poplar Bluff, Missouri

### MONTANA

**Advanced Care Hospital of Montana**
Billings, Montana

## NEVADA

**Saint Mary's Regional Medical Center**
Reno, Nevada

## NEW JERSEY

**Bayonne Medical Center**
Bayonne, New Jersey

**Hoboken University Medical Center**
Hoboken, New Jersey

## NEW MEXICO

**Advanced Care Hospital of Southern New Mexico**
Las Cruces, New Mexico

**Rehabilitation Hospital of Southern New Mexico**
Las Cruces, New Mexico

## OREGON

**Vibra Specialty Hospital of Portland**
Portland, Oregon

## PENNSYLVANIA

**Rothman Orthopaedic Specialty Hospital**
Bensalem, Pennsylvania

**Roxborough Memorial Hospital**
Philadelphia, Pennsylvania

## RHODE ISLAND

**Healthtrax Wellness Center**
East Providence, Rhode Island

**Healthtrax Wellness Center**
Warwick, Rhode Island

## SOUTH CAROLINA

**Chesterfield General Hospital**
Cheraw, South Carolina

**Greenwood Regional Rehabilitation Hospital**
Greenwood, South Carolina

**Marlboro Park Hospital**
Bennettsville, South Carolina

**Spartanburg Rehabilitation Institute**
Spartanburg, South Carolina

## TEXAS

**Atrium Medical Center**
Corinth, Texas

**Baptist Emergency Hospital at Hausman**
San Antonio, Texas

**Baptist Emergency Hospital at Overlook**
San Antonio, Texas

**Baptist Emergency Hospital at Westover Hills**
San Antonio, Texas

**Corpus Christi Rehabilitation Hospital**
Corpus Christi, Texas

**Dallas Medical Center**
Dallas, Texas

**First Choice ER**
5 Facilities Under Construction

**First Choice ER – Little Elm**
Little Elm, Texas

**Hill Regional Hospital**
Hillsboro, Texas

**Kindred Hospital Clear Lake**
Webster, Texas

**Kindred Hospital Tomball**
Tomball, Texas

**Laredo Specialty Hospital**
Laredo, Texas

**LifeCare Hospitals of Dallas**
Dallas, Texas

**Mesquite Rehabilitation Institute**
Mesquite, Texas

**Mesquite Specialty Hospital**
Mesquite, Texas

**New Braunfels Regional Rehabilitation Hospital**
New Braunfels, Texas

**North Cypress Medical Center**
Houston, Texas

**Reliant Rehabilitation Hospital Central Texas**
Round Rock, Texas

**Reliant Rehabilitation Hospital North Houston**
Shenandoah, Texas

**Reliant Rehabilitation Hospital North Texas**
Richardson, Texas

**South Texas Rehabilitation Hospital**
Brownsville, Texas

**The Medical Center of Southeast Texas**
Port Arthur, Texas

**Vibra Specialty Hospital of DeSoto**
DeSoto, Texas

**Warm Springs Rehabilitation Hospital of Victoria**
Victoria, Texas

**Warm Springs Specialty Hospital of Luling**
Luling, Texas

**Warm Springs Specialty Hospital of New Braunfels**
New Braunfels, Texas

**Warm Springs Specialty Hospital of Victoria**
Victoria, Texas

**Westside Surgical Hospital**
Houston, Texas

## UTAH

**Pioneer Valley Hospital**
West Valley City, Utah

**Utah Valley Specialty Hospital**
Provo, Utah

**Northern Utah Rehabilitation Hospital**
South Ogden, Utah

## VIRGINIA

**HealthSouth Rehabilitation Hospital of Petersburg**
Petersburg, Virginia

## WISCONSIN

**OakLeaf Surgical Hospital**
Altoona, Wisconsin

## WYOMING

**Elkhorn Valley Rehabilitation Hospital**
Casper, Wyoming

## GERMANY

**Antoniusstift**
Bad Rappenau, Germany

**Christiaan-Barnard-Klinik**
Schmannewitz, Germany

**Dürkheimer Höhe**
Bad Dürkheim, Germany

**Fontana-Klinik**
Bad Liebenwerda, Germany

**Haus Seeblick**
Ortenberg, Germany

**Klaus-Miehlke-Klinik**
Wiesbaden, Germany

**Klinik Sonnenwende**
Bad Dürkheim, Germany

**Park-Klinik**
Bad Dürkheim, Germany

**Psychotherapeutische Klinik**
Bad Liebenwerda, Germany

**Rhein-Haardt-Klinik**
Bad Dürkheim, Germany

**Vesalius-Klinik**
Bad Rappenau, Germany

# Selected Financial Data

The following table sets forth selected financial and operating information on a historical basis for each of the five years ended December 31:

| [In thousands, except per share amounts] | For the Year Ended December 31, 2013[(1)(2)] | For the Year Ended December 31, 2012[(1)(2)] | For the Year Ended December 31, 2011[(1)(2)] | For the Year Ended December 31, 2010[(1)(2)] | For the Year Ended December 31, 2009[(1)(2)] |
|---|---|---|---|---|---|
| **OPERATING DATA** | | | | | |
| Total revenue | $ 242,523 | $ 198,125 | $ 132,322 | $ 104,825 | $ 102,072 |
| Depreciation and amortization (expense) | (36,978) | (32,815) | (30,147) | (20,148) | (18,743) |
| Property-related and general and administrative (expenses) | (32,513) | (30,039) | (27,815) | (31,423) | (24,806) |
| Acquisition expense [(3)] | (19,494) | (5,420) | (4,184) | (1,108) | (40) |
| Impairment (charge) | – | – | – | (12,000) | – |
| Interest and other income | 3,235 | 1,281 | 96 | 1,518 | 43 |
| Debt refinancing (expense) | – | – | (14,214) | (6,716) | – |
| Interest (expense) | (66,746) | (58,243) | (43,810) | (33,984) | (37,650) |
| Income tax (expense) | (726) | (19) | (128) | (386) | (252) |
| Income from continuing operations | 89,301 | 72,870 | 12,120 | 578 | 20,624 |
| Income from discontinued operations | 7,914 | 17,207 | 14,594 | 22,434 | 15,743 |
| Net income | 97,215 | 90,077 | 26,714 | 23,012 | 36,367 |
| Net income attributable to non-controlling interests | (224) | (177) | (178) | (99) | (37) |
| Net income attributable to MPT common stockholders | $ 96,991 | $ 89,900 | $ 26,536 | $ 22,913 | $ 36,330 |
| Income from continuing operations attributable to MPT common stockholders per diluted share | $ 0.58 | $ 0.54 | $ 0.10 | $ – | $ 0.25 |
| Income from discontinued operations attributable to MPT common stockholders per diluted share | 0.05 | 0.13 | 0.13 | 0.22 | 0.20 |
| Net income, attributable to MPT common stockholders per diluted share | $ 0.63 | $ 0.67 | $ 0.23 | $ 0.22 | $ 0.45 |
| Weighted average number of common shares — diluted | 152,598 | 132,333 | 110,629 | 100,708 | 78,117 |
| **OTHER DATA** | | | | | |
| Dividends declared per common share | $ 0.81 | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 |
| **BALANCE SHEET DATA** | **December 31, 2013[(1)(2)]** | **December 31, 2012[(1)(2)]** | **December 31, 2011[(1)(2)]** | **December 31, 2010[(1)(2)]** | **December 31, 2009[(1)(2)]** |
| Real estate assets — at cost | $ 2,296,479 | $ 1,591,189 | $ 1,261,644 | $ 1,017,059 | $ 965,299 |
| Real estate accumulated depreciation/amortization | (159,776) | (122,796) | (89,982) | (60,784) | (42,126) |
| Mortgage and other loans | 549,640 | 527,893 | 239,839 | 215,985 | 311,006 |
| Cash and equivalents | 45,979 | 37,311 | 102,726 | 98,408 | 15,307 |
| Other assets | 172,248 | 145,289 | 107,647 | 78,146 | 60,412 |
| Total assets | $ 2,904,570 | $ 2,178,886 | $ 1,621,874 | $ 1,348,814 | $ 1,309,898 |
| | | | | | |
| Debt, net | $ 1,421,681 | $ 1,025,160 | $ 689,849 | $ 369,970 | $ 576,678 |
| Other liabilities | 138,681 | 103,912 | 103,210 | 79,268 | 61,645 |
| Total Medical Properties Trust, Inc. Stockholders' Equity | 1,344,208 | 1,049,814 | 828,815 | 899,462 | 671,445 |
| Non-controlling interests | – | – | – | 114 | 130 |
| Total equity | 1,344,208 | 1,049,814 | 828,815 | 899,576 | 671,575 |
| Total liabilities and equity | $ 2,904,570 | $ 2,178,886 | $ 1,621,874 | $ 1,348,814 | $ 1,309,898 |

# Reconciliation of Non-GAAP Financial Measures

The following table presents a reconciliation of net income attributable to MPT common stockholders to FFO and normalized FFO for the years ended December 31, 2013, 2012, and 2011 (dollar amounts in thousands except per share data):

| FFO information: | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Net income attributable to MPT common stockholders | $ 96,991 | $ 89,900 | $ 26,536 |
| Participating securities' share in earnings | (729) | (887) | (1,090) |
| Net income, less participating securities' share in earnings | $ 96,262 | $ 89,013 | $ 25,446 |
| Depreciation and amortization: | | | |
| Continuing operations | 36,978 | 32,815 | 30,147 |
| Discontinued operations | 708 | 2,041 | 4,562 |
| Gain on sale of real estate | (7,659) | (16,369) | (5,431) |
| Real estate impairment charge | — | — | 564 |
| Funds from operations | $ 126,289 | $ 107,500 | $ 55,288 |
| Write-off straight-line rent | 1,457 | 6,456 | 2,471 |
| Acquisition costs | 19,494 | 5,420 | 4,184 |
| Debt refinancing costs | — | — | 14,214 |
| Write-off of other receivables | — | — | 1,846 |
| Normalized funds from operations | $ 147,240 | $ 119,376 | $ 78,003 |

| Per diluted share data: | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Net income, less participating securities' share in earnings | $ 0.63 | $ 0.67 | $ 0.23 |
| Depreciation and amortization: | | | |
| Continuing operations | 0.24 | 0.25 | 0.28 |
| Discontinued operations | — | 0.01 | 0.04 |
| Gain on sale of real estate | (0.04) | (0.12) | (0.05) |
| Funds from operations | $ 0.83 | $ 0.81 | $ 0.50 |
| Write-off of straight line rent | 0.01 | 0.05 | 0.02 |
| Acquisition costs | 0.12 | 0.04 | 0.04 |
| Debt refinancing costs | — | — | 0.13 |
| Write off of other receivables | — | — | 0.02 |
| Normalized funds from operations | $ 0.96 | $ 0.90 | $ 0.71 |

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. 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 assumes that the value of real estate diminishes predictably over time. We compute FFO in accordance with the definition provided by the National Association of Real Estate Investment Trusts, or NAREIT, which represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate and impairment charges on real estate assets, plus real estate depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose normalized FFO, which adjusts FFO for items that relate to unanticipated or non-core events or activities or accounting changes that, if not noted, would make comparison to prior period results and market expectations potentially less meaningful to investors and analysts.

We believe that the use of FFO, combined with the required GAAP presentations, improves the understanding of our operating results among investors and the use of normalized FFO makes comparisons of our operating results with prior periods and other companies more meaningful. While FFO and normalized FFO are relevant and widely used supplemental measures of operating and financial performance of REITs, they should not be viewed as a substitute measure of our operating performance since the measures do 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 can be significant economic costs that could materially impact our results of operations. FFO and normalized FFO should not be considered 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.

**Footnotes to Selected Financial Data:**

(1) Reclassification, presentation and certain computational changes have been made for the results of properties sold and reclassified to discontinued operations. (2) Cash paid for acquisitions and other related investments totaled $654.9 million, $621.5 million, $279.0 million, $137.8 million, and $15.6 million in 2013, 2012, 2011, 2010, and 2009, respectively. The results of operations resulting from these investments are reflected in our consolidated financial statements from the dates invested. See Note 3 in Item 8 of this Annual Report on Form 10-K for further information on acquisitions of real estate, new loans, and other investments. We funded these investments generally from issuing common stock, utilizing additional amounts of our revolving facility, incurring additional debt, or from the sale of facilities. See Notes 4, 9, and 11, in Item 8 on this Annual Report on Form 10-K for further information regarding our debt, common stock and discontinued operations, respectively. (3) Includes $12.0 million in transfer taxes in 2013 related to our property acquisitions in Germany.

## Celebrating 10 Years Together

Emmett McLean, COO; Ed Aldag, CEO; and Steve Hamner CFO

Forward-Looking Statements 30
Report of Independent Registered Public Accounting Firm 31
Consolidated Balance Sheets 32
Consolidated Statements of Income 33
Consolidated Statements of Comprehensive Income (Loss) 34
Consolidated Statements of Equity 35
Consolidated Statements of Cash Flows 36
Notes to Consolidated Financial Statements 38
Corporate and Shareholder Information 72

## Forward-Looking Statements

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

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

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

- the factors referenced in the sections captioned "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" in our Form 10-K for the year ended December 31, 2013;
- U.S. (both national and local) and European (in particular Germany) economic, business, real estate, and other market conditions;
- the competitive environment in which we operate;
- the execution of our business plan;
- financing risks;
- acquisition and development risks;
- potential environmental contingencies and other liabilities;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a real estate investment trust, or REIT for U.S. federal and state income tax purposes;
- our ability to attract and retain qualified personnel;
- U.S. (both national and local) and European (in particular Germany) healthcare and other regulatory requirements;
- changes in foreign currency exchange rates; and
- U.S. national and local economic conditions, as well as conditions in Europe and any other foreign jurisdictions where we own or will own healthcare facilities which may have a negative effect on the following, among other things:
    - the financial condition of our tenants, our lenders, counterparties to our interest rate swaps and other hedged transactions and institutions that hold our cash balances, which may expose us to increased risks of default by these parties;
    - our ability to obtain equity or debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities and refinance existing debt and our future interest expense; and
    - the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

When we use the words "believe," "expect," "may," "potential," "anticipate," "estimate," "plan," "will," "could," "intend" or similar expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained in this Annual Report to reflect future events or developments.

## Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Medical Properties Trust, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

PricewaterhouseCoopers LLP

Birmingham, Alabama

March 3, 2014

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Balance Sheets

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (Amounts in thousands, except for per share data) | |
| **ASSETS** | | |
| Real estate assets | | |
| Land | $ 154,858 | $ 108,456 |
| Buildings and improvements | 1,578,336 | 1,052,479 |
| Construction in progress and other | 41,771 | 38,339 |
| Intangible lease assets | 90,490 | 51,966 |
| Real estate held for sale | — | 25,537 |
| Net investment in direct financing leases | 431,024 | 314,412 |
| Mortgage loans | 388,650 | 368,650 |
| Gross investment in real estate assets | 2,685,129 | 1,959,839 |
| Accumulated depreciation | (144,235) | (110,888) |
| Accumulated amortization | (15,541) | (11,908) |
| Net investment in real estate assets | 2,525,353 | 1,837,043 |
| Cash and cash equivalents | 45,979 | 37,311 |
| Interest and rent receivables | 58,499 | 45,289 |
| Straight-line rent receivables | 45,829 | 35,860 |
| Other loans | 160,990 | 159,243 |
| Other assets | 67,920 | 64,140 |
| **Total Assets** | **$ 2,904,570** | **$ 2,178,886** |
| **LIABILITIES AND EQUITY** | | |
| Liabilities | | |
| Debt, net | $ 1,421,681 | $ 1,025,160 |
| Accounts payable and accrued expenses | 94,311 | 65,961 |
| Deferred revenue | 23,787 | 20,609 |
| Lease deposits and other obligations to tenants | 20,583 | 17,342 |
| Total liabilities | 1,560,362 | 1,129,072 |
| Commitments and Contingencies | | |
| Equity | | |
| Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding | — | — |
| Common stock, $0.001 par value. Authorized 250,000 shares; issued and outstanding — 161,310 shares at December 31, 2013 and 136,335 shares at December 31, 2012 | 161 | 136 |
| Additional paid-in capital | 1,618,054 | 1,295,916 |
| Distributions in excess of net income | (264,804) | (233,494) |
| Accumulated other comprehensive loss | (8,941) | (12,482) |
| Treasury shares, at cost | (262) | (262) |
| Total Equity | 1,344,208 | 1,049,814 |
| **Total Liabilities and Equity** | **$ 2,904,570** | **$ 2,178,886** |

See accompanying notes to consolidated financial statements.

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Statements of Income

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| **Revenues** | (Amounts in thousands, except for per share data) | | |
| Rent billed | $ 132,578 | $ 119,883 | $ 105,688 |
| Straight-line rent | 10,706 | 7,911 | 5,277 |
| Income from direct financing leases | 40,830 | 21,728 | — |
| Interest and fee income | 58,409 | 48,603 | 21,357 |
| Total revenues | 242,523 | 198,125 | 132,322 |
| **Expenses** | | | |
| Real estate depreciation and amortization | 36,978 | 32,815 | 30,147 |
| Property-related | 2,450 | 1,477 | 724 |
| Acquisition expenses | 19,494 | 5,420 | 4,184 |
| General and administrative | 30,063 | 28,562 | 27,091 |
| Total operating expense | 88,985 | 68,274 | 62,146 |
| Operating income | 153,538 | 129,851 | 70,176 |
| **Other income (expense)** | | | |
| Interest and other (expense) income | (319) | (1,662) | 18 |
| Earnings from equity and other interests | 3,554 | 2,943 | 78 |
| Debt refinancing expense | — | — | (14,214) |
| Interest expense | (66,746) | (58,243) | (43,810) |
| Income tax expense | (726) | (19) | (128) |
| Net other expenses | (64,237) | (56,981) | (58,056) |
| **Income from continuing operations** | 89,301 | 72,870 | 12,120 |
| Income from discontinued operations | 7,914 | 17,207 | 14,594 |
| Net income | 97,215 | 90,077 | 26,714 |
| Net income attributable to non-controlling interests | (224) | (177) | (178) |
| **Net income attributable to MPT common stockholders** | **$ 96,991** | **$ 89,900** | **$ 26,536** |
| | | | |
| **Earnings per share — basic** | | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.59 | $ 0.54 | $ 0.10 |
| Income from discontinued operations attributable to MPT common stockholders | 0.05 | 0.13 | 0.13 |
| **Net income attributable to MPT common stockholders** | **$ 0.64** | **$ 0.67** | **$ 0.23** |
| **Weighted average shares outstanding — basic** | **151,439** | **132,331** | **110,623** |
| | | | |
| **Earnings per share — diluted** | | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.58 | $ 0.54 | $ 0.10 |
| Income from discontinued operations attributable to MPT common stockholders | 0.05 | 0.13 | 0.13 |
| **Net income attributable to MPT common stockholders** | **$ 0.63** | **$ 0.67** | **$ 0.23** |
| **Weighted average shares outstanding — diluted** | **152,598** | **132,333** | **110,629** |

See accompanying notes to consolidated financial statements.

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Statements of Comprehensive Income (Loss)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Amounts in thousands) | | |
| Net income | $ 97,215 | $ 90,077 | $ 26,714 |
| Other comprehensive income (loss): | | | |
| Unrealized gain (loss) on interest rate swap | 3,474 | (251) | (8,590) |
| Foreign currency translation gain | 67 | — | — |
| Total comprehensive income | 100,756 | 89,826 | 18,124 |
| Comprehensive income attributable to non-controlling interests | (224) | (177) | (178) |
| Comprehensive income attributable to MPT common stockholders | $ 100,532 | $ 89,649 | $ 17,946 |



See accompanying notes to consolidated financial statements.

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Statements of Equity
For the Years Ended December 31, 2013, 2012 and 2011

| | Preferred | | Common | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | Additional Paid-in Capital | Distributions in Excess of Net Income | Accumulated Other Comprehensive Loss | Treasury Stock | Non-Controlling Interests | Total Equity |
| | (Amounts in thousands, except for per share data) | | | | | | | | | |
| **Balance at December 31, 2010** | — | $ — | 110,225 | $ 110 | $ 1,051,785 | $ (148,530) | $ (3,641) | $ (262) | $ 114 | $ 899,576 |
| Net income | — | — | — | — | — | 26,536 | — | — | 178 | 26,714 |
| Unrealized loss on interest rate swaps | — | — | — | — | — | — | (8,590) | — | — | (8,590) |
| Stock vesting and amortization of stock-based compensation | — | — | 561 | 1 | 6,982 | — | — | — | — | 6,983 |
| Purchase of non-controlling interests | — | — | — | — | (441) | — | — | — | (83) | (524) |
| Extinguishment of convertible debt | — | — | — | — | (3,070) | (2,431) | — | — | — | (5,501) |
| Distributions to non-controlling interests | — | — | — | — | — | — | — | — | (209) | (209) |
| Dividends declared ($0.80 per common share) | — | — | — | — | — | (89,634) | — | — | — | (89,634) |
| **Balance at December 31, 2011** | — | $ — | 110,786 | $ 111 | $ 1,055,256 | $ (214,059) | $ (12,231) | $ (262) | $ — | $ 828,815 |
| Net income | — | — | — | — | — | 89,900 | — | — | 177 | 90,077 |
| Unrealized loss on interest rate swaps | — | — | — | — | — | — | (251) | — | — | (251) |
| Stock vesting and amortization of stock-based compensation | — | — | 854 | 1 | 7,636 | — | — | — | — | 7,637 |
| Distributions to non-controlling interests | — | — | — | — | — | — | — | — | (177) | (177) |
| Proceeds from offering (net of offering costs) | — | — | 24,695 | 24 | 233,024 | — | — | — | — | 233,048 |
| Dividends declared ($0.80 per common share) | — | — | — | — | — | (109,335) | — | — | — | (109,335) |
| **Balance at December 31, 2012** | — | $ — | 136,335 | $ 136 | $ 1,295,916 | $ (233,494) | $ (12,482) | $ (262) | $ — | $ 1,049,814 |
| Net income | — | — | — | — | — | 96,991 | — | — | 224 | 97,215 |
| Unrealized gain on interest rate swaps | — | — | — | — | — | — | 3,474 | — | — | 3,474 |
| Foreign currency translation gain | — | — | — | — | — | — | 67 | — | — | 67 |
| Stock vesting and amortization of stock-based compensation | — | — | 811 | 1 | 8,832 | — | — | — | — | 8,833 |
| Distributions to non-controlling interests | — | — | — | — | — | — | — | — | (224) | (224) |
| Proceeds from offering (net of offering costs) | — | — | 24,164 | 24 | 313,306 | — | — | — | — | 313,330 |
| Dividends declared ($0.81 per common share) | — | — | — | — | — | (128,301) | — | — | — | (128,301) |
| **Balance at December 31, 2013** | — | $ — | 161,310 | $ 161 | $ 1,618,054 | $ (264,804) | $ (8,941) | $ (262) | $ — | $ 1,344,208 |

See accompanying notes to consolidated financial statements.

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Statements of Cash Flows

| | For the Years Ended December 31, | | |
|---|---|---|---|
| **Operating activities** | 2013 | 2012 | 2011 |
| | (Amounts in thousands) | | |
| Net income | $ 97,215 | $ 90,077 | $ 26,714 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 38,818 | 35,593 | 35,477 |
| Amortization and write-off of deferred financing costs and debt discount | 3,559 | 3,457 | 9,289 |
| Premium on extinguishment of debt | — | — | 13,091 |
| Direct financing lease accretion | (5,774) | (3,104) | — |
| Straight-line rent revenue | (11,265) | (8,309) | (7,142) |
| Share-based compensation expense | 8,832 | 7,637 | 6,983 |
| Impairment charge | — | — | 564 |
| (Gain) loss from sale of real estate | (7,659) | (16,369) | (5,431) |
| Provision for uncollectible receivables and loans | — | — | 1,499 |
| Straight-line rent write-off | 1,457 | 6,456 | 2,470 |
| Payment of discount on extinguishment of debt | — | — | (4,850) |
| Other adjustments | (70) | 538 | 1,058 |
| Decrease (increase) in: | | | |
| Interest and rent receivable | (13,211) | (17,261) | (6,118) |
| Other assets | 1,855 | 91 | 142 |
| Accounts payable and accrued expenses | 23,867 | 9,201 | 5,354 |
| Deferred revenue | 3,177 | (2,698) | 170 |
| Net cash provided by operating activities | 140,801 | 105,309 | 79,270 |
| **Investing activities** | | | |
| Cash paid for acquisitions and other related investments | (654,922) | (621,490) | (278,963) |
| Net proceeds from sale of real estate | 32,409 | 71,202 | 41,130 |
| Principal received on loans receivable | 7,249 | 10,931 | 4,289 |
| Investment in loans receivable | (3,746) | (1,293) | (861) |
| Construction in progress | (41,452) | (44,570) | (22,999) |
| Other investments, net | (52,115) | (31,908) | (8,217) |
| Net cash (used for) provided by investing activities | (712,577) | (617,128) | (265,621) |

## Medical Properties Trust, Inc. and Subsidiaries
### Consolidated Statements of Cash Flows (Continued)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Amounts in thousands) | | |
| **Financing activities** | | | |
| Additions to term debt | 424,580 | 300,000 | 450,000 |
| Payments of term debt | (11,249) | (232) | (246,262) |
| Payment of deferred financing costs | (9,760) | (6,247) | (15,454) |
| Revolving credit facilities, net | (20,000) | 35,400 | 89,600 |
| Distributions paid | (120,309) | (103,952) | (89,601) |
| Lease deposits and other obligations to tenants | 3,231 | (11,436) | 8,621 |
| Proceeds from sale of common shares, net of offering costs | 313,331 | 233,048 | — |
| Other | — | (177) | (6,235) |
| Net cash provided by financing activities | 579,824 | 446,404 | 190,669 |
| Increase (decrease) in cash and cash equivalents for the year | 8,048 | (65,415) | 4,318 |
| Effect of exchange rate changes | 620 | — | — |
| Cash and cash equivalents at beginning of year | 37,311 | 102,726 | 98,408 |
| **Cash and cash equivalents at end of year** | **$ 45,979** | **$ 37,311** | **$ 102,726** |
| Interest paid, including capitalized interest of $1,729 in 2013, $1,596 in 2012, and $896 in 2011 | $ 58,110 | $ 51,440 | $ 38,463 |
| Supplemental schedule of non-cash investing activities: | | | |
| Real estate acquired via assumption of mortgage loan | $ — | $ — | $ (14,592) |
| Loan conversion to equity interest | — | 1,648 | — |
| Mortgage loan issued from sale of real estate | — | 3,650 | — |
| Supplemental schedule of non-cash financing activities: | | | |
| Assumption of mortgage loan (as part of real estate acquired) | $ — | $ — | $ 14,592 |
| Dividends declared, not paid | 35,778 | 27,786 | 22,407 |

See accompanying notes to consolidated financial statements.

## 1. Organization

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

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 the calendar year 2004 federal income tax return. Accordingly, we will not be subject to U.S. federal income tax, provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income. Certain activities we undertake must be conducted by entities which we elected to be treated as taxable REIT subsidiaries ("TRSs"). Our TRSs are subject to both U.S. federal and state income taxes.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. All of our properties are located in the United States and Europe—we made our first acquisition outside the United States in the fourth quarter of 2013 (as more fully described in Note 3).

## 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 we own 100% of the equity or have 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 we own less than 100% of the equity interest, we consolidate the property if we have the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, we record a non-controlling interest representing equity held by non-controlling interests.

We continually evaluate all of our transactions and investments to determine if they represent variable interests in a variable interest entity ("VIE"). If we determine that we have a variable interest in a VIE, we then evaluate if we are the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether we have the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. We consolidate each VIE in which we, by virtue of or transactions with our investments in the entity, are considered to be the primary beneficiary.

At December 31, 2013, we had loans and/or equity investments in certain VIEs, which are also tenants of our facilities (including but not limited to Ernest, Monroe and Vibra). We have determined that we are not the primary beneficiary of these VIEs. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at December 31, 2013 (in thousands):

| VIE Type | Maximum Loss Exposure(1) | Asset Type Classification | Carrying Amount(2) |
|---|---|---|---|
| Loans, net | $ 283,273 | Mortgage and Other loans | $ 228,996 |
| Equity investments | $ 19,308 | Other assets | $ 5,198 |

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

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

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrowers or investees) that most significantly impact the VIE's economic performance. As of December 31, 2013, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

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

See Note 3 for additional description of the nature, purpose and activities of our more significant VIEs and interests therein.

*Investments in Unconsolidated Entities:* Investments in entities in which we have the ability to influence (but not control) are typically accounted for by the equity method. Under the equity method

of accounting, our share of the investee's earnings or losses are included in our consolidated results of operations, and we have elected to record our share of such investee's earnings or losses on a 90-day lag basis. The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the interest in the investee entity. Subsequently, our investments are increased by the equity in our investee earnings and decreased by cash distributions from our investees. To the extent that our cost basis is different from the basis reflected at the investee entity level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in our share of equity in earnings of the investee. We evaluate our equity method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. If we determine a decline in the fair value of an investment in an unconsolidated investee entity below its carrying value is other - than - temporary, an impairment is recorded.

*Cash and Cash Equivalents:* Certificates of deposit, short-term investments with original maturities of three months or less and money-market mutual funds are considered cash equivalents. The majority of our cash and cash equivalents are held at major commercial banks which at times may exceed the Federal Deposit Insurance Corporation limit. We have not experienced any losses to date on our invested cash. Cash and cash equivalents which have been restricted as to its use are recorded in other assets.

*Revenue Recognition:* We receive income from operating leases based on the fixed, minimum required rents (base rents) per the lease agreements. Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for acquired properties. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. The straight-line method typically has the effect of recording more rent revenue from a lease than a tenant is required to pay early in the term of the lease. During the later parts of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue as recorded on the straight-line method in the consolidated statements of income is presented as two amounts: billed rent revenue and straight-line revenue. Billed rent revenue is the amount of base rent actually billed to the customer each period as required by the lease. Straight-line rent revenue is the difference between rent revenue earned based on the straight-line method and the amount recorded as billed rent revenue. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to straight-line rent receivable.

Certain leases provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts/thresholds (percentage rents). Percentage rents are recognized in the period in which revenue thresholds are met. Rental payments received prior to their recognition as income are classified as deferred revenue. We also receive additional rent (contingent rent) under some leases based on increases in the consumer price index or when the consumer price index exceeds the annual minimum percentage increase in the lease. Contingent rents are recorded as billed rent revenue in the period earned.

We use direct finance lease accounting ("DFL") to record rent on certain leases deemed to be financing leases rather than operating leases. For leases accounted for as DFLs, the future minimum lease payments are recorded as a receivable. Unearned income represents the net investment in the DFL, less the sum of minimum lease payments receivable and the estimated residual values of the leased properties. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectability of the lease payments is reasonably assured. Investments in DFLs are presented net of unamortized and unearned income.

In instances where we have a profits or equity interest in our tenant's operations, we record revenue equal to our percentage interest of the tenant's profits, as defined in the lease or tenant's operating agreements, once annual thresholds, if any, are met.

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

We receive interest income from our tenants/borrowers on mortgage loans, working capital loans, and other long-term loans. Interest income from these loans is recognized as earned based upon the principal outstanding and terms of the loans.

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

Tenant payments for certain taxes, insurance, and other operating expenses related to our facilities (most of which are paid directly by our tenants to the government or related vendor) are recorded net of the respective expense as generally our leases are "triple-net" leases, with terms requiring such expenses to be paid by our tenants. Failure on the part of our tenants to pay such expense or to pay late would result in a violation of the lease agreement, which could lead to an event of default, if not cured.

*Acquired Real Estate Purchase Price Allocation:* We allocate the purchase price of acquired properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase prices of acquired real estate, we utilize a number of sources, from time to time, including independent appraisals that may be obtained in connection with the

acquisition or financing of the respective property and other market data. We also consider information obtained about each property 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.

We record above-market and below-market in-place lease values, if any, for our facilities, which are based on the present value 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 lease term. We amortize any resulting capitalized below-market lease values as an increase to rental income over the lease term.

We measure the aggregate value of other lease intangible assets acquired based on the difference between (i) the property valued with new or in-place 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 our 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 intangible assets acquired. In estimating carrying costs, management 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 be about six 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.

Other intangible assets acquired, may include customer relationship intangible values which are 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, if any, to expense over the initial term of the respective leases. 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. If a lease is terminated, the unamortized portion of the in-place lease value and customer relationship intangibles are charged to expense.

*Real Estate and Depreciation:* Real estate, consisting of land, buildings and improvements, are recorded at cost. Although typically paid by our tenants, any expenditure for ordinary maintenance and repairs that we pay are expensed to operations as incurred. Significant renovations and improvements which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives. We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets, including an estimated liquidation amount, during the expected holding periods are less than the carrying amounts of those assets. Impairment losses are measured as the difference between carrying value and fair value of assets. For assets held for sale, we cease recording depreciation expense and adjust the assets' value to the lower of its carrying value or fair value, less cost of disposal. Fair value is based on estimated cash flows discounted at a risk-adjusted rate of interest. We classify real estate assets as held for sale when we have commenced an active program to sell the assets, and in the opinion of management, it is probable the asset will be sold within the next 12 months. We record the results of operations from material property sales or planned sales (which include real property, loans and any receivables) as discontinued operations in the consolidated statements of income for all periods presented if we do not have any continuing involvement with the property subsequent to its sale. Results of discontinued operations include interest expense from debt which specifically collateralizes the property sold or held for sale.

Construction in progress includes the cost of land, the cost of construction of buildings, improvements and fixed equipment, and costs for design and engineering. Other costs, such as interest, legal, property taxes and corporate project supervision, which can be directly associated with the project during construction, are also included in construction in progress. We commence capitalization of costs associated with a development project when the development of the future asset is probable and activities necessary to get the underlying property ready for its intended use have been initiated. We stop the capitalization of costs when the property is substantially complete and ready for its intended use.

Depreciation is calculated on the straight-line method over the weighted average useful lives of the related real estate and other assets, as follows:

| | |
|---|---|
| Buildings and improvements ................ | 38.2 years |
| Tenant lease intangibles ..................... | 18.6 years |
| Leasehold improvements .................... | 22.2 years |
| Furniture, equipment and other ............. | 9.4 years |

*Losses from Rent Receivables:* For all leases, we continuously monitor the performance of our existing tenants including, but not limited to: admission levels and surgery/procedure volumes by type; current operating margins; ratio of our tenant's operating margins both to facility rent and to facility rent plus other fixed costs; trends in revenue and patient mix; and the effect of evolving healthcare regulations on tenant's profitability and liquidity.

*Losses from Operating Lease Receivables:* We utilize the information above along with the tenant's payment and default history in evaluating (on a property-by-property basis) whether or not a provision for losses on outstanding rent receivables is needed. A provision for losses on rent receivables (including straight-line rent receivables) is ultimately recorded when it becomes probable that the receivable will not be collected in full. The provision is an amount which reduces the receivable to its estimated net realizable value based on a determination of the eventual amounts to be collected either from the debtor or from existing collateral, if any.

*Losses on DFL Receivables:* Allowances are established for DFLs based upon an estimate of probable losses for the individual DFLs deemed to be impaired. DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due in accordance with the contractual terms of the lease. Like operating lease receivables, the need for an allowance is based upon our assessment of the lessee's overall financial condition; economic resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows discounted at the DFL's effective interest rate, fair value of collateral, and other relevant factors, as appropriate. DFLs are placed on non-accrual status when we determine that the collectability of contractual amounts is not reasonably assured. While on non-accrual status, we generally account for the DFLs on a cash basis, in which income is recognized only upon receipt of cash.

*Loans:* Loans consist of mortgage loans, working capital loans and other long-term loans. Mortgage loans are collateralized by interests in real property. Working capital and other long-term loans are generally collateralized by interests in receivables and corporate and individual guarantees. We record loans at cost. We evaluate the collectability of both interest and principal on a loan-by-loan basis (using the same process as we do for assessing the collectability of rents) to determine whether they are impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the allowance is calculated by comparing the recorded investment to either the value determined by discounting the expected future cash flows using the loan's effective interest rate or to the fair value of the collateral if the loan is collateral dependent. When a loan is deemed to be impaired, we generally place the loan on non-accrual status and record interest income only upon receipt of cash.

*Earnings Per Share:* Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted number of shares of common stock outstanding during the period. Diluted earnings per common share is calculated by including the effect of dilutive securities.

Certain of our unvested restricted and performance stock awards contain non-forfeitable rights to dividends, and accordingly, these awards are deemed to be participating securities. These participating securities are included in the earnings allocation in computing both basic and diluted earnings per common share.

*Income Taxes:* We conduct our business as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute to stockholders at least 90% of our REIT's ordinary taxable income. As a REIT, we generally are not subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we intend to operate in such a manner so that we will remain qualified as a REIT for federal income tax purposes.

Our financial statements include the operations of taxable REIT subsidiaries ("TRS"), including MPT Development Services, Inc. ("MDS") and MPT Covington TRS, Inc. ("CVT"), along with 29 others, which are single member LLCs that are disregarded for tax purposes and are reflected in the tax returns of MDS. Our TRS entities are not entitled to a dividends paid deduction and are subject to federal, state, and local income taxes. Our TRS entities are authorized to provide property development, leasing, and management services for third-party owned properties, and they make loans to and/or investments in our lessees.

With the property acquisitions in Germany, we will be subject to income taxes internationally. However, we do not expect to incur any additional income taxes in the United States as such income from our German properties will flow through our REIT income tax returns. For our TRS and international subsidiaries, we determine deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Any increase or decrease in the deferred tax liability that results from a change in circumstances, and that causes us to change our judgment about expected future tax consequences of events, is reflected in our tax provision when such changes occur. Deferred income taxes also reflect the impact of operating loss carryforwards. A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances, and that causes us to change our judgment about the realizability of the related deferred tax asset, is reflected in our tax provision when such changes occur.

*Stock-Based Compensation:* We adopted the 2013 Equity Incentive Plan (the "Equity Incentive Plan") during the second quarter of 2013, which replaced the 2004 Equity Incentive Plan. Awards of restricted stock, stock options and other equity-based awards with service conditions are amortized to compensation expense over the vesting periods (typically three years), using the straight-line method. Awards of deferred stock units vest when granted and are charged to expense at the date of grant. Awards that contain market conditions are amortized to compensation expense over the derived vesting periods, which correspond

to the periods over which we estimate the awards will be earned, which generally range from three to five years, using the straight-line method. Awards with performance conditions are amortized using the straight-line method over the service period in which the performance conditions are measured, adjusted for the probability of achieving the performance conditions.

*Deferred Costs:* Costs incurred prior to the completion of offerings of stock or other capital instruments that directly relate to the offering are deferred and netted against proceeds received from the offering. External costs incurred in connection with anticipated financings and refinancings of debt are generally capitalized as deferred financing costs in other assets and amortized over the lives of the related loans as an addition to interest expense. For debt with defined principal re-payment terms, the deferred costs are amortized to produce a constant effective yield on the loan (interest method). For debt without defined principal repayment terms, such as revolving credit agreements, the deferred costs are amortized on the straight-line method over the term of the debt. Leasing commissions and other leasing costs directly attributable to tenant leases are capitalized as deferred leasing costs and amortized on the straight-line method over the terms of the related lease agreements. Costs identifiable with loans made to borrowers are recognized as a reduction in interest income over the life of the loan.

*Foreign Currency Translation and Transactions:* Certain of our subsidiaries' functional currencies are the local currencies of their respective countries. We translate the results of operations of our foreign subsidiaries into U.S. dollars using average rates of exchange in effect during the period, and we translate balance sheet accounts using exchange rates in effect at the end of the period. We record resulting currency translation adjustments in accumulated other comprehensive income, a component of stockholders' equity on our consolidated balance sheets.

Certain of our U.S. subsidiaries will enter into transactions denominated in foreign currency from time to time. Gains or losses resulting from these foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income in the consolidated statements of income.

*Derivative Financial Investments and Hedging Activities:* During our normal course of business, we may use certain types of derivative instruments for the purpose of managing interest rate and/or foreign currency risk. We record our derivative and hedging instruments at fair value on the balance sheet. Changes in the estimated fair value of derivative instruments that are not designated as hedges or that do not meet the criteria for hedge accounting are recognized in earnings. For derivatives designated as cash flow hedges, the change in the estimated fair value of the effective portion of the derivative is recognized in accumulated other comprehensive income (loss), whereas the change in the estimated fair value of the ineffective portion is recognized in earnings. For derivatives designated as fair value hedges, the change in the estimated fair value of the effective portion of the derivatives offsets the change in the estimated fair value of the hedged item, whereas the change in the estimated fair value of the ineffective portion is recognized in earnings.

To qualify for hedge accounting, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking the hedge prior to entering into a derivative transaction. This process includes specific identification of the hedging instrument and the hedge transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness in hedging the exposure to the hedged transaction's variability in cash flows attributable to the hedged risk will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. In addition, for cash flow hedges, we assess whether the underlying forecasted transaction will occur. We discontinue hedge accounting if a derivative is not determined to be highly effective as a hedge or that it is probable that the underlying forecasted transaction will not occur.

*Fair Value Measurement:* We measure and disclose the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

*Level 1* — quoted prices for *identical* instruments in active markets;
*Level 2* — quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
*Level 3* — fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

We measure fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at their estimated fair value on either a recurring or non-recurring basis. When available, we utilize quoted market prices from an independent third party source to determine fair value and classify such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, we consistently apply the dealer (market maker) pricing estimate and classify the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option

volatilities, credit spreads, market capitalization rates, etc. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by us include discounted cash flow and Monte Carlo valuation models. We also consider our counterparty's and own credit risk on derivatives and other liabilities measured at their estimated fair value.

*Fair Value Option Election:* For our equity interest in Ernest and related loans (as more fully described in Note 3), we have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interest or loans made in or prior to 2013.

*Recent Accounting Developments:* In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-10"). This update permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 on July 17, 2013, did not have a material impact on our 2013 consolidated financial position or results of operations.

In January 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). The amendments in this update require an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified from accumulated other comprehensive income by the net income line item. The adoption of ASU 2013-02 did not have an impact on our 2013 consolidated financial position or results of operations.

*Reclassifications:* Certain reclassifications have been made to the consolidated financial statements to conform to the 2013 consolidated financial statement presentation. Assets sold or held for sale have been reclassified to Real Estate Held for Sale on the consolidated balance sheets and related operating results have been reclassified from continuing operations to discontinued operations for all periods presented (see Note 11).

## 3. Real Estate and Loans Receivable

### Acquisitions

We acquired the following assets:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Assets Acquired | (Amounts in thousands) | | |
| Land | $ 41,473 | $ 518 | $ 19,705 |
| Buildings | 439,030 | 8,942 | 220,769 |
| Intangible lease assets-subject to amortization (weighted average useful life 21.0 years in 2013, 15.0 years in 2012 and 13.9 years in 2011 ) | 38,589 | 1,040 | 20,630 |
| Net investments in direct financing leases | 110,580 | 310,000 | — |
| Mortgage loans | 20,000 | 200,000 | — |
| Other loans | 5,250 | 95,690 | 27,283 |
| Equity investments | – | 5,300 | 5,168 |
| Total assets acquired | $ 654,922 | $ 621,490 | $ 293,555 |
| Total liabilities assumed | – | – | (14,592) |
| Net assets acquired | $ 654,922 | $ 621,490 | $ 278,963 |

### 2013 Activity

### RHM Portfolio Acquisition

On November 29, 2013, we acquired 11 rehabilitation facilities in the Federal Republic of Germany from RHM Klinik-und Altenheimbetriebe GmbH & Co. KG ("RHM") for an aggregate purchase price, excluding €9 million applicable transfer taxes, of €175 million or $237.8 million. Each of the facilities are leased to RHM under a master lease providing for a term of 27 years and for annual rent increases of 2.0% from 2015 through 2017, and of 0.5% thereafter. On December 31, 2020 and every three years thereafter, rent will be increased to reflect 70% of cumulative increases in the German consumer price index.

The RHM Acquisition represents our first acquisition outside of the United States. This acquisition adds a portfolio of assets with a financially stable long-term operating history and helps improve both our tenant and geographic diversification. As of December 31, 2013, we had $240.5 million of gross real estate assets located outside of the United States that generated $1.8 million of revenue in 2013.

On December 12, 2013, we acquired the real estate of Dallas Medical Center in Dallas, Texas from affiliates of Prime for a purchase price of $25 million and leased the facility to Prime with an initial 10-year lease term under the master lease agreement, plus two renewal options of five years each. This lease is accounted for as a DFL.

On September 26, 2013, we acquired three general acute care hospitals from affiliates of IASIS for a combined purchase price of $281.3 million. Each of the facilities were leased back to IASIS under leases with initial 15-year terms plus two renewal options of five years each, and consumer price-indexed rent increases limited to a 2.5% ceiling annually. The lessees have a right of first refusal option with respect to subsequent proposed sales of the facilities. All of our leases with affiliates of IASIS will be cross-defaulted

with each other. In addition to the IASIS acquisitions transactions, we have amended our lease with IASIS for the Pioneer Valley Hospital in West Valley City, Utah, which extended the lease to 2028 from 2019 and adjusted the rent.

On July 18, 2013, we acquired the real estate of Esplanade Rehab Hospital in Corpus Christi, Texas (now operating as Corpus Christi Rehabilitation Hospital). The total purchase price was $10.5 million including $0.5 million for adjacent land. The facility is leased to an affiliate of Ernest under the master lease agreement entered into with Ernest in 2012 that initially provided for a 20-year term with three five-year extension options, plus consumer price-indexed rent increases, limited to a 2% floor and 5% ceiling annually. This lease is accounted for as a DFL. In addition, we made a $5.3 million loan on this property with terms similar to the lease terms.

On June 11, 2013, we acquired the real estate of two acute care hospitals in Kansas from affiliates of Prime for a combined purchase price of $75 million and leased the facilities to the operator under a master lease agreement. The master lease is for 10 years and contains two renewal options of five years each, and the rent increases annually based on the greater of the consumer price-index or 2%. This lease is accounted for as a DFL.

On December 31, 2013, we provided a $20 million mortgage financing to Alecto Healthcare Services for the 204-bed Olympia Medical Center.

The purchase price allocations attributable to the RHM and IASIS acquisitions are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be retrospectively adjusted to reflect new information obtained about the facts and circumstances that existed as of the respective acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates.

From the respective acquisition dates, these 2013 acquisitions contributed $13.6 million and $10.6 million of revenue and income (excluding related acquisition and financing expenses), respectively, for the period ended December 31, 2013. In addition, we incurred $19.5 million of acquisition related expenses in 2013, of which $18.0 million (including $12 million in transfer taxes as a part of the RHM acquisition) related to acquisitions consummated as of December 31, 2013.

## 2012 Activity

On February 29, 2012, we made loans to and acquired assets from Ernest for a combined purchase price and investment of $396.5 million ("Ernest Transaction").

### Real Estate Acquisition and Mortgage Loan Financing

Pursuant to a definitive real property asset purchase agreement, we acquired from Ernest and certain of its subsidiaries (i) a portfolio of five rehabilitation facilities (including a ground lease interest relating to a community-based acute rehabilitation facility in Wyoming), (ii) seven long-term acute care facilities located in seven states and (iii) undeveloped land in Provo, Utah (collectively, the "Acquired Facilities") for an aggregate purchase price of $200 million, subject to certain adjustments. The Acquired Facilities are leased to subsidiaries of Ernest pursuant to a master lease agreement. The master lease agreement has a 20-year term with three five-year extension options and provided for an initial rental rate of 9%, with consumer price-indexed increases, limited to a 2% floor and 5% ceiling annually thereafter. In addition, we made Ernest a $100 million loan secured by a first mortgage interest in four subsidiaries of Ernest, which has terms similar to the leasing terms described above.

### Acquisition Loan and Equity Contribution

Through an affiliate of one of our TRSs, we made investments of approximately $96.5 million in Ernest Health Holdings, LLC, which is the owner of Ernest. These investments are structured as a $93.2 million acquisition loan and a $3.3 million equity contribution.

The interest rate on the acquisition loan is 15%. Ernest is required to pay us a minimum of 6% and 7% of the loan amount in years one and two, respectively, and 10% thereafter, although there are provisions in the loan agreement that are expected to result in full payment of the 15% preference when funds are sufficient. Any of the 15% in excess of the minimum that is not paid may be accrued and paid upon the occurrence of a capital or liquidity event and is payable at maturity. The loan may be prepaid without penalty at any time.

On July 3, 2012, we funded a $100 million mortgage loan secured by the real property of Centinela Hospital Medical Center. Centinela is a 369 bed acute care facility that is operated by Prime. This mortgage loan is cross-defaulted with other mortgage loans to Prime and certain master lease agreements. The initial term of this mortgage loan runs through 2022.

On September 19, 2012, we acquired the real estate of the 380 bed St. Mary's Regional Medical Center, an acute care hospital in Reno, Nevada for $80 million and the real estate of the 140 bed Roxborough Memorial Hospital in Pennsylvania for $30 million. The acquired facilities are leased to Prime pursuant to a master lease agreement, which is more fully described below in the Leasing Operations section.

On December 14, 2012, we acquired the real estate of a 40 bed long-term acute care hospital in Hammond, Louisiana for $10.5 million and leased the facility to the operator under a 15-year lease, with three five-year extension options. The rent escalates annually based on consumer price indexed increases. As part of this transaction, we made a secured working capital loan of $2.5 million as well as a revolving loan of up to $2.0 million. In addition, we made a $2.0 million equity investment for a 25% equity ownership in the operator of this facility.

From the respective acquisition dates in 2012 through that year end, these 2012 acquisitions contributed $46.3 million and $46.1 million of revenue and income (excluding related acquisition expenses), respectively, for the period ended December 31, 2012. In addition, we incurred $5.4 million of acquisition related expenses in 2012, of which $5.1 million related to acquisitions consummated as of December 31, 2012.

### 2011 Activity

On January 4, 2011, we acquired the real estate of the 19-bed, 4-year old Gilbert Hospital in a suburb of Phoenix, Arizona area for $17.1 million. Gilbert Hospital is operated by affiliates of Visionary Health, LLC, the same group that operates our Florence, Arizona facility. We acquired this asset subject to an existing lease that expires in May 2022. The lease contains three five-year extension options, and the rent escalates annually at 2.5%.

On January 31, 2011, we acquired for $23.5 million the real estate of the 60-bed Atrium Medical Center at Corinth in the Dallas area, a long-term acute care hospital that was completed in 2009 and is subject to a lease that expires in June 2024. The lease contains two ten-year extension options, and the rent escalates annually based on consumer price indexed increases and to be not less than 1% or greater than 5%. In addition, through one of our affiliates, we invested $1.3 million to acquire approximately 19% of a joint venture arrangement with an affiliate of Vibra Healthcare, LLC (“Vibra”) that will manage and has acquired a 51% interest in the operations of the facility. We also made a $5.2 million working capital loan to the joint venture. The former operators of the hospital, comprised primarily of local physicians, retained ownership of 49% of the operating entity.

On February 4, 2011, we purchased for $58 million the real estate of Bayonne Medical Center, a 6-story, 278-bed acute care hospital in the New Jersey area of metropolitan New York, and leased the facility to the operator under a 15-year lease, with six five-year extension options. The rent escalates annually based on consumer price indexed increases. The operator is an affiliate of a private hospital operating company that acquired the hospital in 2008.

On February 9, 2011, we acquired the real estate of the 306-bed Alvarado Hospital in San Diego, California for $70 million from Prime. Prime is the operator of the facility.

On February 14, 2011, we completed the acquisition of the Northland LTACH Hospital located in Kansas City, a 35-bed hospital that opened in April 2008 and has a lease that expires in 2028. The lease contains three five-year extension options, and the rent increases annually at 2.75%. This hospital is currently being operated by Kindred Healthcare Inc. The purchase price of this hospital was $19.5 million, which included the assumption of a $15 million existing mortgage loan that matures in January 2018.

On July 18, 2011, we acquired the real estate of the 40-bed Vibra Specialty Hospital of DeSoto in Desoto, Texas for $13.0 million. This long-term acute care facility is leased to a subsidiary of Vibra for a fixed term of 15 years with three five-year extension options. Rent escalates annually based on consumer priced indexed increases. In addition, we made a $2.5 million equity investment in the operator of this facility for a 25% equity ownership.

On September 30, 2011, we purchased the real estate of a 40-bed long-term acute care facility in New Braunfels, Texas for $10.0 million. This facility is leased to an affiliate of Post Acute Medical, LLC for a fixed term of 15 years with three five-year extension options. Rent escalates annually based on consumer priced indexed increases. In addition, we made a $1.4 million equity investment for a 25% equity ownership in the operator of this facility and funded a $2.0 million working capital loan.

On November 4, 2011, we made investments in Hoboken University Medical Center in Hoboken, New Jersey, a 350-bed acute care facility. The total investment for this transaction was $75.0 million, comprising $50.0 million for the acquisition of an 100% ownership of the real estate, a secured working capital loan of up to $20.0 million (of which $15.1 million has been funded to-date), and the funding of a $5.0 million convertible note, which provides us with the option to acquire up to 25% of the hospital operator—See Loans section of this Note 3 for an update. The lease with the tenant has an initial term of 15 years, contains six five-year extension options, and the rent escalates annually based on consumer price indexed increases.

From the respective acquisition dates in 2011 through that year-end, these 2011 acquisitions contributed $21.2 million of revenue and $14.1 million of income (excluding related acquisition expenses), respectively. In addition, we incurred $4.2 million in acquisition related expenses in 2011, of which $1.9 million related to acquisitions consummated as of December 31, 2011.

The results of operations for each of the properties acquired in 2013 and 2012 are included in our consolidated results from the effective date of each acquisition. The following table sets forth certain unaudited pro forma consolidated financial data for 2013 and 2012, as if each acquisition was consummated on the same terms at the beginning of 2012 and 2011, respectively. Supplemental pro forma earnings were adjusted to exclude $18.0 million and $5.1 million of acquisition-related costs on these consummated deals incurred during 2013 and 2012, respectively (dollar amounts in thousands except per share data).

| | 2013 | 2012 |
|---|---|---|
| Total revenues | $ 288,159 | $ 280,539 |
| Net income | 133,258 | 135,402 |
| Net income per share | $ 0.82 | $ 0.85 |

## Development Activities

On June 11, 2013, we entered into a master funding and development agreement with First Choice Emergency Room, LLC ("First Choice") to develop up to 25 freestanding emergency room facilities for a maximum aggregate funding of $100 million. During 2013, we began construction on eight of these emergency room facilities for a total development price of $37.8 million. One of the facilities was completed in the fourth quarter of 2013, while the others are expected to be completed in 2014. We have funded $9.1 million through the end of 2013 for these facilities still under construction.

On May 20, 2013, we entered into an agreement to finance the development of and lease an inpatient rehabilitation facility in South Ogden, Utah for $19.2 million, which will be leased to Ernest under the 2012 master lease. The facility is expected to be completed in the 2014 second quarter. We have funded $16.4 million through the end of 2013.

On March 4, 2013, we entered into an agreement to finance the development of and lease an inpatient rehabilitation facility in Post Falls, Idaho for $14.4 million, which will be leased to Ernest under the 2012 master lease.

On December 20, 2012, we entered into an agreement to finance the development of and lease an acute care facility in Altoona, Wisconsin for $33.5 million, which will be leased to an affiliate of National Surgical Hospitals.

On October 1, 2012, we agreed to fund the construction of an inpatient rehabilitation hospital in Spartanburg, South Carolina that will be operated by Ernest. The facility was completed in 2013 for a total development cost of $16.9 million, and we began recognizing rent in August 2013.

On June 13, 2012, we entered into an agreement with Ernest to fund the development of and lease a 40-bed rehabilitation hospital in Lafayette, Indiana. The facility was completed in 2013 for a total development costs of $15.7 million, and we began recognizing rent in February 2013.

On May 4, 2012, we amended the current lease on our Victoria, Texas facility with Post Acute Medical to extend the current lease term to 2028, and we agreed to develop and lease a 26-bed facility next to the existing facility. The facilities will be operated as separate LTACH and rehabilitation hospitals. We completed development of the rehabilitation facility in 2013 for a total development costs of $9.4 million, and began recognizing rent in December 2013.

On March 1, 2012, we received a certificate of occupancy for our constructed Florence acute care facility near Phoenix, Arizona. With this, we started recognizing rent on this facility in March 2012. Land and building costs associated with this property approximates $30 million, and the lease term is 25 years.

On October 14, 2011, we entered into agreements with a joint venture of Emerus Holding, Inc. and Baptist Health System, to acquire, provide for development funding and lease three acute care hospitals for $30.0 million in the suburban markets of San Antonio, Texas. The three facilities are subject to a master lease structure with an initial term of 15 years and three five-year extension options. Rent escalates annually based on consumer priced indexed increases and to be not less than one percent or greater than three percent. We completed development and started recognizing rent on one of the facilities in October 2012 and in 2013 for the remaining two facilities.

In regards to our Twelve Oaks facility, approximately 55% of this facility became occupied as of January 23, 2013, pursuant to a 15 year lease.

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

| Property | Location | Property Type | Operator | Commit-ment | Costs Incurred as of 12/31/13 | Estimated Completion Date |
|---|---|---|---|---|---|---|
| First Choice ER-Nacogdoches | San Antonio, TX | Acute Care Hospital | First Choice ER, LLC | $ 5,100 | $ 2,681 | 1Q 2014 |
| First Choice ER- Brodie | Austin, TX | Acute Care Hospital | First Choice ER, LLC | 5,470 | 1,950 | 2Q 2014 |
| First Choice ER- Alvin | Houston, TX | Acute Care Hospital | First Choice ER, LLC | 5,240 | 1,328 | 2Q 2014 |
| Northern Utah Rehabilitation Hospital | South Ogden, UT | Inpatient Rehabilitation Hospital | Ernest Health, Inc. | 19,153 | 16,391 | 2Q 2014 |
| First Choice ER-Briar Forest | Houston, TX | Acute Care Hospital | First Choice ER, LLC | 5,833 | 1,386 | 3Q 2014 |
| First Choice ER- Cedar Hill | Cedar Hill, TX | Acute Care Hospital | First Choice ER, LLC | 5,768 | 1,167 | 3Q 2014 |
| First Choice ER- Firestone | Firestone, CO | Acute Care Hospital | First Choice ER, LLC | 5,172 | 544 | 3Q 2014 |
| Oakleaf Surgical Hospital | Altoona, WI | Acute Care Hospital | National Surgical Hospitals | 33,500 | 16,324 | 3Q 2014 |
| First Choice Emergency Rooms | Various | Acute Care Hospital | First Choice | 62,217 | — | Various |
| | | | | $ 147,453 | $ 41,771 | |

## Disposals

On November 27, 2013, we sold the real estate of an inpatient rehabilitation facility, Warm Springs Rehabilitation Hospital of San Antonio, for $14 million, resulting in a gain on sale of $5.6 million.

On April 17, 2013, we sold two long-term acute care hospitals, Summit Hospital of Southeast Arizona and Summit Hospital of Southeast Texas, for total proceeds of $18.5 million, resulting in a gain of $2.1 million.

On December 27, 2012, we sold our Huntington Beach facility for $12.5 million, resulting in a gain of $1.9 million. Due to this sale, we wrote-off $0.7 million of straight-line rent receivable.

During the third quarter of 2012, we entered into a definitive agreement to sell the real estate of two LTACH facilities, Thornton and New Bedford, to Vibra for total cash proceeds of $42 million. The sale of Thornton was completed on September 28, 2012, resulting in a gain of $8.4 million. Due to this sale, we wrote-off $1.6 million in straight-line rent receivables. The sale of New Bedford was completed on October 22, 2012, resulting in a gain of $7.2 million. Associated with this sale, we wrote-off $4.1 million in straight-line rent receivables in the fourth quarter 2012.

On August 21, 2012, we sold our Denham Springs facility for $5.2 million, resulting in a gain of $0.3 million.

On June 15, 2012, we sold the HealthSouth Rehabilitation Hospital of Fayetteville in Fayetteville, Arkansas for $16 million, resulting in a loss of $1.4 million. In connection with this sale, HealthSouth Corporation agreed to extend the lease on our Wichita, Kansas property, which is now set to end in March 2022.

On December 30, 2011, we sold Sherman Oaks Hospital in Sherman Oaks, California to Prime for $20.0 million, resulting in a gain of $3.1 million. Due to this sale, we wrote-off $1.2 million in straight-line rent receivables.

On December 30, 2011, we sold MountainView Regional Rehabilitation Hospital in Morgantown, West Virginia to HealthSouth Corporation for $21.1 million, resulting in a gain of $2.3 million.

For each of these disposals, the operating results of these facilities for the current and all prior periods have been included in discontinued operations, and we have reclassified the related real estate to Real Estate Held for Sale.

### Intangible Assets

At December 31, 2013 and 2012, our intangible lease assets were $90.5 million ($75.0 million, net of accumulated amortization) and $52.0 million ($40.1 million, net of accumulated amortization), respectively.

We recorded amortization expense related to intangible lease assets of $4.0 million, $3.9 million, and $5.2 million in 2013, 2012, and 2011, respectively, and expect to recognize amortization expense from existing lease intangible assets as follows: (amounts in thousands)

| For the Year Ended December 31: | |
|---|---|
| 2014 | $ 5,086 |
| 2015 | 4,896 |
| 2016 | 4,855 |
| 2017 | 4,845 |
| 2018 | 4,784 |

As of December 31, 2013, capitalized lease intangibles have a weighted average remaining life of 18.6 years.

### Leasing Operations

All of our leases are accounted for as operating leases except we are accounting for 13 Ernest facilities and five Prime facilities as DFLs. The components of our net investment in DFLs consisted of the following (dollars in thousands):

| | As of December 31, 2013 |
|---|---|
| Minimum lease payments receivable | $ 1,647,567 |
| Estimated residual values | 211,863 |
| Less unearned income | (1,428,406) |
| Net investment in direct financing leases | $ 431,024 |

Minimum rental payments due to us in future periods under operating leases and DFL, which have non-cancelable terms extending beyond one year at December 31, 2013, are as follows: (amounts in thousands)

| | Total Under Operating Leases | Total Under DFLs | Total |
|---|---|---|---|
| 2014 | $ 166,602 | $ 42,535 | $ 209,137 |
| 2015 | 164,754 | 43,386 | 208,140 |
| 2016 | 165,517 | 44,254 | 209,771 |
| 2017 | 165,418 | 45,139 | 210,557 |
| 2018 | 165,679 | 46,041 | 211,720 |
| Thereafter | 1,536,759 | 428,466 | 1,965,225 |
| | $ 2,364,729 | $ 649,821 | $ 3,014,550 |

On July 3, 2012, we entered into master lease agreements with certain subsidiaries of Prime, which replaced the then current leases with the same tenants covering the same properties. The master leases are for 10 years and contain two renewal options of five years each. The initial lease rate is generally consistent with the blended average rate of the prior lease agreements. However, the annual escalators, which in the prior leases were limited, have been increased to 100% of consumer price index increases, along with a minimum floor. The master leases include repurchase options substantially similar to those in the prior leases, including provisions establishing minimum repurchase prices equal to our total investment.

In the 2011 fourth quarter, we consented to the sale by Vibra of its Dallas LTACH, for which we own the real estate to an affiliate of LifeCare Reit 2, Inc. ("LifeCare") and LifeCare executed a restated lease agreement. As a result of this transaction, we wrote off the related straight line rent receivables of $1.3 million and accelerated the amortization of the related lease intangibles resulting in $0.6 million of expense in the 2011 fourth quarter.

### Monroe Facility

As of December 31, 2013, we have advanced $31.1 million to the operator/lessee of Monroe Hospital in Bloomington, Indiana pursuant to a working capital loan agreement, including $1.2 million in advances during 2013. In addition, as of December 31, 2013, we have $21.0 million of rent, interest and other charges owed to us by the operator, of which $6.0 million of interest receivables are significantly more than 90 days past due. Because the operator has not made all payments required by the working capital loan agreement and the related real estate lease agreement, we consider the loan to be impaired. During 2010, we recorded a $12 million impairment charge on the working capital loan and recorded a valuation allowance for unbilled straight-line rent in the amount of $2.5 million. We have not recognized any interest income on the Monroe loan since it was considered impaired and have not recorded any unbilled rent since 2010. In addition, we stopped recording rental revenue on April 1, 2013, until we begin receiving cash payments.

At December 31, 2013, our net investment (exclusive of the related real estate) of approximately $40.3 million is our maximum exposure to Monroe and the amount is deemed collectible/recoverable. In making this determination, we considered our first priority secured interest in approximately (i) $4 million in hospital patient receivables, (ii) cash balances of approximately $0.1 million, (iii) our assessment of the realizable value of our other collateral and (iv) projected EBITDA of the hospital operations that we have modeled under various scenarios for sensitivity purposes. In order to recover our aggregate net investment in Monroe, we believe a restructuring of our lease and loan with a new operator may be needed. Among other provisions, we expect this would include our participation in future operating income and sale proceeds, if any, over a multi-year period. We are presently negotiating the potential terms of such a restructuring with several separate parties, although there is no assurance that we will complete a transaction with any of these parties. Moreover, we may conclude that the potential lease income and our share of operating income and sale proceeds would be insufficient for us to recover all of our net investment, in which case further impairment charges would be necessary. The amount, if any, of such further impairment is uncertain, and no assurances can be made that we will not have additional impairment charges on our working capital loan or other receivables in the future. Additional uncertainty may result if our current lessee/borrower enters bankruptcy proceedings, which is possible.

### Florence facility

On March 6, 2013, the tenant of our $29.4 million facility in Phoenix, Arizona filed for Chapter 11 bankruptcy. Florence is current on its rent, and at December 31, 2013, we had less than $0.8 million of receivables outstanding. In addition, we have a letter of credit for approximately $1.2 million to cover any rent and other monetary payments not paid in the future. Although no assurances can be made that we will not have any impairment charges in the future, we believe our investment in Florence at December 31, 2013, is fully recoverable.

### Gilbert facility

In 2014, the tenant of our $17.1 million facility in Gilbert, Arizona filed for Chapter 11 bankruptcy, and we sent notice of termination of the lease prior to the bankruptcy filing. Gilbert was current on its rent through December 31, 2013. However, we did have approximately $0.9 million of straight-line rent receivables associated with this lease at December 31, 2013. Although no assurances can be made that we will not have any impairment charges or write-offs of receivables in the future, we believe our investment in Gilbert at December 31, 2013, is fully recoverable.

### Loans

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

| | As of December 31, 2013 | | As of December 31, 2012 | |
|---|---|---|---|---|
| | Balance | Weighted Average Interest Rate | Balance | Weighted Average Interest Rate |
| Mortgage loans | $ 388,650 | 10.2% | $ 368,650 | 10.0% |
| Acquisition loans | 103,266 | 14.5% | 98,433 | 14.7% |
| Working capital and other loans | 57,724 | 10.9% | 60,810 | 10.8% |
| | $ 549,640 | | $ 527,893 | |

Our mortgage loans cover 9 of our properties with four operators. The increase from 2012 is primarily related to the $20 million loan for the Olympia property as previously discussed under the heading of Acquisitions in this Note 3.

Other loans typically consist of loans to our tenants for acquisitions and working capital purposes. Our $98.0 million acquisition loans with Ernest, our Hoboken convertible loan and our $19.1 million working capital loan to Monroe (net of $12 million loan loss reserve) are included in other loans.

On March 1, 2012, pursuant to our convertible note agreement, we converted $1.6 million of our $5.0 million convertible note into a 9.9% equity interest in the operator of our Hoboken University Medical Center facility. At December 31, 2013, $3.4 million remains outstanding on the convertible note, and we retain the option, to convert this remainder into an additional 15.1% equity interest in the operator.

### Concentration of Credit Risks

For the year ended December 31, 2013 and 2012, revenue from affiliates of Ernest (including rent and interest from mortgage and acquisition loans) accounted for 20.2% and 18.6% of total revenue, respectively. From an investment concentration perspective, Ernest represented 15.9% and 18.2% of our total assets at December 31, 2013 and December 31, 2012, respectively.

For the years ended December 31, 2013 and 2012, revenue from affiliates of Prime (including rent and interest from mortgage loans) accounted for 32.0% and 27.3%, respectively, of total revenue. From an investment concentration perspective, Prime represented 24.5% and 27.9% of our total assets at December 31, 2013 and December 31, 2012, respectively.

On an individual property basis, we had no investment of any single property greater than 4% of our total assets as of December 31, 2013.

From a geographic perspective, investments located in California represented 18.7% of our total assets at December 31, 2013, down from 24.0% in the prior year. Investments located in Texas represented 22.7% of our total assets at December 31, 2013, down from 23.6% in the prior year. In addition, we further expanded our portfolio into Europe with the RHM portfolio acquisition, which represents less than 9% of total assets at December 31, 2013.

### Related Party Transactions

Lease and interest revenue earned from tenants in which we have an equity interest in were $70.0 million, $54.3 million and $5.5 million in 2013, 2012 and 2011, respectively.

## 4. Debt

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

| | As of December 31, 2013 | | As of December 31, 2012 | |
|---|---|---|---|---|
| | Balance | Interest Rate | Balance | Interest Rate |
| Revolving credit facility | $ 105,000 | Variable | $ 125,000 | Variable |
| 2006 Senior Unsecured Notes | 125,000 | Various | 125,000 | Various |
| 2011 Senior Unsecured Notes | 450,000 | 6.875% | 450,000 | 6.875% |
| 2012 Senior Unsecured Notes: | | | | |
| Principal amount | 350,000 | 6.375% | 200,000 | 6.375% |
| Unamortized discount | 2,873 | | — | |
| | 352,873 | | 200,000 | |
| Exchangeable senior notes: | | | | |
| Principal amount | — | | 11,000 | 9.250% |
| Unamortized discount | — | | (37) | |
| | — | | 10,963 | |
| 2013 Senior Unsecured Notes | 274,860 | 5.75% | — | |
| Term loans | 113,948 | Various | 114,197 | Various |
| | $ 1,421,681 | | $ 1,025,160 | |

As of December 31, 2013, principal payments due on our debt (which exclude the effects of any discounts or premiums recorded) are as follows: (A)

| | |
|---|---|
| 2014 | $ 265 |
| 2015 | 105,283 |
| 2016 | 225,299 |
| 2017 | 320 |
| 2018 | 12,781 |
| Thereafter | 1,074,860 |
| Total | $ 1,418,808 |

*(A) Our 2013 Senior Unsecured Notes are Euro-denominated. We have used the exchange rate at December 31, 2013 in this debt maturity schedule.*

In order to fund our 2013 acquisitions disclosed in Note 3, we completed a public offering of €200 million aggregate principal amount of our 5.750% Senior Notes due 2020 (the “2013 Senior Unsecured Notes”) and did a $150 million tack on to our 2012 Senior Unsecured Notes.

To help fund the 2012 acquisitions disclosed in Note 3, on February 17, 2012, we completed the “2012 Senior Unsecured Notes” for $200 million, resulting in net proceeds, after underwriting discount, of $196.5 million. These 2012 Senior Unsecured Notes accrue interest at a fixed rate of 6.375% per year and mature on February 15, 2022. The 2012 Senior Unsecured Notes include covenants substantially consistent with our 2011 Senior Unsecured Notes. In addition, on March 9, 2012, we closed on a $100 million senior unsecured term loan facility (“2012 Term Loan”).

### Revolving Credit Facility

In March 2012, we exercised the $70 million accordion feature on our unsecured revolving credit facility, increasing the capacity from $330 million to $400 million. The unsecured revolving credit facility matures in October 2015. The interest rate is (1) the higher of the “prime rate” or federal funds rate plus 0.5%, plus a spread initially set at 1.60%, but that is adjustable from 1.60% to 2.40% based on current total leverage, or (2) LIBOR plus a spread initially set at 2.60%, but that is adjustable from 2.60% to 3.40% based on current total leverage. Interest rate spread was 2.85% at December 31, 2013 and 2012. In addition to interest expense, we are required to pay a quarterly commitment fee on the undrawn portion of the revolving credit facility, ranging from 0.375% to 0.500% per year. At December 31, 2013 and 2012, our outstanding balance on the revolving credit facility was $105 million and $125 million, respectively. At December 31, 2013, our availability under our revolving credit facility was $295 million. The weighted average interest rate on this facility was 3.2% and 3.2% for 2013 and 2012, respectively.

### 2013 Senior Unsecured Notes

On October 10, 2013, we completed the 2013 Senior Unsecured Notes offering for €200 million (or $274.9 million.) Interest on the Notes will be payable semi-annually on April 1 and October 1 of each year, commencing on April 1, 2014. The 2013 Senior Unsecured Notes will pay interest in cash at a rate of 5.750% per year. The Notes mature on October 1, 2020. We may redeem some or all of the 2013 Senior Unsecured Notes at any time prior to October 1, 2016 at a “make-whole” redemption price. On or after

October 1, 2016, we may redeem some or all of the Notes at a premium that will decrease over time. In addition, at any time and from time to time prior to October 1, 2016, we may redeem up to 35% of the aggregate principal amount of the 2013 Senior Unsecured Notes using the proceeds of one or more equity offerings. The 2013 Senior Unsecured Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by certain subsidiary guarantors. In the event of a change of control, each holder of the 2013 Senior Unsecured Notes may require us to repurchase some or all of our 2013 Senior Unsecured Notes at a repurchase price equal to 101% of the aggregate principal amount of the 2013 Senior Unsecured Notes plus accrued and unpaid interest to the date of purchase.

### 2012 Senior Unsecured Notes

On February 17, 2012, we completed a $200 million offering of senior unsecured notes ("2012 Senior Unsecured Notes") (resulting in net proceeds of $196.5 million, after underwriting discount). On August 20, 2013, we completed a $150 million tack on to the notes (resulting in net proceeds of $150.4 million, after underwriting discount). These 2012 Senior Unsecured Notes accrue interest at a fixed rate of 6.375% per year and mature on February 15, 2022. The 2013 tack on offering, was issued at a premium (price of 102%), resulting in an effective rate of 5.998%. Interest on these notes is payable semi-annually on February 15 and August 15 of each year. We may redeem some or all of the 2012 Senior Unsecured Notes at any time prior to February 15, 2017 at a "make-whole" redemption price. On or after February 15, 2017, we may redeem some or all of the 2012 Senior Unsecured Notes at a premium that will decrease over time, plus accrued and unpaid interest to, but not including, the redemption date. The 2012 Senior Unsecured Notes are guaranteed, jointly and severally, on an unsecured basis, by certain subsidiary guarantors. In the event of a change of control, each holder of the 2012 Senior Unsecured Notes may require us to repurchase some or all of its 2012 Senior Unsecured Notes at a repurchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of purchase.

### 2011 Senior Unsecured Notes

On April 26, 2011, we closed on a private placement of $450 million aggregate principal amount of 6.875% Senior Notes due 2021 (the "2011 Senior Unsecured Notes") to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The 2011 Senior Unsecured Notes were subsequently registered under the Securities Act pursuant to an exchange offer. Interest on the 2011 Senior Unsecured Notes is payable semi-annually on May 1 and November 1 of each year. The 2011 Senior Unsecured Notes pay interest in cash at a rate of 6.875% per year and mature on May 1, 2021. We may redeem some or all of the 2011 Senior Unsecured Notes at any time prior to May 1, 2016 at a "make-whole" redemption price. On or after May 1, 2016, we may redeem some or all of the 2011 Senior Unsecured Notes at a premium that will decrease over time, plus accrued and unpaid interest to, but not including, the redemption date. The 2011 Senior Unsecured Notes are guaranteed, jointly and severally, on an unsecured basis, by the certain subsidiary guarantors. In the event of a change of control, each holder of the 2011 Senior Unsecured Notes may require us to repurchase some or all of its 2011 Senior Unsecured Notes at a repurchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of purchase.

### 2006 Senior Unsecured Notes

During 2006, we issued $125.0 million of Senior Unsecured Notes (the "2006 Senior Unsecured Notes"). The 2006 Senior Unsecured Notes were placed in private transactions exempt from registration under the Securities Act of 1933, as amended, (the "Securities Act"). One of the issuances of the 2006 Senior Unsecured Notes totaling $65.0 million paid interest quarterly at a fixed annual rate of 7.871% through July 30, 2011, thereafter, at a floating annual rate of three-month LIBOR plus 2.30% and can be called at par value by us at any time. This portion of the 2006 Senior Unsecured Notes matures in July 2016. The remaining issuances of 2006 Senior Unsecured Notes paid interest quarterly at fixed annual rates ranging from 7.333% to 7.715% through October 30, 2011, thereafter, at a floating annual rate of three-month LIBOR plus 2.30% and can also be called at par value by us at any time. These remaining notes mature in October 2016.

During the second quarter 2010, we entered into an interest rate swap to manage our exposure to variable interest rates by fixing $65 million of our $125 million 2006 Senior Unsecured Notes, which started July 31, 2011 (date on which the interest rate turned variable) through maturity date (or July 2016), at a rate of 5.507%. We also entered into an interest rate swap to fix $60 million of 2006 Senior Unsecured Notes which started October 31, 2011 (date on which the related interest rate turned variable) through the maturity date (or October 2016) at a rate of 5.675%. At December 31, 2013 and 2012, the fair value of the interest rate swaps was $9.0 million and $12.5 million, respectively, which is reflected in accounts payable and accrued expenses on the consolidated balance sheets.

We account for our interest rate swaps as cash flow hedges. Accordingly, the effective portion of changes in the fair value of our swaps is recorded as a component of accumulated other comprehensive income/loss on the balance sheet and reclassified into earnings in the same period, or periods, during which the hedged transactions effects earnings, while any ineffective portion is recorded through earnings immediately. We did not have any hedge ineffectiveness from inception of our interest rate swaps through December 31, 2013 and therefore, there was no income statement effect recorded during the years ended December 31, 2013, 2012, and 2011. We do not expect any of the current losses included in accumulated other comprehensive loss to be reclassified into earnings in the next 12 months. At December 31, 2013 and 2012, we have posted $5.0 million and $6.6 million of collateral related to our interest rate swaps, respectively, which is reflected in other assets on our consolidated balance sheets.

### Term Loans

As noted previously, we closed on the 2012 Term Loan for $100 million on March 9, 2012. The 2012 Term Loan facility has an interest rate option of (1) LIBOR plus an initial spread of 2.25% or (2) the higher of the "prime rate", federal funds rate plus 0.5%, or Eurodollar rate plus 1.0%, plus an initial spread of 1.25%. The interest rate in effect at December 31, 2013 and December 31, 2012 were 2.43% and 2.47%, respectively. The 2012 Term Loan facility is scheduled to mature on March 9, 2016, but we have the option to extend the facility one year to March 9, 2017.

In connection with our acquisition of the Northland LTACH Hospital on February 14, 2011, we assumed a $14.6 million mortgage. The Northland mortgage loan requires monthly principal and interest payments based on a 30-year amortization period. The Northland mortgage loan has a fixed interest rate of 6.2%, matures on January 1, 2018 and can be prepaid after January 1, 2013, subject to a certain prepayment premium. At December 31, 2013, the remaining balance on this term loan was $13.9 million. The loan was collateralized by the real estate of the Northland LTACH Hospital, which had a net book value of $18.0 million and $18.5 million at December 31, 2013 and 2012, respectively.

### Exchangeable Senior Notes

In March 2008, our Operating Partnership issued and sold, in a private offering, $75.0 million of Exchangeable Senior Notes (the "2008 Exchangeable Notes") and received proceeds of $72.8 million. In April 2008, the Operating Partnership sold an additional $7.0 million of the 2008 Exchangeable Notes (under the initial purchasers' overallotment option) and received proceeds of $6.8 million. The interest rate on our 2008 Exchangeable Notes was 9.25% per annum. In July 2011, we used a portion of the proceeds from the 2011 Senior Unsecured Notes to repurchase 85% of the outstanding 2008 Exchangeable Notes at a price of 118.5% of the principal amount plus accrued and unpaid interest (or $84.2 million) pursuant to a cash tender offer. Additionally, in August 2011, we repurchased $1.5 million of the outstanding 2008 Exchangeable Notes in the open market. The remainder of our 2008 Exchangeable Notes were paid in full in April 2013.

### Covenants

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate or other assets; and change our business. In addition, the credit agreements governing our revolving credit facility and 2012 Term Loan limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations, as defined in the agreements, on a rolling four quarter basis. At December 31, 2013, the dividend restriction was 95% of normalized adjusted FFO. The indentures governing our 2011 and 2012 Senior Unsecured Notes also limit the amount of dividends we can pay based on the sum of 95% of funds from operations, proceeds of equity issuances and certain other net cash proceeds. Finally, our 2011 and 2012 Senior Unsecured Notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the revolving credit facility and 2012 Term Loan contain customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, mortgage secured leverage ratio, recourse mortgage secured leverage ratio, consolidated adjusted net worth, facility leverage ratio, and unsecured interest coverage ratio. This facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the facility, the entire outstanding balance may become immediately due and payable. At December 31, 2013, we were in compliance with all such financial and operating covenants.

## 5. Income Taxes

We have maintained and intend to maintain our election as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our stockholders. As a REIT, we generally will not be subject to federal income tax if we distribute 100% of our taxable income to our stockholders and satisfy certain other requirements. Income tax is paid directly by our stockholders on the dividends distributed to them. If our taxable income exceeds our dividends in a tax year, REIT tax rules allow us to designate dividends from the subsequent tax year in order to avoid current taxation on undistributed income. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates, including any applicable alternative minimum tax. Taxable income from non-REIT activities managed through our taxable REIT subsidiaries is subject to applicable United States federal, state and local income taxes. Our international subsidiaries are also subject to income taxes in the jurisdictions in which they operate.

From our taxable REIT subsidiaries and our foreign operations (which realized a $12.9 million loss before income taxes in 2013 primarily due to the real estate transfer taxes), we incurred income tax expenses as follows (in thousands):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Domestic | $ 568 | $ 19 | $ 128 |
| Foreign | 158 | — | — |
| | $ 726 | $ 19 | $ 128 |

At December 31, 2013 and 2012, components of our deferred tax assets and liabilities were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Deferred tax liabilities: | | |
| Property and equipment | $ (2,870) | $ (2,370) |
| Other | (2,923) | (1,673) |
| Total deferred tax liabilities | (5,793) | (4,043) |
| Deferred tax assets: | | |
| Loan loss and other reserves | 7,751 | 7,218 |
| Operating loss and interest deduction carry forwards | 2,283 | 3,938 |
| Other | 3,371 | 1,261 |
| Total deferred tax assets | 13,405 | 12,417 |
| Valuation allowance | (7,843) | (8,540) |
| Net deferred tax (liability) | $ (231) | $ (166) |

At December 31, 2013, we had U.S. federal and state NOLs of $0.2 million and $7.6 million, respectively, that expire in 2026 through 2032.

In 2013, our valuation allowance increased by $1.9 million as a result of book losses sustained by our German subsidiaries as the result of significant acquisition expenses incurred. This was offset by a $2.6 million decrease in the valuation allowance at one of the U.S. TRS entities (MDS), which generated income in 2013 (after having historical losses). We believe (based on cumulative losses) that we should reserve for our net deferred tax assets. We will continue to monitor this valuation allowance and, if circumstances change (such as entering into new transactions including working capital loans, equity investments, etc), we will adjust this valuation allowance accordingly.

We have met the annual REIT distribution requirements by payment of at least 90% of our estimated taxable income in 2013, 2012, and 2011. Earnings and profits, which determine the taxability of such distributions, will differ from net income reported for financial reporting purposes due primarily to differences in cost basis, differences in the estimated useful lives used to compute depreciation, and differences between the allocation of our net income and loss for financial reporting purposes and for tax reporting purposes.

A schedule of per share distributions we paid and reported to our stockholders is set forth in the following:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Common share distribution | $ 0.800000 | $ 0.800000 | $ 0.800000 |
| Ordinary income | 0.599384 | 0.601216 | 0.300844 |
| Capital gains(1) | 0.046380 | 0.117584 | 0.031396 |
| Unrecaptured Sec. 1250 gain | 0.026512 | 0.086976 | 0.031396 |
| Return of capital | 0.154236 | 0.081200 | 0.467760 |
| Allocable to next year | — | — | — |

*(1) Capital gains include unrecaptured Sec. 1250 gains.*

## 6. Earnings Per Share

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Numerator: | | | |
| Income from continuing operations | $ 89,301 | $ 72,870 | $ 12,120 |
| Non-controlling interests' share in continuing operations | (224) | (177) | (178) |
| Participating securities' share in earnings | (729) | (887) | (1,090) |
| Income from continuing operations, less participating securities' share in earnings | 88,348 | 71,806 | 10,852 |
| Income from discontinued operations attributable to MPT common stockholders | 7,914 | 17,207 | 14,594 |
| Net income, less participating securities' share in earnings | $ 96,262 | $ 89,013 | $ 25,446 |
| Denominator: | | | |
| Basic weighted-average common shares | 151,439 | 132,331 | 110,623 |
| Dilutive potential common shares | 1,159 | 2 | 6 |
| Diluted weighted-average common shares | 152,598 | 132,333 | 110,629 |

For each of the years ended December 31, 2012 and 2011, approximately 0.1 million of options were excluded from the diluted earnings per share calculation as they were not determined to be dilutive.

## 7. Stock Awards

### Stock Awards

Our Equity Incentive Plan authorizes the issuance of common stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance units and awards of interests in our Operating Partnership. Our Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. We have reserved 7,643,651 shares of common stock for awards under the Equity Incentive Plan and 7,643,651 shares remain available for future stock awards as of December 31, 2013. The Equity Incentive Plan contains a limit of 5,000,000 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, outstanding and unvested options will immediately vest, unless otherwise provided in the participant's award or employment agreement, and restricted stock, restricted stock units, deferred stock units and other stock-based awards will vest if so provided in the participant's award agreement. 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. For each share of common stock issued by Medical Properties Trust, Inc. pursuant to its Equity Incentive Plan, the Operating Partnership issues a corresponding number of operating partnership units.

The following awards have been granted pursuant to our Equity Incentive Plan (and its predecesor plan):

### Stock Options

At December 31, 2013, we had 20,000 options outstanding and exercisable, with a weighted-average exercise price of $10.00 per option. The intrinsic value of options exercisable and outstanding at December 31, 2013, is $-0-. In 2013, 40,000 options were exercised, while 20,000 options were settled for cash in 2011. No options were granted in 2013, 2012, or 2011. The weighted average remaining contractual term of options exercisable and outstanding is 0.3 years.

### Restricted Equity Awards

Other stock-based awards are in the form of service-based awards and performance-based awards. The service-based awards vest as the employee provides the required service (typically three to five years). Service based awards are valued at the average price per share of common stock on the date of grant. In 2013, 2012, and 2011, the Compensation Committee granted awards to employees which vest based on us achieving certain total shareholder returns or comparisons of our total shareholder returns to peer total return indices. Generally, dividends are not paid on these performance awards until the award is earned. See below for details of such grants:

2013 performance awards - The 2013 performance awards were granted in three parts:

1) Approximately 27% of the 2013 performance awards were based on us achieving a simple 8.5% annual total shareholder return over a three year period; however, the award contained both carry forward and carry back provisions through December 31, 2017. None of these shares may be sold for two years after they have vested. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.72%; expected volatility of 27%; expected dividend yield of 8.0%; and expected service period of 3 years.

2) Approximately 36% of the 2013 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2013 to December 31, 2015. The minimum total shareholder return needed to earn a portion of this award is 25.5% with 100% of the award earned if our total shareholder return reaches 33.5%. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2015, 2016 and 2017. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.38%; expected volatility of 28%; expected dividend yield of 8.0%; and expected service period of 5 years.

3) The remainder of the 2013 performance awards will be earned if our total shareholder return outpaces that of the MSCI U.S. REIT Index ("Index") over the cumulative period from January 1, 2013 to December 31, 2015. Our total shareholder return must exceed that of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 6% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2015, 2016 and 2017. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.38%; expected volatility of 28%; expected dividend yield of 8.0%; and expected service period of 5 years.

There were 68,086 of the 2013 performance awards earned and vested in 2013. At December 31, 2013, we have 686,169 of 2013 performance awards remaining to be earned.

2012 performance awards - The 2012 performance awards were granted in three parts:

1) Approximately 30% of the 2012 performance awards were based on us achieving a simple 9.0% annual total shareholder return over a three year period; however, the award contains both carry forward and carry back provisions through December 31, 2016. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.93%; expected volatility of 34%; expected dividend yield of 8.6%; and expected service period of 4 years.

2) Approximately 35% of the 2012 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2012 to December 31, 2014. The minimum total shareholder return needed to earn a portion of this award is 27% with 100% of the award earned if our total shareholder return reaches 35%. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2015, 2016 and 2017. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.43%; expected volatility of 35%; expected dividend yield of 8.6%; and expected service period of 5 years.

3) The remainder of the 2012 performance awards will be earned if our total shareholder return outpaces that of the Index over the cumulative period from January 1, 2012 to December 31, 2014. Our total shareholder return must exceed that of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 6% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2015, 2016 and 2017. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.43%; expected volatility of 35%; expected dividend yield of 8.6%; and expected service period of 5 years.

There were 84,188 of the 2012 performance awards earned and vested in 2013 and 2,599 forfeited in 2013. There were 84,188 of the 2012 performance awards earned and vested in 2012 and 5,718 forfeited in 2012. At December 31, 2013, we have 725,666 of 2012 performance awards remaining to be earned.

2011 performance awards - The 2011 performance awards were granted in three parts:

1) Approximately 30% of the 2011 performance awards were based on us achieving a simple 9.0% annual total shareholder return over a three year period; however, the award contained both carry forward and carry back provisions through December 31, 2015. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 2.07%; expected volatility of 33%; expected dividend yield of 8.5%; and expected service period of 4 years.

2) Approximately 18% of the 2011 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2011 to December 31, 2013. The minimum total shareholder return needed to earn a portion of this award is 27% with 100% of the award earned if our total shareholder return reaches 39%. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2014, 2015 and 2016. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.07%; expected volatility of 34%; expected dividend yield of 8.5%; and expected service period of 5 years.

3) The remainder of the 2011 performance awards will be earned if our total shareholder return outpaces that of the Index over the cumulative period from January 1, 2011 to December 31, 2013. Our total shareholder return must exceed that of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 12% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2014, 2015 and 2016. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.07%; expected volatility of 34%; expected dividend yield of 8.5%; and expected service period of 5 years.

There were 81,359 and 155,162 of the 2011 performance awards earned and vested in 2013 and 2012, respectively, but none in 2011. In 2013, 8,062 shares were forfeited, while 14,456 shares were forfeited in 2012. At December 31, 2013, we have 587,344 of 2011 performance awards that have been earned but not vested.

The following summarizes restricted equity award activity in 2013 and 2012 (which includes awards granted in 2013, 2012, 2011, and any applicable prior years), respectively:

For the Year Ended December 31, 2013:

| | Vesting Based on Service | | Vesting Based on Market/ Performance Conditions | |
|---|---|---|---|---|
| | Shares | Weighted Average Value at Award Date | Shares | Weighted Average Value at Award Date |
| Nonvested awards at beginning of the year | 466,883 | $ 10.72 | 1,879,889 | $ 6.48 |
| Awarded | 240,425 | $ 12.26 | 754,255 | $ 6.13 |
| Vested | (381,309) | $ 11.15 | (386,446) | $ 8.27 |
| Forfeited | — | $ — | (248,519) | $ 11.03 |
| Nonvested awards at end of year | 325,999 | $ 11.36 | 1,999,179 | $ 5.44 |

For the Year Ended December 31, 2012:

| | Vesting Based on Service | | Vesting Based on Market/ Performance Conditions | |
|---|---|---|---|---|
| | Shares | Weighted Average Value at Award Date | Shares | Weighted Average Value at Award Date |
| Nonvested awards at beginning of the year | 603,980 | $ 11.02 | 1,511,397 | $ 7.60 |
| Awarded | 275,464 | $ 10.14 | 902,359 | $ 5.81 |
| Vested | (410,261) | $ 10.78 | (513,693) | $ 8.63 |
| Forfeited | (2,300) | $ 10.24 | (20,174) | $ 5.45 |
| Nonvested awards at end of year | 466,883 | $ 10.72 | 1,879,889 | $ 6.48 |

The value of stock-based awards is charged to compensation expense over the vesting periods. In the years ended December 31, 2013, 2012 and 2011, we recorded $8.8 million, $7.6 million, and $7.0 million respectively, of non-cash compensation expense. The remaining unrecognized cost from restricted equity awards at December 31, 2013, is $10.1 million and will be recognized over a weighted average period of 2.5 years. Restricted equity awards which vested in 2013, 2012, and 2011 had a value of $9.2 million, $9.2 million, and $6.1 million, respectively.

## 8. Commitments and Contingencies

### Commitments

Our operating leases primarily consist of ground leases on which certain of our facilities or other related property reside along with corporate office and equipment leases. These ground leases are long-term leases (almost all having terms for approximately 50 years or more), some contain escalation provisions and one contains a purchase option. Properties subject to these ground leases are subleased to our tenants. Lease and rental expense (which is recorded on the straight-line method) for 2013, 2012 and 2011, respectively, were $2,304,461, $2,195,835, and $1,994,565, which was offset by sublease rental income of $512,503, $492,095, and $443,829 for 2013, 2012, and 2011, respectively.

Fixed minimum payments due under operating leases with non-cancelable terms of more than one year at December 31, 2013 are as follows: (amounts in thousands)

| | |
|---|---|
| 2014 | $ 2,471 |
| 2015 | 2,644 |
| 2016 | 2,659 |
| 2017 | 2,620 |
| 2018 | 2,614 |
| Thereafter | 37,213 |
| | $ 50,221 |

The total amount to be received in the future from non-cancellable subleases at December 31, 2013, is $30.1 million.

### Contingencies

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

## 9. Common Stock

On August 20, 2013, we completed an offering of 11,500,000 shares of common stock (including 1,500,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares) at a price of $12.75 per share, resulting in net proceeds (after underwriting discount and expenses) of $140.4 million. These proceeds were used to fund the acquisition of the three IASIS properties more fully described in Note 3.

On February 28, 2013, we completed an offering of 12,650,000 shares of our common stock (including 1,650,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares) at a price of $14.25 per share, resulting in net proceeds (after underwriting discount and expenses) of $172.9 million. A portion of the net proceeds from this offering were used to pay down our revolving credit facility.

To help fund the 2012 acquisitions disclosed in Note 3, on February 7, 2012, we completed an offering of 23,575,000 shares of our common stock (including 3,075,000 shares sold pursuant to the exercise in full of the underwriters' overallotment option) at a price of $9.75 per share, resulting in net proceeds (after underwriting discount) of $220.1 million.

In November 2009, we put an at-the-market equity offering program in place, giving us the ability to sell up to $50 million of stock. During the fourth quarter 2012, we sold 1.1 million shares of our common stock under our at-the-market equity offering program, at an average price of $11.84 per share resulting in total proceeds, net of a 2% commission, of $13.2 million. In January 2014, we replaced this at-the-market offering program with a similar program but increased the size to up to $250 million of stock with a commission of 1.25% (of which $12.5 million has been sold as of February 28, 2014).

In February 2012, we filed Articles of Amendment to our charter with the Maryland State Department of Assessments and Taxation increasing the number of authorized shares of common stock, par value $0.001 per share available for issuance from 150,000,000 to 250,000,000.

## 10. Fair Value of Financial Instruments

We have various assets and liabilities that are considered financial instruments. We estimate that the carrying value of cash and cash equivalents, and accounts payable and accrued expenses approximate their fair values. Included in our accounts payable and accrued expenses are our interest rate swaps, which are recorded at fair value based on Level 2 observable market assumptions using standardized derivative pricing models. We estimate the fair value of our interest and rent receivables using Level 2 inputs such as discounting the estimated future cash flows using the current rates at which similar receivables would be made to others with similar credit ratings and for the same remaining maturities. The fair value of our mortgage loans and working capital loans are estimated by using Level 2 inputs (except for the Monroe loan for which we use Level 3 inputs) such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our exchangeable notes (for 2012 only) and 2011, 2012 and 2013 Senior Unsecured Notes, using Level 2 inputs such as quotes from securities dealers and market makers. We estimate the fair value of our 2006 Senior Unsecured Notes, revolving credit facilities, and term loans using Level 2 inputs based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

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

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Asset (Liability) | Book Value | Fair Value | Book Value | Fair Value |
| Interest and rent receivables | $ 58,499 | $ 44,349 | $ 45,289 | $ 36,700 |
| Loans(1) | 351,607 | 358,277 | 334,693 | 335,595 |
| Debt, net | (1,421,681) | (1,486,090) | (1,025,160) | (1,082,333) |

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

### Items Measured at Fair Value on a Recurring Basis

Our equity interest in Ernest and related loans, as discussed in Note 2, are being measured at fair value on a recurring basis as we elected to account for these investments using the fair value option method. We have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interests or loans in or prior to 2013.

At December 31, 2013. these amounts were as follows (in thousands):

| Asset (Liability) | Fair Value | Cost | Asset Type Classification |
|---|---|---|---|
| Mortgage loans | $ 100,000 | $ 100,000 | Mortgage loans |
| Acquisition loan | 98,033 | 98,033 | Other loans |
| Equity investments | 3,300 | 3,300 | Other assets |
| | $ 201,333 | $ 201,333 | |

Our mortgage loans with Ernest are recorded at fair value based on Level 3 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our acquisition loan and equity investments in Ernest are recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which requires significant estimates of our investee such as projected revenue and expenses and appropriate consideration of the underlying risk profile of the forecast assumptions associated with the investee. We classify these loans and equity investments as Level 3, as we use certain unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices. For these cash flow models, our observable inputs include use of a capitalization rate, discount rate (which is based on a weighted-average cost of capital), and market interest rates, and our unobservable input includes an adjustment for a lack of marketability discount ("DLOM") on our equity investment of 40% at December 31, 2013.

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

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

| Basis Point Change in Marketability Discount | Estimated Increase (Decrease) In Fair Value |
|---|---|
| +100 basis points | $ (320) |
| -100 basis points | 320 |

Because the fair value of Ernest investments noted above approximate their original cost, we did not recognize any unrealized gains/losses during 2013 or 2012. To date, we have not received any distribution payments from our equity investment in Ernest.

## 11. Discontinued Operations

As more fully discussed in Note 3 under the heading "Disposals", we sold three properties in 2013, five properties in 2012, and two properties in 2011. We have classified current and prior year activity related to these transactions, along with the related operating results of the facilities prior to these transactions taking place, as discontinued operations. In addition, we have reclassified the related real estate assets to Real Estate Held for Sale in all prior periods. Real estate held for sale of $25.5 million in 2012 includes $1.9 million of land, $26.7 million of building, $0.8 million of intangible lease assets, $3.5 million of accumulated depreciation, $0.4 million of accumulated amortization.

The following table presents the results of discontinued operations for the years ended December 31, 2013, 2012 and 2011 (in thousands except per share amounts):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Revenues | $ 988 | $ 3,470 | $ 14,531 |
| Gain on sale | 7,659 | 16,369 | 5,431 |
| Income from discontinued operations | 7,914 | 17,207 | 14,594 |
| Income from discontinued operations — diluted per share | $ 0.05 | $ 0.13 | $ 0.12 |

## 12. Quarterly Financial Data (unaudited)

As disclosed in Note 11, we sold properties during 2013 resulting in the reclassification of those properties current and prior year results to discontinued operations. The quarterly data presented below reflects these reclassifications.

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2013 and 2012: (amounts in thousands, except for per share data)

| | For the Three Month Periods in 2013 Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenues | $ 57,614 | $ 57,124 | $ 60,106 | $ 67,679 |
| Income from continuing operations | 25,570 | 25,031 | 25,391 | 13,309 |
| Income from discontinued operations | 640 | 2,374 | 312 | 4,588 |
| Net income | 26,210 | 27,405 | 25,703 | 17,897 |
| Net income attributable to MPT common stockholders | 26,156 | 27,348 | 25,648 | 17,839 |
| Net income attributable to MPT common stockholders per share — basic | $ 0.19 | $ 0.18 | $ 0.16 | $ 0.11 |
| Weighted average shares outstanding — basic | 140,347 | 149,509 | 154,758 | 161,143 |
| Net income attributable to MPT common stockholders per share — diluted | $ 0.18 | $ 0.18 | $ 0.16 | $ 0.11 |
| Weighted average shares outstanding — diluted | 141,526 | 151,056 | 155,969 | 161,840 |

| | For the Three Month Periods in 2012 Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenues | $ 40,455 | $ 48,569 | $ 52,504 | $ 56,597 |
| Income (loss) from continuing operations | 8,294 | 18,718 | 22,594 | 23,264 |
| Income from discontinued operations | 2,312 | 642 | 8,914 | 5,339 |
| Net income | 10,606 | 19,360 | 31,508 | 28,603 |
| Net income attributable to MPT common stockholders | 10,564 | 19,316 | 31,464 | 28,556 |
| Net income attributable to MPT common stockholders per share — basic | $ 0.08 | $ 0.14 | $ 0.23 | $ 0.21 |
| Weighted average shares outstanding — basic | 124,906 | 134,715 | 134,781 | 134,923 |
| Net income attributable to MPT common stockholders per share — diluted | $ 0.08 | $ 0.14 | $ 0.23 | $ 0.21 |
| Weighted average shares outstanding — diluted | 124,906 | 134,715 | 134,782 | 134,930 |

## 13. Condensed Consolidating Financial Information

The following tables present the condensed consolidating financial information for (a) Medical Properties Trust, Inc. ("Parent" and a guarantor to our 2011, 2012, and 2013 Senior Unsecured Notes), (b) MPT Operating Partnership, L.P. and MPT Finance Corporation ("Subsidiary Issuer"), (c) on a combined basis, the guarantors of our 2011, 2012 and 2013 Senior Unsecured Notes ("Subsidiary Guarantors"), and (d) on a combined basis, the non-guarantor subsidiaries ("Non-Guarantor Subsidiaries"). Separate financial statements of the Subsidiary Guarantors are not presented because the guarantee by each 100% owned Subsidiary Guarantor is joint and several and we believe separate financial statements and other disclosures regarding the Subsidiary Guarantors are not material to investors. Furthermore, there are no significant legal restrictions on the Parent's ability to obtain funds from its subsidiaries by dividend or loan.

The guarantees by the Subsidiary Guarantors may be released and discharged upon: (1) any sale, exchange or transfer of all of the capital stock of a Subsidiary Guarantor; (2) the merger or consolidation of a Subsidiary Guarantor with a Subsidiary Issuer or any other Subsidiary Guarantor; (3) the proper designation of any Subsidiary Guarantor by the Subsidiary Issuers as "unrestricted" for covenant purposes under the indenture governing the 2011, 2012, and 2013 Senior Unsecured Notes; (4) the legal defeasance or covenant defeasance or satisfaction and discharge of the indenture; (5) a liquidation or dissolution of a Subsidiary Guarantor permitted under the indenture governing the 2011, 2012 and 2013 Senior Unsecured Notes; or (6) the release or discharge of the Subsidiary Guarantor from its guarantee obligations under our revolving credit facility.

Subsequent to December 31, 2012, certain of our subsidiaries were re-designated as non-guarantors of our 2011, 2012 and 2013 Senior Unsecured Notes, as the underlying properties were sold in 2013 (such subsidiaries were guarantors prior to 2013). With these re-designations, we have restated the 2012 and 2011 consolidating financial information below to reflect these changes.

In the second quarter of 2013, we revised our condensed consolidating balance sheets as of December 31, 2012 to adjust negative net intercompany receivables (payable) balances from Total Assets to Total Liabilities. The impact of this revision was to increase total assets (and, correspondingly increase total liabilities) as of December 31, 2012 for Subsidiary Guarantors by $997.2 million and also to increase total assets (and, correspondingly increase total liabilities) for Non-Guarantor Subsidiaries by $404.1 million with an offset to Eliminations. In addition, we revised our condensed consolidating statements of cash flows for the years ended December 31, 2012 and 2011 to adjust the classification of cash flows related to intercompany transactions. For the year ended December 31, 2012, these adjustments had the effect of a) increasing net cash provided by investing activities and decreasing net cash provided by financing activities for the Parent and Subsidiary Issuers by $129.4 million and $501.8 million, respectively, and b) decreasing net cash provided by investing activities and increasing net cash provided by financing activities for the Subsidiary Guarantors and the Non-Guarantor Subsidiaries by $365.8 million and $136.1 million, respectively, with an offset to Eliminations. For the year ended December 31, 2011, these adjustments had the effect of a) increasing net cash provided by investing activities and decreasing net cash provided by financing activities for the Subsidiary Issuers and Non-Guarantor Subsidiaries by $92.1 million and $22.4 million, respectively, and b) decreasing net cash provided by investing activities and increasing net cash provided by financing activities for the Parent and Subsidiary Guarantors by $89.6 million and $114.2 million, respectively, with an offset to Eliminations. These revisions are not material to the related financial statements for any prior periods and had no impact on our consolidated balance sheet or consolidated statement of cash flows. As prior period financial information is presented in future filings, we will similarly revise the condensed consolidating statements of cash flows for comparative periods presented in future filings.

## Condensed Consolidated Balance Sheets
December 31, 2013
(in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Real estate assets** | | | | | | |
| Land, buildings and improvements and intangible lease assets | $ — | $ — | $ 1,795,084 | $ 70,371 | $ — | $ 1,865,455 |
| Net investment in direct financing leases | — | — | 212,543 | 218,481 | — | 431,024 |
| Mortgage loans | — | — | 268,650 | 120,000 | — | 388,650 |
| Gross investment in real estate assets | — | — | 2,276,277 | 408,852 | — | 2,685,129 |
| Accumulated depreciation and amortization | — | — | (151,624) | (8,152) | — | (159,776) |
| Net investment in real estate assets | — | — | 2,124,653 | 400,700 | — | 2,525,353 |
| Cash and cash equivalents | — | 18,815 | 27,094 | 70 | — | 45,979 |
| Interest and rent receivables | — | 336 | 31,324 | 26,839 | — | 58,499 |
| Straight-line rent receivables | — | — | 37,015 | 8,814 | — | 45,829 |
| Other loans | — | 178 | 1,100 | 159,712 | — | 160,990 |
| Net intercompany receivable | 35,363 | 1,907,474 | — | — | (1,942,837) | — |
| Investment in subsidiaries | 1,344,598 | 825,153 | 42,407 | — | (2,212,158) | — |
| Other assets | — | 37,311 | 1,168 | 29,441 | — | 67,920 |
| **Total Assets** | $ 1,379,961 | $ 2,789,267 | $ 2,264,761 | $ 625,576 | $ (4,154,995) | $ 2,904,570 |
| **Liabilities and Equity** | | | | | | |
| Liabilities | | | | | | |
| Debt, net | $ — | $ 1,407,733 | $ — | $ 13,948 | $ — | $ 1,421,681 |
| Accounts payable and accrued expenses | 35,753 | 36,887 | 20,367 | 1,304 | — | 94,311 |
| Net intercompany payable | — | — | 1,538,934 | 403,903 | (1,942,837) | — |
| Deferred revenue | — | 49 | 17,772 | 5,966 | — | 23,787 |
| Lease deposits and other obligations to tenants | — | — | 17,964 | 2,619 | — | 20,583 |
| Total liabilites | 35,753 | 1,444,669 | 1,595,037 | 427,740 | (1,942,837) | 1,560,362 |
| Total Equity | 1,344,208 | 1,344,598 | 669,724 | 197,836 | (2,212,158) | 1,344,208 |
| **Total Liabilities and Equity** | $ 1,379,961 | $ 2,789,267 | $ 2,264,761 | $ 625,576 | $ (4,154,995) | $ 2,904,570 |

## Condensed Consolidated Statements of Income
### For the Year Ended December 31, 2013
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Rent billed | $ — | $ — | $ 124,651 | $ 20,028 | $ (12,101) | $ 132,578 |
| Straight-line rent | — | — | 8,438 | 2,268 | — | 10,706 |
| Income from direct financing leases | — | — | 38,522 | 22,577 | (20,269) | 40,830 |
| Interest and fee income | — | 21,797 | 38,696 | 29,834 | (31,918) | 58,409 |
| Total revenues | — | 21,797 | 210,307 | 74,707 | (64,288) | 242,523 |
| **Expenses** | | | | | | |
| Real estate depreciation and amortization | — | — | 35,277 | 1,701 | — | 36,978 |
| Property-related | — | 601 | 1,356 | 32,863 | (32,370) | 2,450 |
| Acquisition expenses | — | 7,356 | 12,138 | — | — | 19,494 |
| General and administrative | — | 29,033 | 375 | 655 | — | 30,063 |
| Total operating expenses | — | 36,990 | 49,146 | 35,219 | (32,370) | 88,985 |
| Operating income | — | (15,193) | 161,161 | 39,488 | (31,918) | 153,538 |
| **Other income (expense)** | | | | | | |
| Interest and other (expense) income | — | (110) | — | (209) | — | (319) |
| Earnings from equity and other interests | — | — | 948 | 2,606 | — | 3,554 |
| Interest expense | — | (67,484) | (1,912) | (29,268) | 31,918 | (66,746) |
| Income tax expense | — | — | (158) | (568) | — | (726) |
| Net other expense | — | (67,594) | (1,122) | (27,439) | 31,918 | (64,237) |
| **Income (loss) from continuing operations** | — | (82,787) | 160,039 | 12,049 | — | 89,301 |
| Income (loss) from discontinued operations | — | — | (4) | 7,918 | — | 7,914 |
| Equity in earnings of consolidated subsidiaries net of income taxes | 97,215 | 180,002 | 4,477 | — | (281,694) | — |
| Net income (loss) | 97,215 | 97,215 | 164,512 | 19,967 | (281,694) | 97,215 |
| Net income (loss) attributable to non-controlling interests | (224) | (224) | — | — | 224 | (224) |
| **Net income attributable to MPT common stockholders** | $ 96,991 | $ 96,991 | $ 164,512 | $ 19,967 | $ (281,470) | $ 96,991 |

## Condensed Consolidated Statements of Comprehensive Income (Loss)
### For the Year Ended December 31, 2013
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 97,215 | $ 97,215 | $ 164,512 | $ 19,967 | $ (281,694) | $ 97,215 |
| Other comprehensive income (loss): | | | | | | |
| Unrealized gain (loss) on interest rate swap | 3,474 | 3,474 | — | — | (3,474) | 3,474 |
| Foreign currency translation gain (loss) | 67 | 67 | — | — | (67) | 67 |
| Total comprehensive income | 100,756 | 100,756 | 164,512 | 19,967 | (285,235) | 100,756 |
| Comprehensive income attributable to non-controlling interests | (224) | (224) | — | — | 224 | (224) |
| **Comprehensive income attributable to MPT common stockholders** | $ 100,532 | $ 100,532 | $ 164,512 | $ 19,967 | $ (285,011) | $ 100,532 |

## Condensed Consolidated Statements of Cash Flows
### For the Year Ended December 31, 2013
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Operating Activities** | | | | | | |
| Net cash provided by (used in) operating activities | $ 4 | $ (53,846) | $ 196,883 | $ (2,240) | $ — | $ 140,801 |
| **Investing Activities** | | | | | | |
| Cash paid for acquisitions and other related investments | — | — | (619,092) | (35,830) | — | (654,922) |
| Net proceeds from sales of real estate | — | — | — | 32,409 | — | 32,409 |
| Principal received on loans receivable | — | — | — | 7,249 | — | 7,249 |
| Investments in loans receivable | — | — | (1,100) | (2,646) | — | (3,746) |
| Construction in progress and other | — | 136 | (94,737) | 1,034 | — | (93,567) |
| Net cash provided by (used in) investing activities | — | 136 | (714,929) | 2,216 | — | (712,577) |
| **Financing Activities** | | | | | | |
| Additions to term debt | — | 424,580 | — | — | — | 424,580 |
| Payments of term debt | — | (11,000) | — | (249) | — | (11,249) |
| Revolving credit facilities, net | — | (20,000) | — | — | — | (20,000) |
| Distributions paid | (120,038) | (120,309) | — | — | 120,038 | (120,309) |
| Lease deposits and other obligations to tenants | — | — | 1,606 | 1,625 | — | 3,231 |
| Net payments relating to intercompany financing | (193,297) | (539,776) | 541,325 | (1,545) | 193,293 | — |
| Proceeds from sale of common shares, net of offering costs | 313,331 | 313,331 | — | — | (313,331) | 313,331 |
| Debt issuance costs paid and other financing activities | — | (9,760) | — | — | — | (9,760) |
| Net cash provided by (used in) financing activities | (4) | 37,066 | 542,931 | (169) | — | 579,824 |
| Increase (decrease) in cash and cash equivalents for period | — | (16,644) | 24,885 | (193) | — | 8,048 |
| Effect of exchange rate changes | — | (24) | 644 | — | — | 620 |
| Cash and cash equivalents at beginning of period | — | 35,483 | 1,565 | 263 | — | 37,311 |
| **Cash and cash equivalents at end of period** | $ — | $ 18,815 | $ 27,094 | $ 70 | $ — | $ 45,979 |

## Condensed Consolidated Balance Sheets
December 31, 2012
(in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Real estate assets** | | | | | | |
| Land, buildings and improvements and intangible lease assets | $ — | $ 28 | $ 1,185,265 | $ 65,947 | $ — | $ 1,251,240 |
| Real estate held for sale | — | — | — | 25,537 | — | 25,537 |
| Net investment in direct financing leases | — | — | 110,155 | 204,257 | — | 314,412 |
| Mortgage loans | — | — | 268,650 | 100,000 | — | 368,650 |
| Gross investment in real estate assets | — | 28 | 1,564,070 | 395,741 | — | 1,959,839 |
| Accumulated depreciation and amortization | — | — | (116,344) | (6,452) | — | (122,796) |
| Net investment in real estate assets | — | 28 | 1,447,726 | 389,289 | — | 1,837,043 |
| Cash & cash equivalents | — | 35,483 | 1,565 | 263 | — | 37,311 |
| Interest and rent receivables | — | 212 | 29,150 | 15,927 | — | 45,289 |
| Straight-line rent receivables | — | — | 28,416 | 7,444 | — | 35,860 |
| Other loans | — | 177 | — | 159,066 | — | 159,243 |
| Net intercompany receivable | 27,393 | 1,373,941 | — | — | (1,401,334) | — |
| Investment in subsidiaries | 1,050,204 | 647,029 | 42,666 | — | (1,739,899) | — |
| Other assets | — | 31,097 | 1,522 | 31,521 | — | 64,140 |
| **Total Assets** | $ 1,077,597 | $ 2,087,967 | $ 1,551,045 | $ 603,510 | $ (3,141,233) | $ 2,178,886 |
| **Liabilities and Equity** | | | | | | |
| Liabilities | | | | | | |
| Debt, net | $ — | $ 1,010,962 | $ — | $ 14,198 | $ — | $ 1,025,160 |
| Accounts payable and accrued expenses | 27,783 | 26,658 | 10,492 | 1,028 | — | 65,961 |
| Net intercompany payable | — | — | 997,231 | 404,103 | (1,401,334) | — |
| Deferred revenue | — | 143 | 19,431 | 1,035 | — | 20,609 |
| Lease deposits and other obligations to tenants | — | — | 16,357 | 985 | — | 17,342 |
| Total liabilites | 27,783 | 1,037,763 | 1,043,511 | 421,349 | (1,401,334) | 1,129,072 |
| Total Equity | 1,049,814 | 1,050,204 | 507,534 | 182,161 | (1,739,899) | 1,049,814 |
| **Total Liabilities and Equity** | $ 1,077,597 | $ 2,087,967 | $ 1,551,045 | $ 603,510 | $ (3,141,233) | $ 2,178,886 |

## Condensed Consolidated Statements of Income
For the Year Ended December 31, 2012
(in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Rent billed | $ — | $ — | $ 112,573 | $ 16,619 | $ (9,309) | $ 119,883 |
| Straight-line rent | — | — | 6,429 | 1,482 | — | 7,911 |
| Income from direct financing leases | — | — | 19,870 | 18,090 | (16,232) | 21,728 |
| Interest and fee income | — | 18,341 | 29,606 | 25,387 | (24,731) | 48,603 |
| Total revenues | — | 18,341 | 168,478 | 61,578 | (50,272) | 198,125 |
| **Expenses** | | | | | | |
| Real estate depreciation and amortization | — | — | 31,115 | 1,700 | — | 32,815 |
| Property-related | — | 495 | 816 | 25,707 | (25,541) | 1,477 |
| Acquisition expenses | — | 5,420 | — | — | — | 5,420 |
| General and administrative | — | 26,018 | — | 2,544 | — | 28,562 |
| Total operating expenses | — | 31,933 | 31,931 | 29,951 | (25,541) | 68,274 |
| Operating income | — | (13,592) | 136,547 | 31,627 | (24,731) | 129,851 |
| **Other income (expense)** | | | | | | |
| Interest and other (expense) income | — | (69) | — | (1,593) | — | (1,662) |
| Earnings from equity and other interests | — | — | 1,061 | 1,882 | — | 2,943 |
| Interest expense | — | (58,729) | 1,408 | (25,653) | 24,731 | (58,243) |
| Income tax expense | | — | — | (19) | — | (19) |
| Net other expense | — | (58,798) | 2,469 | (25,383) | 24,731 | (56,981) |
| **Income (loss) from continuing operations** | — | (72,390) | 139,016 | 6,244 | — | 72,870 |
| Income (loss) from discontinued operations | — | — | 103 | 17,104 | — | 17,207 |
| Equity in earnings of consolidated subsidiaries net of income taxes | 90,077 | 162,467 | 4,481 | — | (257,025) | — |
| Net income (loss) | 90,077 | 90,077 | 143,600 | 23,348 | (257,025) | 90,077 |
| Net income (loss) attributable to non-controlling interests | (177) | (177) | — | — | 177 | (177) |
| **Net income attributable to MPT common stockholders** | $ 89,900 | $ 89,900 | $ 143,600 | $ 23,348 | $ (256,848) | $ 89,900 |

## Condensed Consolidated Statements of Comprehensive Income (Loss)
### For the Year Ended December 31, 2012
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 90,077 | $ 90,077 | $ 143,600 | $ 23,348 | $ (257,025) | $ 90,077 |
| Other comprehensive income: | | | | | | |
| Unrealized loss on interest rate swap | (251) | (251) | — | — | 251 | (251) |
| Total comprehensive income | 89,826 | 89,826 | 143,600 | 23,348 | (256,774) | 89,826 |
| Comprehensive income attributable to non-controlling interests | (177) | (177) | — | — | 177 | (177) |
| **Comprehensive income attributable to MPT common stockholders** | $ 89,649 | $ 89,649 | $ 143,600 | $ 23,348 | $ (256,597) | $ 89,649 |

# Condensed Consolidated Statements of Cash Flows
## For the Year Ended December 31, 2012
## (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Operating Activities** | | | | | | |
| Net cash provided by (used in) operating activities | $ 57 | $ (61,002) | $ 165,454 | $ 800 | $ — | $ 105,309 |
| **Investing Activities** | | | | | | |
| Cash paid for acquisitions and other related investments | — | — | (420,500) | (200,990) | — | (621,490) |
| Net proceeds from sales of real estate | — | — | — | 71,202 | — | 71,202 |
| Principal received on loans receivable | — | — | 5,491 | 5,440 | — | 10,931 |
| Investments in loans receivable | — | — | — | (1,293) | — | (1,293) |
| Construction in progress and other | — | (578) | (66,467) | (9,433) | — | (76,478) |
| Net cash provided by (used in) investing activities | — | (578) | (481,476) | (135,074) | — | (617,128) |
| **Financing Activities** | | | | | | |
| Additions to term debt | — | 300,000 | — | — | — | 300,000 |
| Payments of term debt | — | — | — | (232) | — | (232) |
| Revolving credit facilities, net | — | 75,000 | (39,600) | — | — | 35,400 |
| Distributions paid | (103,684) | (103,952) | — | — | 103,684 | (103,952) |
| Lease deposits and other obligations to tenants | — | — | (10,031) | (1,405) | — | (11,436) |
| Net payments relating to intercompany financing | (129,421) | (501,839) | 365,809 | 136,087 | 129,364 | — |
| Proceeds from sale of common shares, net of offering costs | 233,048 | 233,048 | — | — | (233,048) | 233,048 |
| Debt issuance costs paid and other financing activities | — | (6,424) | — | — | — | (6,424) |
| Net cash provided by (used in) financing activities | (57) | (4,167) | 316,178 | 134,450 | — | 446,404 |
| Increase (decrease) in cash and cash equivalents for period | — | (65,747) | 156 | 176 | — | (65,415) |
| Cash and cash equivalents at beginning of period | — | 101,230 | 1,409 | 87 | — | 102,726 |
| **Cash and cash equivalents at end of period** | $ — | $ 35,483 | $ 1,565 | $ 263 | $ — | $ 37,311 |

## Condensed Consolidated Statements of Income
### For the Year Ended December 31, 2011
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Rent billed | $ — | $ — | $ 99,494 | $ 9,286 | $ (3,092) | $ 105,688 |
| Straight-line rent | — | — | 3,515 | 1,762 | — | 5,277 |
| Interest and fee income | — | 6,124 | 17,543 | 3,926 | (6,236) | 21,357 |
| Total revenues | — | 6,124 | 120,552 | 14,974 | (9,328) | 132,322 |
| **Expenses** | | | | | | |
| Real estate depreciation and amortization | — | — | 28,489 | 1,658 | — | 30,147 |
| Property-related | — | 217 | 458 | 3,141 | (3,092) | 724 |
| Acquisition expenses | — | 3,713 | — | 471 | — | 4,184 |
| General and administrative | 17 | 23,914 | — | 3,160 | — | 27,091 |
| Total operating expenses | 17 | 27,844 | 28,947 | 8,430 | (3,092) | 62,146 |
| Operating income | (17) | (21,720) | 91,605 | 6,544 | (6,236) | 70,176 |
| **Other income (expense)** | | | | | | |
| Interest income and other (expense) income | — | 26 | 2 | (10) | — | 18 |
| Earnings from equity and other interests | — | — | 345 | (267) | — | 78 |
| Debt refinancing costs | — | (14,109) | (105) | — | — | (14,214) |
| Interest expense | — | (43,063) | 139 | (7,122) | 6,236 | (43,810) |
| Income tax expense | — | — | — | (128) | — | (128) |
| Net other expense | — | (57,146) | 381 | (7,527) | 6,236 | (58,056) |
| **Income (loss) from continuing operations** | (17) | (78,866) | 91,986 | (983) | — | 12,120 |
| Income (loss) from discontinued operations | — | — | (1,969) | 16,563 | — | 14,594 |
| Equity in earnings of consolidated subsidiaries net of income taxes | 26,731 | 105,597 | 4,578 | — | (136,906) | — |
| Net income | 26,714 | 26,731 | 94,595 | 15,580 | (136,906) | 26,714 |
| Net income attributable to non-controlling interests | (178) | (178) | — | — | 178 | (178) |
| **Net income attributable to MPT common stockholders** | $ 26,536 | $ 26,553 | $ 94,595 | $ 15,580 | $ (136,728) | $ 26,536 |

## Condensed Consolidated Statements of Comprehensive Income (Loss)
### For the Year Ended December 31, 2011
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 26,714 | $ 26,731 | $ 94,595 | $ 15,580 | $ (136,906) | $ 26,714 |
| Other comprehensive income: | | | | | | |
| Unrealized loss on interest rate swap | (8,590) | (8,590) | — | — | 8,590 | (8,590) |
| Total comprehensive income | 18,124 | 18,141 | 94,595 | 15,580 | (128,316) | 18,124 |
| Comprehensive income attributable to non-controlling interests | (178) | (178) | — | — | 178 | (178) |
| **Comprehensive income attributable to MPT common stockholders** | $ 17,946 | $ 17,963 | $ 94,595 | $ 15,580 | $ (128,138) | $ 17,946 |

## Condensed Consolidated Statements of Cash Flows
### For the Year Ended December 31, 2011
### (in thousands)

| | Parent | Subsidiary Issuers | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| **Operating Activities** | | | | | | |
| Net cash provided by (used in) operating activities | $ (209) | $ (48,779) | $ 109,329 | $ 18,929 | $ — | $ 79,270 |
| **Investing Activities** | | | | | | |
| Cash paid for acquisitions and other related investments | — | — | (241,626) | (37,337) | — | (278,963) |
| Net proceeds from sales of real estate | — | — | — | 41,130 | — | 41,130 |
| Principal received on loans receivable | — | — | 230 | 4,059 | — | 4,289 |
| Investments in loans receivable | — | — | (230) | (631) | — | (861) |
| Construction in progress and other | — | (6,466) | (24,081) | (669) | — | (31,216) |
| Net cash provided by (used in) investing activities | — | (6,466) | (265,707) | 6,552 | — | (265,621) |
| **Financing Activities** | | | | | | |
| Additions to term debt | — | 450,000 | — | — | — | 450,000 |
| Payments of term debt | — | (237,666) | (8,433) | (163) | — | (246,262) |
| Revolving credit facilities, net | — | 50,000 | 39,600 | — | — | 89,600 |
| Distributions paid | (89,342) | (89,601) | — | — | 89,342 | (89,601) |
| Lease deposits and other obligations to tenants | — | — | 10,986 | (2,365) | — | 8,621 |
| Net payments relating to intercompany financing | 89,551 | (92,052) | 114,247 | (22,404) | (89,342) | — |
| Debt issuance costs paid and other financing activities | — | (21,028) | — | (661) | — | (21,689) |
| Net cash provided by (used in) financing activities | 209 | 59,653 | 156,400 | (25,593) | — | 190,669 |
| Increase (decrease) in cash and cash equivalents for period | — | 4,408 | 22 | (112) | — | 4,318 |
| Cash and cash equivalents at beginning of period | — | 96,822 | 1,387 | 199 | — | 98,408 |
| **Cash and cash equivalents at end of period** | $ — | $ 101,230 | $ 1,409 | $ 87 | $ — | $ 102,726 |

## Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

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

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

## Changes in Internal Controls over Financial Reporting

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

## Management's Report on Internal Control over Financial Reporting

The management of Medical Properties Trust, Inc. has prepared the consolidated financial statements and other information in our Annual Report in accordance with accounting principles generally accepted in the United States of America and is responsible for its accuracy. The financial statements necessarily include amounts that are based on management's best estimates and judgments. In meeting its responsibility, management relies on internal accounting and related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in our financial records and to safeguard our assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

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

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

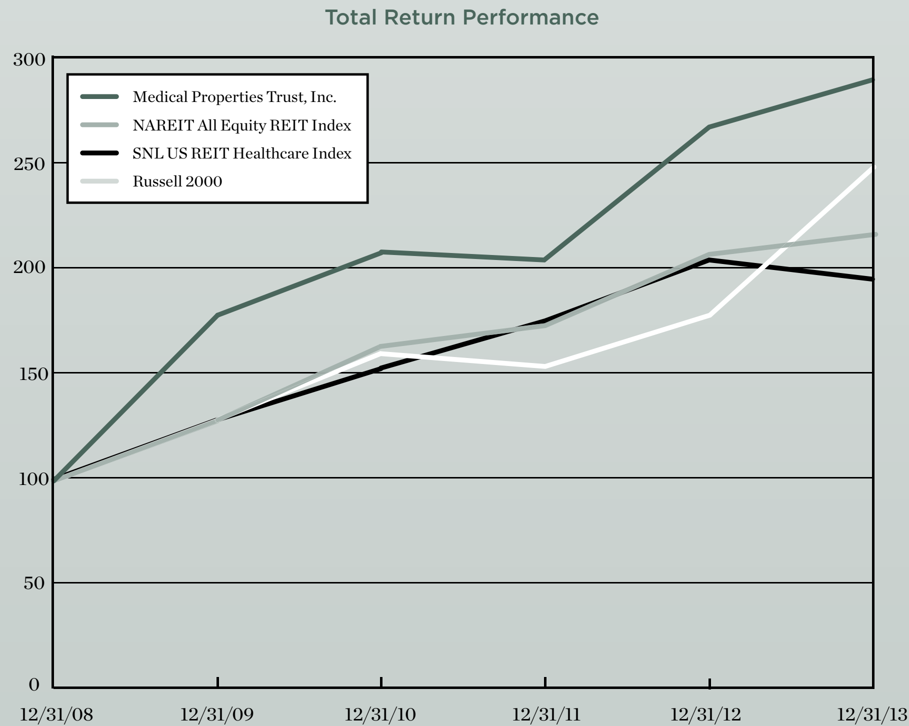
In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. The assessment was based upon the framework described in the "Integrated Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") based on criteria established in Internal Control — Integrated Framework (1992). Management's assessment included an evaluation of the design of internal control over financial reporting and testing of the operational effectiveness of internal control over financial reporting. We have reviewed the results of the assessment with the Audit Committee of our Board of Directors.

Based on our assessment under the criteria set forth in COSO, management has concluded that, as of December 31, 2013, Medical Properties Trust, Inc. maintained effective internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

## Performance Graph

The following graph provides comparison of cumulative total stockholder return for the period from December 31, 2008 through December 31, 2013, among Medical Properties Trust, Inc., the Russell 2000 Index, NAREIT Equity REIT Index, and SNL US REIT Healthcare Index. The stock performance graph assumes an investment of $100 in each of Medical Properties Trust, Inc. and the three indices, and the reinvestment of dividends. The historical information below is not indicative of future performance.




| Index | Period Ending 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 |
|---|---|---|---|---|---|---|
| Medical Properties Trust, Inc ....... | 100.00 | 179.36 | 209.82 | 206.30 | 270.59 | 293.28 |
| Russell 2000 ...................... | 100.00 | 127.17 | 161.32 | 154.59 | 179.86 | 249.69 |
| NAREIT All Equity REIT Index ... | 100.00 | 127.99 | 163.76 | 177.32 | 212.26 | 218.32 |
| SNL US REIT Healthcare .......... | 100.00 | 127.74 | 152.40 | 174.48 | 209.49 | 196.34 |

Designed by Hodges & Associates | www.thehighroad.com

## Corporate and Shareholder Information

### Executive Officers

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
R. Steven Hamner – Executive Vice President and Chief Financial Officer
Emmett E. McLean – Executive Vice President, Chief Operating Officer, Treasurer and Secretary
Frank R. Williams, Jr. – Senior Vice President, Senior Managing Director - Acquisitions

### Directors

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
G. Steven Dawson – Private Investor
Robert E. Holmes, PhD – Retired Dean, School of Business and Wachovia Chair of Business Administration at the University of Alabama at Birmingham School of Business
Sherry A. Kellett – Former Corporate Controller, BB&T Corporation
William G. McKenzie – President and Chief Executive Officer of Gilliard Health Services, Inc.
R. Steven Hamner – Executive Vice President and Chief Financial Officer
L. Glenn Orr, Jr. – Chairman, Orr Holdings, LLC

### Legal Counsel

Baker, Donelson, Bearman, Caldwell & Berkowitz, PC – Birmingham, AL
Goodwin Procter, LLP – New York, NY

### Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP – Birmingham, AL

### Annual Meeting

The Annual Meeting of Shareholders of Medical Properties Trust, Inc. is scheduled for May 15, 2014 at 10:30 am C.D.T. at The Summit Club, 1901 Sixth Avenue North, Suite 3100, Birmingham, AL 35203.

### Certifications

Medical Properties Trust, Inc.'s Chief Executive Officer and Chief Financial Officer have filed their certifications required by the SEC regarding the quality of the company's public disclosure (these are included in the 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission). Further, the company's Chief Executive Officer has certified to the NYSE that he is not aware of any violation by Medical Properties Trust, Inc. of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE listing standards.

### Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449
info@amstock.com
www.amstock.com

TTY: (Teletypewriter for the hearing impaired)
(718) 921-8386 or (866) 703-9077

### Corporate Office

Medical Properties Trust, Inc.
1000 Urban Center Drive, Suite 501
Birmingham, AL 35242
(205) 969-3755  (205) 969-3756 fax
www.medicalpropertiestrust.com

UNPACKING A SPECIAL LEGACY

# The Gift of a Better Life

I have his suitcase.
My grandfather's suitcase.
The simple brown bag
In which he packed his dreams
And came to America.

His name was Heinrich August Franz Aldag,
From Hamburg, Germany.
When he came here,
He took an American name – Henry.
And he took a wife, Annaliese,
The girl of his dreams,
Whom he had followed across the sea.

But it wasn't just for love that he came,
It was also for opportunity
The opportunity of a better life
Not so much for himself – he was a smart man –
But for his children and grandchildren
The opportunity to be whatever we wanted to be
To create whatever we wanted to create.

When I grasp the handle of his suitcase
And hold it in my hand
A tide of emotions washes over me
As I also grasp the sense of all he left behind
So many years ago.

And I realize that a simple suitcase
Could never contain all a man dreams.

Papa used to say to me,
*"Ed, if you believe in something –*
*If you really believe in it –*
*You can make it come true."*

And now, as I reflect on the opportunities
He made possible for me –
To grow up in this country
And raise my family here
To start a company
And invest in others
Halfway 'round the globe –
I realize that the arc of my life
Still intersects with the arc of his.

And I appreciate more and more
The great gift he gave me –
The gift of a better life
That remains in my hands.

Ed Aldag, Jr.
Grandson of Henry

Medical Properties Trust

Medical Properties Trust, Inc.
1000 Urban Center Drive, Suite 501
Birmingham, AL 35242
(205) 969-3755  NYSE: MPW
www.medicalpropertiestrust.com