GLADSTONE COMMERCIAL CORP
Form 424B5
August 01, 2016
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Registration Statement No. 333-208953

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 1, 2016

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated February 1, 2016)

Shares

7.00% Series D Cumulative Redeemable Preferred Stock

(Liquidation Preference $25.00 per share)

We are offering shares of our 7.00% Series D Cumulative Redeemable Preferred Stock, $0.001 par value per share (Series D Preferred Stock).

Investors will be entitled to cumulative dividends on the Series D Preferred Stock at a rate of 7.00% per annum of the $25.00 liquidation preference per share (equivalent to a fixed annual rate of $1.75 per share). When, as and if authorized by our board of directors and declared by us, dividends on the Series D Preferred Stock are payable monthly in arrears. The Series D Preferred Stock ranks on parity with our outstanding preferred stock and senior to our senior common stock (as defined below) and common stock (as defined below) with respect to dividend rights and rights upon our liquidation, dissolution or winding up.

Generally, we are not permitted to redeem the Series D Preferred Stock prior to May 25, 2021, except in limited circumstances relating to our ability to qualify as a real estate investment trust (REIT) and pursuant to the special optional redemption provision described below. On or after May 25, 2021, we may, at our option, redeem the Series D Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus an amount equal to any accrued and unpaid dividends on such Series D Preferred Stock to, but not including, the redemption date.

In addition, upon the occurrence of a Change of Control (as defined below), as a result of which neither our common stock, par value $0.001 per share, nor the common securities of the acquiring or surviving entity (or American Depositary Receipts (ADRs) representing such securities) is listed on the New York Stock Exchange (NYSE), the NYSE MKT LLC (NYSE MKT) or the NASDAQ Stock Market, or listed or quoted on a successor exchange or quotation system, we may, at our option, redeem the Series D Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, by paying $25.00 per share, plus an amount equal to any accrued and unpaid dividends to, but not including, the date of redemption. Should a Change of Control occur, each holder of Series D Preferred Stock may, at its sole option, elect to cause us to redeem any or all of such holder s shares of Series D Preferred Stock in cash at a redemption price of $25.00 per share, plus an amount equal to all accrued but unpaid dividends, to, but not including, the redemption date, no earlier than 30 days and no later than 60 days following the date we notify holders of the Change of Control. The Series D Preferred Stock has no stated maturity and is not subject to mandatory redemption or any sinking fund. Holders of shares of the Series D Preferred Stock will generally have no voting rights except for limited voting rights if we fail to pay dividends for 18 or more consecutive months and in certain other circumstances.

Our Series D Preferred Stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol GOODM. On July 29, 2016, the last reported sale price of our Series D Preferred Stock on NASDAQ was $25.53 per share. You are urged to obtain current market quotations of our Series D Preferred Stock.

To assist us in qualifying as a REIT, among other purposes, our charter contains certain restrictions relating to the ownership and transfer of our capital stock, including an ownership limit of 9.8% of the aggregate outstanding shares of our capital stock by any person or persons acting as a group. See Certain Provisions of Maryland Law and of Our Charter and Bylaws Restrictions on Ownership and Transfer on page 23 of the accompanying prospectus for more information about these restrictions.

Investing in shares of our Series D Preferred Stock involves substantial risks that are described in the Risk Factors sections beginning on page S-11 of this prospectus supplement, on page 4 of the accompanying prospectus and as discussed in our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other information that we file from time to time with the Securities and Exchange Commission (the SEC), which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

	Per Share	Total
Public offering price(1)	$	$
Placement Agent Fees and Commissions	$	$
Proceeds, before expenses, to us	$	$

(1) Including accrued dividends, if any, from August 1, 2016.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have retained CSCA Capital Advisors, LLC (CSCA) to act as placement agent in connection with this offering. CSCA has no commitment to purchase our Series D Preferred Stock and will act only as an agent in obtaining indications of interest in the Series D Preferred Stock from certain investors. We have agreed to pay CSCA a placement agent fee of % of gross proceeds. After paying the placement agent fee and other estimated expenses payable by us, we anticipate receiving approximately $ in net proceeds from this offering.

CSCA Capital Advisors, LLC

The date of this prospectus supplement is , 2016.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is presented in two parts. The first part is comprised of this prospectus supplement, which describes the specific terms of this offering of Series D Preferred Stock and certain other matters relating to us. The second part, the accompanying prospectus, contains a description of our capital stock generally and provides more general information, some of which does not apply to this offering, regarding securities that we may offer from time to time.

You should read this prospectus supplement along with the accompanying prospectus, as well as the information incorporated by reference herein and therein, carefully before you invest in our Series D Preferred Stock. These documents contain important information that you should consider before making your investment decision. This prospectus supplement and the accompanying prospectus contain the terms of this offering of Series D Preferred Stock. The accompanying prospectus contains information about our securities generally, some of which does not apply to the Series D Preferred Stock covered by this prospectus supplement. This prospectus supplement may add, update or change information contained in or incorporated by reference in the accompanying prospectus. If the information in this prospectus supplement is inconsistent with any information contained in or incorporated by reference in the accompanying prospectus, the information in this prospectus supplement will apply and will supersede the inconsistent information contained in or incorporated by reference in the accompanying prospectus.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus before making your investment decision. You should also read and consider the additional information incorporated by reference in this prospectus supplement and the accompanying prospectus before making your investment decision. See Incorporation by Reference in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus to be filed with the SEC. Neither we nor CSCA have authorized anyone to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. We do not, and CSCA and its affiliates do not, take any responsibility for, and can provide no assurances as to, the reliability of any information that others may provide to you.

You should not assume that the information in this prospectus supplement, the accompanying prospectus or any free writing prospectus to be filed with the SEC, including any information incorporated by reference, is accurate as of any date other than their respective dates. Our business, financial condition, liquidity, results of operations, funds from operations (FFO) and prospects may have changed since those dates. If any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in this prospectus supplement or the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

The distribution of this prospectus supplement and the accompanying prospectus and this offering of Series D Preferred Stock may be restricted by law in certain jurisdictions. This prospectus supplement and the accompanying prospectus are not an offer to sell or a solicitation of an offer to buy shares of Series D Preferred Stock in any jurisdiction where such offer or any sale would be unlawful. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves of and observe any such restrictions.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Also, documents we subsequently file with the SEC and incorporate by reference in this prospectus supplement and the accompanying prospectus may contain forward-looking statements. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, including, among other things, discussion and analysis of our future performance and financial condition, results of operations and FFO, our strategic plans and objectives, cost management, occupancy and leasing rates and trends, liquidity and ability to refinance our indebtedness as it matures, anticipated capital expenditures and access to capital required to complete projects, amounts of anticipated cash distributions to our stockholders in the future and other matters. Words such as anticipates, assumes, expects, intends, plans, believes, continues, projects, seeks, estimates, may variations of these words and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements will contain these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our ability to qualify and maintain our qualification as a REIT;
- our re-leasing efforts;
- our business and financing strategy;
- our ability to implement our business plan, including our ability to continue to expand geographically;
- pending and future transactions;
- our projected operating results;
- our ability to obtain future financing arrangements;
- estimates relating to our future distributions;
- our understanding of our competition and our ability to compete effectively;

- market and industry trends;
- interest and insurance rates;
- estimates of our future operating expenses, including payments to our Adviser and Administrator (as defined herein) under the terms of our advisory and administration agreements;
- projected capital expenditures;
- our senior unsecured revolving credit facility with KeyBank National Association, as revolving lender, letter of credit issuer and administrative agent and the other lenders party thereto (the Line of Credit), mortgage notes payable, other offerings of securities and other future capital resources, if any; and
- our ability to use the proceeds of this offering as contemplated in the Use of Proceeds section.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements or update changed assumptions,

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the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those contained in these forward-looking statements as a result of various factors, including, but not limited to:

- the loss of any of our key officers, such as Mr. David Gladstone, our Chairman and Chief Executive Officer, Mr. Terry Lee Brubaker, our Vice Chairman and Chief Operating Officer, or Mr. Robert Cutlip, our President;
- general volatility of the capital markets and the market price of our common and preferred stock;
- failure to qualify and maintain qualification as a REIT and risks of changes in laws that affect REITs;
- risks associated with negotiation and consummation of pending and future transactions;
- changes in our business or financing strategy;
- the adequacy of our cash reserves and working capital;
- our failure to successfully integrate and operate acquired properties and operations;
- defaults upon or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- the degree and nature of our competition, including with other real estate investment companies;
- availability, terms and deployment of capital, including the ability to maintain and borrow under our Line of Credit, arrange for long-term mortgages on our properties, secure one or more additional long-term lines of credit and raise equity capital;
- the ability of our Adviser and our Administrator to identify, hire and retain highly-qualified personnel in the future;
- changes in our industry or the general economy;

- changes in interest rates;
- changes in real estate and zoning laws and increases in real property tax rates;
- changes in governmental regulations, tax rates and similar matters; and
- environmental uncertainties and risks related to natural disasters.

This list of risks and uncertainties, however, is only a summary of some of the most important factors to us and is not intended to be exhaustive. You should carefully review the risks and information contained, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, including, without limitation, the Risk Factors incorporated by reference herein and therein from our Annual Report on Form 10-K for the year ended December 31, 2015, our Quarterly Reports on Form 10-Q and other reports and information that we file with the SEC. New factors may also emerge from time to time that could materially and adversely affect us.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not complete and may not contain all of the information that may be important to you in deciding whether to invest in shares of our Series D Preferred Stock. To understand this offering fully prior to making an investment decision, you should carefully read this prospectus supplement, including the Risk Factors sections beginning on page S-11 of this prospectus supplement, the accompanying prospectus, our Annual Report on Form 10-K for the year ended December 31, 2015, our Quarterly Reports on Form 10-Q and other reports and information that we file from time to time with the SEC, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, and the documents incorporated by reference herein and therein, including the financial statements and notes to those financial statements.

Unless the context otherwise requires or indicates, each reference in this prospectus supplement and the accompanying prospectus to (i) we, our, us and the Company means Gladstone Commercial Corporation, a Maryland corporation, and its consolidated subsidiaries, (ii) Operating Partnership means Gladstone Commercial Limited Partnership, a wholly-owned, consolidated subsidiary of the Company and a Delaware limited partnership, (iii) Adviser means Gladstone Management Corporation, the external adviser of the Company and a Delaware corporation, and (iv) Administrator means Gladstone Administration, LLC, the external administrator of the Company and a Delaware limited liability company. The term you refers to a prospective investor.

The Company

We were incorporated under the Maryland General Corporation Law on February 14, 2003, primarily for the purpose of investing in and owning net leased industrial and office properties and selectively making long-term industrial and commercial mortgage loans. We have elected to be taxed as a REIT for federal income tax purposes. Our shares of common stock, par value $0.001 per share (the common stock), 7.75% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share (the Series A Preferred Stock), 7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.001 per share (the Series B Preferred Stock), 7.125% Series C Cumulative Term Preferred Stock, par value $0.001 per share (the Series C Preferred Stock), and our Series D Preferred Stock trade on NASDAQ s Global Select Market under the trading symbols GOOD, GOODP, GOODO, GOODN, and GOODM, respective We refer to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock collectively herein as the Preferred Stock . Our senior common stock, par value $0.001 per share (the senior common stock), is not traded on any exchange or automated quotation system.

Our properties are geographically diversified and our tenants cover a broad cross section of business sectors and range in size from small to very large private and public companies. We actively communicate with buyout funds, real estate brokers and other third parties to locate properties for potential acquisition or to provide mortgage financing in an effort to build our portfolio. We target secondary growth markets that possess favorable economic growth trends, diversified industries, and growing population and employment. We have historically entered into, and intend in the future to enter into, purchase agreements for real estate having net leases with terms of approximately 7 to 15 years and built in rental rate increases. Under a net lease, the tenant is required to pay all operating, maintenance, repair and insurance costs and real estate taxes with respect to the leased property.

We currently own 99 properties located in 24 states that contain approximately 11.1 million rentable square feet and have no mortgage loans outstanding.

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We conduct substantially all of our activities, including the ownership of all of our properties, through our Operating Partnership. Our Adviser is an affiliate of ours and a registered investment adviser under the Investment Advisers Act of 1940. Our Adviser is responsible for managing our business on a daily basis and identifying and making acquisitions and dispositions that it believes satisfy our investment criteria.

Our executive offices are located at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our website address is http://www.GladstoneCommercial.com. However, the information located on, or accessible from, our website is not, and shall not be deemed to be, a part of this prospectus supplement or the accompanying prospectus or incorporated into any other filings that we make with the SEC.

Our Competitive Strengths

We believe that the following strengths differentiate us from our competitors:

Experienced Management Team: Our management team has a successful track record of underwriting office, industrial, and other types of real estate and conducting extensive due diligence on the management teams, cash flows, financial statements and risk ratings of our respective tenants.

Focused Business Model: Our business model seeks to foster investment opportunities that are generated from our strategic relationships with leveraged buyout funds and other real estate intermediaries.

Attractive Market Opportunities: We believe that attractive investment opportunities currently exist that will allow us to capitalize on the lack of buyers of real estate that is leased to mid-sized businesses.

Conservative Dual Underwriting Strategy: When underwriting a tenant s business and the real estate it occupies, we focus on the cash flow of the tenant and the intrinsic value of the property.

Proven Track Record: As of July 25, 2016, we had investments in 99 properties, including 4 properties classified as held for sale, which have a total gross and net carrying value, including intangible assets, of $949.4 million and $763.5 million, respectively. All of our tenants are paying as agreed, and the weighted average yield on our portfolio is approximately 8.6%. As of July 25, 2016, our occupancy rate was 98.5%. We are currently seeking tenants for our vacant properties while concurrently researching alternative uses for these properties.

Distribution Stability: We currently declare quarterly, and pay monthly, distributions to holders of shares of our common stock at the rate of $0.125 per share. Since inception, we have never reduced the amount of the distribution paid with respect to shares of our common stock.

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THE OFFERING

The offering terms are summarized below solely for your convenience. For a more complete description of the terms of the Series D Preferred Stock, see Description of Series D Preferred Stock in this prospectus supplement.

Issuer	Gladstone Commercial Corporation, a Maryland corporation.
Securities Offered	shares of 7.00% Series D Cumulative Redeemable Preferred Stock.
Ranking	The Series D Preferred Stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding up: senior to all classes or series of our senior common stock, common stock, and any other class or series of our capital stock expressly designated as ranking junior to the Series D Preferred Stock; on parity with our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, and any future class or series of our capital stock expressly designated as ranking on parity with the Series D Preferred Stock; and junior to any other class or series of our capital stock expressly designated as ranking senior to the Series D Preferred Stock, none of which exists on the date hereof.
Dividends	Investors in the Series D Preferred Stock will be entitled to preferential cumulative cash dividends on the Series D Preferred Stock at a rate of 7.00% per annum of the $25.00 per share liquidation preference (equivalent to $1.75 per annum per share). When, as and if authorized by our Board of Directors and declared by us, dividends on the Series D Preferred Stock will be payable monthly in arrears. Dividends on the Series D Preferred Stock will accrue whether or not (i) we have earnings, (ii) there are funds legally available for the payment of such dividends and (iii) such dividends are authorized and declared.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of shares of the Series D Preferred Stock will have the right to receive $25.00 per share of the Series D Preferred Stock, plus an amount equal to any accrued and

unpaid dividends (whether or not authorized or declared) to and including the date of payment, but without interest, before any distribution or payment is made to holders of our senior common stock, common stock and any other class or series of capital stock ranking junior to the Series D Preferred Stock as to rights upon our liquidation, dissolution or winding up. We may only issue equity securities ranking senior to the Series D Preferred Stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution and winding up if we obtain the affirmative

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	vote of the holders of at least two-thirds of the shares outstanding at the time of Series D Preferred Stock and each other class or series of preferred stock ranking on parity with the Series D Preferred Stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up and upon which like voting rights have been conferred (voting together as a single class). The rights of holders of shares of the Series D Preferred Stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our capital stock ranking on parity with the Series D Preferred Stock, including the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock, as to rights upon our liquidation, dissolution or winding up, and junior to the rights of any class or series of our capital stock expressly designated as ranking senior to the Series D Preferred Stock.
Optional Redemption	We may not redeem the Series D Preferred Stock prior to May 25, 2021, except in limited circumstances relating to maintaining our qualification as a REIT, as described in Description of Series D Preferred Stock Optional Redemption in this prospectus supplement and pursuant to the special optional redemption provision described below. On and after May 25, 2021, the Series D Preferred Stock will be redeemable at our option, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus an amount equal to any accrued and unpaid dividends (whether or not authorized or declared) to, but not including, the redemption date. Any partial redemption will be on a pro rata basis.
Special Optional Redemption	Upon the occurrence of a Change of Control, we may, at our option, redeem the Series D Preferred Stock, in whole or in part within 120 days after the first date on which such Change of Control occurred, by paying $25.00 per share, plus an amount equal to any accrued and unpaid dividends to, but not including, the date of redemption. A Change of Control is when, after the original issuance of the Series D Preferred Stock, the following have occurred and are continuing: the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act), of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of stock of our company entitling that person to exercise more than 50% of the total voting power of all stock of our company entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the

right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

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	following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or ADRs representing such securities) listed on the NYSE, the NYSE MKT or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ.
Redemption at Option of Holders Upon a Change of Control	If a Change of Control occurs at any time the Series D Preferred Stock is outstanding, then each holder of shares of Series D Preferred Stock shall have the right, at such holder s option, to require us to redeem for cash any or all of such holder s shares of Series D Preferred Stock, on a date specified by us that can be no earlier than 30 days and no later than 60 days following the date of delivery by the Company of a notice of the Change of Control (the Change of Control Redemption Date), such notice to conform to the terms and conditions contained in the Articles Supplementary of the Series D Preferred Stock, at a redemption price equal to the liquidation preference of $25.00 per share, plus an amount equal to all accrued but unpaid dividends, to, but not including, the Change of Control Redemption Date (the Change of Control Redemption Price); provided, however, that a holder shall not have any right of redemption with respect to any shares of Series D Preferred Stock being called for redemption pursuant to our optional redemption as described under Description of Series D Preferred Stock Optional Redemption, our special optional redemption as described under Description of Series D Preferred Stock Special Optional Redemption, or our requirement to redeem as described in the accompanying prospectus under Description of Capital Stock General Repurchases of Excess Shares, to the extent we have delivered notice of our intent to redeem on or prior to the date of delivery by the Company of a notice of the Change of Control.
Conversion Rights	The Series D Preferred Stock is not convertible into or exchangeable for any other securities or property.
No Maturity, Sinking Fund or Mandatory Redemption	The Series D Preferred Stock has no stated maturity date and is not subject to mandatory redemption or any sinking fund. We are not required to set apart funds to redeem the Series D Preferred Stock. Accordingly, the Series D Preferred Stock will remain outstanding indefinitely unless we decide to redeem the shares at our option.
Limited Voting Rights	Holders of shares of the Series D Preferred Stock will generally have no voting rights. However, if we are in arrears on dividends on the Series D Preferred Stock for 18 or more consecutive months, holders of shares of the Series D Preferred Stock (voting separately as a class together with the holders of all other classes or series of preferred stock ranking on

parity with the Series D Preferred Stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up and upon which like voting rights have been conferred and are exercisable, including the Series A

	Preferred Stock, Series B Preferred Stock and Series C Preferred Stock) will have the right to elect two additional directors to serve on our board of directors until such dividend arrearage is eliminated. In addition, the affirmative vote or consent of the holders of at least two-thirds of the shares outstanding at the time of the Series D Preferred Stock and each other class or series of preferred stock ranking on parity with the Series D Preferred Stock with respect to the payment of dividends and distribution of assets upon our liquidation, dissolution or winding up and upon which like voting rights have been conferred (voting together as a single class) is required for us to authorize or issue any class or series of capital stock ranking, as to payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up, senior to the Series D Preferred Stock or to amend any provision of our charter so as to materially and adversely affect the terms of the Series D Preferred Stock. If such amendment to our charter does not equally affect the terms of the Series D Preferred Stock and one or more other classes or series of preferred stock ranking, as to payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up, on parity with the Series D Preferred Stock, the affirmative vote or consent of the holders of two-thirds of the shares outstanding at the time of Series D Preferred Stock, voting separately as a class, is required.
NASDAQ Global Select Market symbol	GOODM
Form	The Series D Preferred Stock offered in this offering will be issued and maintained in book-entry form registered in the name of the nominee of The Depository Trust Company (DTC), except under limited circumstances.
Restrictions on Ownership and Transfer	To assist us in maintaining our qualification as a REIT, our charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own. Our charter provides that no person, directly or indirectly, may own more than 9.8% of our outstanding capital stock. See Description of Series D Preferred Stock Restrictions on Ownership and Transfer in this prospectus supplement.
Use of Proceeds	We estimate that the net proceeds from the sale of the Series D Preferred Stock in this offering will be approximately $, after deducting the placement agent fee of approximately $ and other estimated offering expenses of $ payable by us. We intend to use the net proceeds from the sale of Series D Preferred Stock offered hereby:

to pay down debt;

to invest in additional net leased real properties in accordance with our investment objectives and to pay real estate acquisition expenses;

	to make or invest in mortgage loans in accordance with our investment objectives; and
	for other general corporate purposes.
	See Use of Proceeds on page S-15 of this prospectus supplement.
Transfer Agent and Registrar	The transfer agent and registrar for the Series D Preferred Stock is Computershare, Inc.
Settlement	Delivery of the shares of Series D Preferred Stock will be made against payment therefor on or about , 2016, which is the third business day following the pricing of this offering.
Risk Factors	Investing in the Series D Preferred Stock involves various risks. You should read carefully and consider the matters discussed under the caption entitled Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2015, under the caption entitled Risk Factors beginning on page S-11 of this prospectus supplement and in the other documents incorporated by reference in the accompanying prospectus before making a decision to invest in the Series D Preferred Stock.

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RISK FACTORS

Your investment in shares of our Series D Preferred Stock involves a high degree of risk. In consultation with your own financial and legal advisers, you should carefully consider, among other matters, the factors set forth below, in the accompanying prospectus, in our Annual Report on Form 10-K for the year ended December 31, 2015, our Quarterly Reports on Form 10-Q and other information that we file from time to time with the SEC, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, before deciding whether an investment in shares of our Series D Preferred Stock is suitable for you. If any of the risks contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus develop into actual events, our business, financial condition, liquidity, results of operations, FFO, our ability to make cash distributions to holders of our common stock or pay dividends to holders of our Series D Preferred Stock and prospects could be materially and adversely affected, the market price of our Series D Preferred Stock could decline and you may lose all or part of your investment. In addition, new risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Some statements in this prospectus supplement, including statements in the following risk factors, constitute forward-looking statements. See the Forward-Looking Statements sections in this prospectus supplement and in the accompanying prospectus.

Our management will have broad discretion in the use of the net proceeds from this offering and may allocate the net proceeds from this offering in ways that you and other stockholders may not approve.

Our management will have broad discretion in the use of the net proceeds, including for any of the purposes described in the section entitled Use of Proceeds, and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used in ways with which you may not agree with or may not otherwise be considered appropriate. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their intended use. The failure of our management to use these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

The number of shares of our Series D Preferred Stock available for future issuance or sale and the issuance of additional preferred stock equal in rank with or senior to the Series D Preferred Stock could dilute the interests of the holders of the Preferred Stock.

We cannot predict whether future issuances or sales of our Series D Preferred Stock or the availability of shares for resale in the open market will decrease the per share trading price of our Series D Preferred Stock. Our Board of Directors may classify and re-classify shares of unissued capital stock by setting or changing the preferences, conversion or other rights, voting powers and restrictions, limitations as to dividends, qualifications and terms and conditions of the redemption of such stock, subject to the rights of the holders of Series D Preferred Stock to consent to any such classification that would materially and adversely affect any right, preference, privilege or voting power of the respective series of Series D Preferred Stock, as applicable. As of the date of this prospectus supplement, shares of the Series A Preferred Stock, Series B Preferred Stock and Series C Term Preferred Stock are equal in rank with the Series D Preferred Stock offered by this prospectus supplement with respect to the payment of dividends and amounts on liquidation, dissolution and winding up. The issuance of additional shares of other series of preferred stock equal in rank with or senior to the Series D Preferred Stock could have the effect of diluting the interests of holders of the Series D Preferred Stock.

The Series D Preferred Stock is subordinate to our debt, and your interests could be diluted by the issuance of additional shares of preferred stock, including additional shares of Series D Preferred Stock, and by other

transactions.

As of June 30, 2016, our total indebtedness was approximately $566.2 million, and we may incur significant additional debt to finance future acquisition activities. The Series D Preferred Stock is subordinate to all of our existing and future debt. Our existing debt restricts, and our future debt may include restrictions on, our ability to pay dividends to preferred stockholders in the event of a default under the debt facilities.

We cannot predict whether future issuances or sales of our preferred stock or the availability of shares for resale in the open market will decrease the per share trading price of our Series D Preferred Stock. Our Board of Directors may classify and re-classify shares of unissued capital stock by setting or changing the preferences, conversion or other rights, voting powers and restrictions, limitations as to dividends, qualifications and terms and conditions of the redemption of such stock, subject to the rights of the holders of preferred stock to consent to any such classification that would materially and adversely affect any right, preference, privilege or voting power of the respective series of preferred stock, as applicable. The shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock rank on parity with the Series D Preferred Stock offered by this prospectus supplement with respect to the payment of dividends and amounts on liquidation, dissolution and winding up. The issuance of additional shares of other series of preferred stock equal in rank with or senior to the Series D Preferred Stock could have the effect of diluting the interests of holders of the Series D Preferred Stock and any issuance of preferred stock senior to the Series D Preferred Stock or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on the Series D Preferred Stock. Other than the limited voting rights as described under Description of the Series D Preferred Stock Limited Voting Rights below, none of the provisions relating to the Series D Preferred Stock relate to or limit our indebtedness or afford the holders of the Series D Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, that might adversely affect the holders of the Series D Preferred Stock.

The market price and trading volume of our Series D Preferred Stock may fluctuate significantly and could be substantially affected by various factors.

Our Series D Preferred Stock recently began trading on the NASDAQ Global Select Market and has limited trading history. Further, the trading prices of equity securities issued by REITs historically have been affected by changes in market interest rates. One of the factors that may influence the price of our Series D Preferred Stock is the annual yield from distributions on our Series D Preferred Stock as compared to yields on other financial instruments. The trading price of our Series D Preferred Stock depends on many factors, including prevailing interest rates, the market for similar securities, general economic conditions, and our financial condition, results of operations and prospects.

Other factors that could significantly affect the market price of our Series D Preferred Stock include the following:

- actual or anticipated variations in our operating results, FFO, cash flows or liquidity;
- changes in earnings estimates of analysts and any failure to meet such estimates;
- changes in our distribution policy;
- publication of research reports about us or the real estate industry generally;
- changes in market valuations of similar companies;

adverse market reaction to the amount of our outstanding debt at any time, the amount of our maturing debt in the near- and medium-term and our ability to refinance such debt and the terms thereof or our plans to incur additional debt in the future;

additions or departures of key management personnel, including our ability to find attractive replacements;

actions by institutional stockholders;

speculation in the press or investment community;

- changes in regulatory policies or tax laws, particularly with respect to REITs;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of REITs, real estate companies or other companies in our sector, which is not necessarily related to the performance of those companies;
- investor confidence in the stock market;
- general market and economic conditions; and
- the realization of any of the other risk factors included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus.

In addition, because the Series D Preferred Stock carries a fixed dividend rate, the value of each series in the secondary market will be influenced by changes in interest rates and will tend to move inversely to such changes. In particular, an increase in market interest rates will result in higher yields on other financial instruments and may lead potential purchasers of the Series D Preferred Stock in the secondary market toward investments with a higher yield price.

Many of the factors described above are beyond our control. Those factors may cause the market price of our Series D Preferred Stock to decline, regardless of our financial performance, condition and prospects. It is impossible to provide any assurance that the market price of our Series D Preferred Stock will not decline in the future, and it may be difficult for our stockholders to resell their shares of our Series D Preferred Stock in the amount or at prices or times that they find attractive, or at all.

As a holder of Series D Preferred Stock you have extremely limited voting rights.

Your voting rights as a holder of Series D Preferred Stock will be extremely limited. Our common stock is the only class or series of our stock carrying full voting rights. Voting rights for holders of Series D Preferred Stock exist primarily with respect to material and adverse changes in the terms of such Series D Preferred Stock, and the election of two directors upon our failure to pay dividends on the Series D Preferred Stock for 18 or more consecutive months. See Description of Series D Preferred Stock Limited Voting Rights in this prospectus supplement.

We may not have sufficient earnings and profits in order for distributions on the Series D Preferred Stock to be treated as dividends.

The dividends payable by us on the Series D Preferred Stock may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes, at the time of payment. If that were to occur, it would result in the amount of dividends that exceed our earnings and profits being treated first as a return of capital to the extent of the holder s adjusted tax basis in the Series D Preferred Stock and then, to the extent of any excess over such adjusted tax basis, as capital gain. See Additional Material U.S. Federal Income Tax Considerations in this prospectus supplement and Material U.S. Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders in the accompanying prospectus.

We operate as a holding company dependent upon the assets and operations of our subsidiaries, and because of our structure, we may not be able to generate the funds necessary to make dividend payments on our capital stock.

We generally operate as a holding company that conducts its businesses primarily through our operating partnership, which in turn is a holding company conducting its business through its subsidiaries. These subsidiaries conduct all of our operations and are our only source of income. Accordingly, we are dependent on cash flows and payments of funds to us by our subsidiaries as dividends, distributions, loans, advances, leases or other payments from our subsidiaries to generate the funds necessary to make dividend payments on our common stock. Our subsidiaries ability to pay such dividends and/or make such loans, advances, leases or other payments may be restricted by, among other things, applicable laws and regulations, current and future debt agreements and management agreements into which our subsidiaries may enter, which may impair our ability to make cash payments on our common stock or our preferred stock. In addition, such agreements may prohibit or limit the ability of our subsidiaries to transfer any of their property or assets to us, any of our other subsidiaries or to third parties. Our future indebtedness or our subsidiaries future indebtedness may also include restrictions with similar effects.

In addition, because we are a holding company, stockholders claims will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, claims of our stockholders will be satisfied only after all of our and our operating partnership s and its subsidiaries liabilities and obligations have been paid in full.

If our common stock is delisted, your ability to transfer or sell your shares of the Series D Preferred Stock may be limited and the market value of the Series D Preferred Stock will be materially adversely affected.

Other than in connection with certain Change of Control transactions, the Series D Preferred Stock does not contain provisions that protect you if our common stock is delisted. Since the Series D Preferred Stock has no stated maturity date, you may be forced to hold your shares of the Series D Preferred Stock and receive stated dividends on the stock when, as and if authorized by our board of directors and declared by us with no assurance as to ever receiving the liquidation preference. In addition, if our common stock is delisted, it is likely that the Series D Preferred Stock will be delisted as well. Accordingly, if our common stock is delisted, your ability to transfer or sell your shares of the Series D Preferred Stock may be limited and the market value of the Series D Preferred Stock will be materially adversely affected.

The Series D Preferred Stock bears a risk of redemption by us.

On and after May 25, 2021, the Series D Preferred Stock will be redeemable at our option, in whole or in part, at any time or from time to time. Any such redemptions may occur at a time that is unfavorable to holders of the Series D Preferred Stock.

Our amount of Preferred Stock outstanding will increase as a result of this offering, which could adversely affect our business, financial condition and results of operations.

Our amount of Preferred Stock outstanding will increase as a result of this issuance of Series D Preferred Stock. The issuance of additional shares of Preferred Stock could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations to holders of our preferred stock and under our Line of Credit;

- reducing the availability of our cash flow to fund acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes; and

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, and adverse changes the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under our Line of Credit and monthly dividend obligations with respect to our preferred stock.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the Series D Preferred Stock in this offering will be approximately $, after deducting the placement agent fee of approximately $ and other estimated offering expenses of $ payable by us. Through our Operating Partnership, we intend to use the net proceeds of the offering:

- to pay down debt;
- to invest in additional net leased real properties in accordance with our investment objectives and to pay real estate related acquisition expenses;
- to make or invest in mortgage loans in accordance with our investment objectives; and
- for other general corporate purposes.

Our Line of Credit matures in August 2018 with a 1-year extension option through August 2019. The interest rate per annum applicable to the line of credit is equal to the London Interbank Offered Rate, or LIBOR, plus an applicable margin of up to 2.75%, depending upon our leverage. As of June 30, 2016, there was $85.8 million outstanding under our Line of Credit and Term Loan Facility at a weighted average interest rate of approximately 2.95% and $2.5 million outstanding under letters of credit at a weighted average interest rate of 2.5%. As of June 30, 2016, the maximum additional amount we could draw under the Line of Credit was $8.6 million.

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DESCRIPTION OF SERIES D PREFERRED STOCK

The following summary of the material terms and provisions of the Series D Preferred Stock does not purport to be complete and is subject to our charter, and our bylaws, each of which is available from us as described under Where You Can Find More Information of this prospectus supplement and is incorporated by reference in this prospectus supplement. This description of the particular terms of the Series D Preferred Stock supplements the description of the general terms and provisions of our securities, including preferred stock, in the accompanying prospectus. You should consult that general description, beginning on page 9 of the accompanying prospectus, for further information.

As used in this section, the terms we, us and our refer to Gladstone Commercial Corporation and not to any of its subsidiaries.

General

Our Board of Directors has the power undin-top:0pt ; margin-bottom:0pt; margin-left:7.00em; text-indent:-1.00em; font-size:10pt; font-family:Times New Roman">Accounts payable and accrued expenses

9,544 21,327

Net cash provided by operating activities

137,290 87,444

Investing activities

Cash paid for acquisitions and other related investments

(109,991) (562,633)

Net proceeds from sale of real estate

89,165

Principal received on loans receivable

705,501 354,952

Investment in loans receivable

(96,504) (347,768)

Construction in progress and other

(108,065) (86,053)

Investment in unsecured senior notes

(50,000)

Proceeds from sale of unsecured senior notes

50,000

Net cash provided by (used for) investing activities

480,106 (641,502)

Financing activities

Revolving credit facilities, net

(1,075,000) 80,586

Proceeds from debt

500,000

Payments of term debt

(147) (140)

Distributions paid

(104,788) (84,487)

Proceeds from sale of common shares, net of offering costs

44,306 479,902

Lease deposits and other obligations to tenants

9,593 (14,453)

Debt issuance costs paid and other financing activities

(8,465) (662)

Net cash (used for) provided by financing activities

(634,501) 460,746

Increase (decrease) in cash and cash equivalents for period

(17,105) (93,312)

Effect of exchange rate changes

3,125 (5,325)

Cash and cash equivalents at beginning of period

195,541 144,541

Cash and cash equivalents at end of period

$181,561 $45,904

Interest paid

$57,118 $52,130

Supplemental schedule of non-cash financing activities:

Distributions declared, unpaid

$55,272 $46,026

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands)	June 30, 2016 (Unaudited)	December 31, 2015 (Note 2)
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	$ 3,482,199	$ 3,297,705
Real estate held for sale	63,074	
Mortgage loans	549,337	757,581
Net investment in direct financing leases	528,747	626,996
Gross investment in real estate assets	4,623,357	4,682,282
Accumulated depreciation and amortization	(278,590)	(257,928)
Net investment in real estate assets	4,344,767	4,424,354
Cash and cash equivalents	181,561	195,541
Interest and rent receivables	47,699	46,939
Straight-line rent receivables	95,988	82,155
Other loans	259,329	664,822
Other assets	188,589	195,540
Total Assets	**$ 5,117,933**	**$ 5,609,351**
Liabilities and Capital		
Liabilities		
Debt, net	$ 2,758,635	$ 3,322,541
Accounts payable and accrued expenses	92,623	84,628
Deferred revenue	20,997	29,358
Lease deposits and other obligations to tenants	22,845	12,831
Payable due to Medical Properties Trust, Inc.	55,205	52,338
Total Liabilities	2,950,305	3,501,696
Capital		
General Partner issued and outstanding 2,400 units at June 30, 2016 and 2,363 units at December 31, 2015	22,299	21,773
Limited Partners:		
Common units issued and outstanding 237,941 units at June 30, 2016 and 234,381 units at December 31, 2015	2,205,693	2,153,769
LTIP units issued and outstanding 292 units at June 30, 2016 and December 31, 2015		
Accumulated other comprehensive loss	(65,340)	(72,884)
Total MPT Operating Partnership, L.P. Capital	2,162,652	2,102,658

Non-controlling interests	4,976	4,997
Total Capital	2,167,628	2,107,655
Total Liabilities and Capital	**$ 5,117,933**	**$ 5,609,351**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

(In thousands, except per unit amounts)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Revenues				
Rent billed	$ 77,960	$ 53,893	$ 152,021	$ 106,994
Straight-line rent	8,551	5,252	16,768	9,980
Income from direct financing leases	13,552	12,808	32,503	25,363
Interest and fee income	26,237	27,848	60,007	53,425
Total revenues	126,300	99,801	261,299	195,762
Expenses				
Real estate depreciation and amortization	22,832	14,956	43,974	29,712
Impairment charges	7,375		7,375	
Property-related	784	530	1,685	881
General and administrative	12,045	10,642	23,516	21,547
Acquisition expenses	4,767	25,809	3,702	32,048
Total operating expenses	47,803	51,937	80,252	84,188
Operating income	78,497	47,864	181,047	111,574
Other income (expense)				
Interest expense	(41,501)	(26,890)	(80,874)	(53,556)
Gain on sale of real estate and other asset dispositions, net	16,638		16,678	
Earnings (loss) from equity and other interests	1,200	1,853	(3,801)	1,956
Other income (expense)	(546)	225	(217)	(571)
Income tax expense	(364)	(563)	(683)	(938)
Net other expense	(24,573)	(25,375)	(68,897)	(53,109)
Income from continuing operations	53,924	22,489	112,150	58,465
Loss from discontinued operations			(1)	
Net income	53,924	22,489	112,149	58,465
Net income attributable to non-controlling interests	(200)	(82)	(498)	(161)
Net income attributable to MPT Operating Partnership partners	**$ 53,724**	**$ 22,407**	**$ 111,651**	**$ 58,304**
Earnings per unit basic				

Income from continuing operations attributable to MPT Operating Partnership partners	$	0.23	$	0.11	$	0.47	$	0.28
Loss from discontinued operations attributable to MPT Operating Partnership partners								
Net income attributable to MPT Operating Partnership partners	$	0.23	$	0.11	$	0.47	$	0.28
Weighted average units outstanding basic		238,082		208,071		237,796		205,515
Earnings per unit diluted								
Income from continuing operations attributable to MPT Operating Partnership partners	$	0.22	$	0.11	$	0.47	$	0.28
Loss from discontinued operations attributable to MPT Operating Partnership partners								
Net income attributable to MPT Operating Partnership partners	$	0.22	$	0.11	$	0.47	$	0.28
Weighted average units outstanding diluted		239,008		208,640		238,413		206,127
Dividends declared per unit	**$**	**0.23**	**$**	**0.22**	**$**	**0.45**	**$**	**0.44**

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Net income	$ 53,924	$ 22,489	$ 112,149	$ 58,465
Other comprehensive income:				
Unrealized gain on interest rate swap	825	730	1,640	1,315
Foreign currency translation gain (loss)	(14,683)	20,307	5,904	(39,286)
Total comprehensive income	40,066	43,526	119,693	20,494
Comprehensive income attributable to non-controlling interests	(200)	(82)	(498)	(161)
Comprehensive income attributable to MPT Operating Partnership Partners	$ 39,866	$ 43,444	$ 119,195	$ 20,333

See accompanying notes to condensed consolidated financial statements.

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MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	For the Six Months Ended June 30, 2016	2015
Operating activities		
Net income	$ 112,149	$ 58,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,170	30,564
Straight-line rent revenue	(17,268)	(9,980)
Straight-line rent and other write-off	3,063	
Impairment charges	7,375	
Direct financing lease interest accretion	(4,766)	(3,279)
Unit-based compensation	4,152	5,645
Gain from sale of real estate and other asset dispositions, net	(16,678)	
Amortization and write-off of deferred financing costs and debt discount	3,897	2,770
Other adjustments	(6,605)	(2,383)
Changes in:		
Interest and rent receivable	(2,743)	(15,685)
Accounts payable and accrued expenses	9,544	21,327
Net cash provided by operating activities	137,290	87,444
Investing activities		
Cash paid for acquisitions and other related investments	(109,991)	(562,633)
Net proceeds from sale of real estate	89,165	
Principal received on loans receivable	705,501	354,952
Investment in loans receivable	(96,504)	(347,768)
Construction in progress and other	(108,065)	(86,053)
Investment in unsecured senior notes	(50,000)	
Proceeds from sale of unsecured senior notes	50,000	
Net cash provided by (used for) investing activities	480,106	(641,502)
Financing activities		
Revolving credit facilities, net	(1,075,000)	80,586
Proceeds from debt	500,000	
Payments of term debt	(147)	(140)
Distributions paid	(104,788)	(84,487)
Proceeds from sale of units, net of offering costs	44,306	479,902
Lease deposits and other obligations to tenants	9,593	(14,453)
Debt issuance costs paid and other financing activities	(8,465)	(662)

Net cash (used for) provided by financing activities		(634,501)		460,746
Increase (decrease) in cash and cash equivalents for period		(17,105)		(93,312)
Effect of exchange rate changes		3,125		(5,325)
Cash and cash equivalents at beginning of period		195,541		144,541
Cash and cash equivalents at end of period	**$**	**181,561**	**$**	**45,904**
Interest paid	$	57,118	$	52,130
Supplemental schedule of non-cash financing activities:				
Distributions declared, unpaid	$	55,272	$	46,026

See accompanying notes to condensed consolidated financial statements.

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

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

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

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

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

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information, including rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For information about significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015. During the six months ended June 30, 2016, there were no material changes to these policies.

Recent Accounting Developments:

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. On April 1, 2015, the FASB proposed deferring the effective date of this standard by one year to December 15, 2017, for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. We are continuing to evaluate this standard; however, we do not expect it to have a significant impact on our financial results, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU No. 2014-09.

Leases

In February 2016, the FASB issued ASU 2016-02 - *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is not effective for us until January 1, 2019 with early adoption permitted. We are continuing to evaluate this standard and the impact to us from both a lessor and a lessee perspective.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets not recorded at fair value based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU will be required to be implemented through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are effective. The ASU is not effective for us until January 1, 2019. We do not expect the adoption of the ASU to have a significant impact on our consolidated financial statements.

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Variable Interest Entities

At June 30, 2016, we had loans to and/or equity investments in certain variable interest entities (VIEs), which are also tenants of our facilities, including Ernest Health, Inc. (Ernest). 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 June 30, 2016 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset Type Classification	Carrying Amount(2)
Loans, net	$ 295,822	Mortgage and other loans	$ 226,101
Equity investments	$ 37,309	Other assets	$ 328

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

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

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrower or investees) that most significantly impact the VIE s economic performance. As of June 30, 2016, we were not required to provide any material 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 and 7 for additional description of the nature, purpose and activities of our more significant VIEs and interests therein.

3. Real Estate and Lending Activities

Acquisitions

We acquired the following assets (in thousands):

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Assets Acquired		
Land and land improvements	$ 9,398	$ 62,434
Building	37,593	390,320
Intangible lease assets subject to amortization (weighted average useful life 25.8 years)		42,262

Mortgage loans		40,000
Net investments in direct financing leases	63,000	10,700
Other loans		16,917
Total assets acquired	$ 109,991	$ 562,633
Loans repaid (1)		(183,826)
Total net assets acquired	$ 109,991	$ 378,807

(1) Loans advanced to MEDIAN in 2014 and repaid in 2015 as a part of the MEDIAN transaction.

The purchase price allocations attributable to the 2016 and certain 2015 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.

2016 Activity

On May 2, 2016, we acquired an acute hospital in Newark, New Jersey for an aggregate purchase price of $63 million leased to Prime Healthcare Services, Inc. (Prime) pursuant to a fifth master lease, which has a 15-year term with three five-year extension options, plus consumer price-indexed increases, limited to a 2% floor. Furthermore, we committed to advance an additional $30 million to Prime over a three-year period to be used solely for capital additions to the real estate; any such additions will be added to the basis upon which the lessee will pay us rents.

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On June 22, 2016, we closed on the final Median Kliniken S.à r.l., (MEDIAN) property for a purchase price of 41.6 million. See 2015 Activity for a description of the initial MEDIAN Transaction.

From the respective acquisition dates, the properties acquired in 2016 contributed $1.1 million of revenue and income (excluding related acquisition expenses), for the three and six months ended June 30, 2016. In addition, we incurred $2.4 million of acquisition-related costs on the 2016 acquisitions for both the three and six months ended June 30, 2016.

2015 Activity

MEDIAN Transaction

On April 29, 2015, we entered into a series of definitive agreements with MEDIAN, a German provider of post-acute and acute rehabilitation services, to acquire the real estate assets of 32 hospitals owned by MEDIAN for an aggregate purchase price of approximately 688 million. Upon acquisition, each property became subject to a master lease between us and MEDIAN providing for the leaseback of the property to MEDIAN. The master lease had an initial term of 27 years and provided for an initial GAAP lease rate of 9.3%, with annual escalators at the greater of one percent or 70% of the German consumer price index.

MEDIAN is owned by an affiliate of Waterland Private Equity Fund V C.V. (Waterland), which acquired 94.9% of the outstanding equity interests in MEDIAN, and by a subsidiary of our operating partnership, which acquired the remaining 5.1% of the outstanding equity interests in MEDIAN, each in December 2014. In December 2014, we provided interim acquisition loans to affiliates of Waterland and MEDIAN in connection with Waterland s acquisition of its stake in MEDIAN in an aggregate amount of approximately 425 million. In addition, we made further loans to MEDIAN during the first half of 2015 in an aggregate amount of approximately 240 million, which were used by MEDIAN to repay existing debt on properties we acquired.

Closing of the sale-leaseback transactions began in the second quarter of 2015. At each closing, the purchase price for each facility was reduced and offset against the interim loans made to affiliates of Waterland and MEDIAN as described above and against the amount of any debt assumed or repaid by us in connection with the closing. As of June 30, 2015, we had closed on 17 properties for an aggregate amount of 317 million.

Other Acquisitions

On June 16, 2015, we acquired the real estate of two facilities in Lubbock, Texas, a 60-bed inpatient rehabilitation hospital and a 37-bed long-term acute care hospital, for an aggregate purchase price of $31.5 million. We entered into a 20-year lease with Ernest for the rehabilitation hospital, which provides for three five-year extension options, and separately entered into a lease with Ernest for the long-term acute care hospital that has a final term ending December 31, 2034. In connection with the transaction, we funded an acquisition loan to Ernest of approximately $12.0 million. Ernest is operating the rehabilitation hospital in a joint venture with Covenant Health System, while the long-term acute care hospital continues to be operated by Fundamental Health under a new sublease with Ernest.

On February 27, 2015, we acquired an inpatient rehabilitation hospital in Weslaco, Texas for $10.7 million leased to Ernest pursuant to the 2012 master lease which had an original 20-year fixed term and three five-year extension options. This lease provides for consumer-priced-indexed annual rent increases, subject to a floor and a cap. In addition, we funded an acquisition loan in the amount of $5 million.

On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. Affiliates of Prime is the tenant and operator pursuant to a new master lease that has similar terms and security enhancements as the other master lease agreements entered into in 2013. This master lease has a 10-year initial fixed term with two extension options of five years each. The lease provides for consumer-price-indexed annual rent increases, subject to a specified floor. In addition, we funded a mortgage loan in the amount of $40 million, which has a 10-year term.

From the respective acquisition dates, the properties and other assets acquired in 2015 contributed $4.2 million and $3.5 million of revenue and income (excluding related acquisition expenses), respectively, for the three months ended June 30, 2015. From the respective acquisition dates, the properties and other assets acquired in 2015 contributed $6.2 million and $4.9 million of revenue and income (excluding related acquisition expenses), respectively, for the six months ended June 30, 2015. In addition, we incurred $22.6 million and $26.7 million of acquisition-related costs on the 2015 acquisitions for the three and six months ended June 30, 2015, respectively.

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Pro Forma Information

The following unaudited supplemental pro forma operating data is presented for the three and six months ended June 30, 2015, as if each acquisition (including completed development projects) was completed on January 1, 2015. Supplemental pro forma earnings were adjusted to exclude acquisition-related costs on consummated deals incurred. The unaudited supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods (in thousands, except per share/unit amounts).

	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2015
Total revenues	$ 109	$ 219
Net income	$ 50	$ 100
Net income per share/unit diluted	$ 0.21	$ 0.42

Development Activities

During the first six months of 2016, we completed construction and began recording rental income on the following facilities:

Adeptus Health, Inc. (Adeptus Health) We completed seven acute care facilities for this tenant during 2016. These facilities are leased pursuant to the master leases entered into in both 2014 and 2015 and are cross-defaulted with each other and with the original master lease executed in 2013.

Ernest Toledo This inpatient rehabilitation facility located in Toledo, Ohio opened on April 1, 2016 and is being leased to Ernest pursuant to the original 2012 master lease.

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

Property	Commitment	Costs Incurred as of 06/30/16	Estimated Completion Date
Adeptus Health	$ 62,154	$ 43,763	3Q 2016
Adeptus Health	53,836	15,343	4Q 2016
Adeptus Health	5,730	206	1Q 2017
Adeptus Health	61,997	16,311	2Q 2017
Adeptus Health	71,331		Various

	$ 255,048	**$ 75,623**

On September 9, 2015, we acquired the real estate of a general acute care hospital under development located in Spain, for an aggregate purchase and development price to us of approximately 21.4 million. The acquisition was effected through a joint venture between us and clients of AXA Real Estate, in which we will own a 50% interest. Upon completion, the facility will be leased to a Spanish operator of acute care hospitals, pursuant to a long-term lease. We expect construction to complete on this facility in the second quarter of 2017.

Disposals

Capella Transaction

On March 21, 2016, we entered into definitive agreements with RegionalCare Hospital Partners, Inc. (RegionalCare), an affiliate of certain funds managed by affiliates of Apollo Global Management, LLC (together with its consolidated subsidiaries, Apollo), under which our investment in the operations of Capella Healthcare, Inc. (Capella) would be merged with RegionalCare, forming RCCH Healthcare Partners (RCCH).

On April 29, 2016, this transaction closed and funded, effective April 30, 2016. As part of the transaction, we received net proceeds of approximately $550 million including approximately $492 million for our equity investment and loans made as part of the Capella transaction that closed on August 31, 2015. In addition, we received $210 million in prepayment of two mortgage loans for hospitals in Russellville, Arkansas, and Lawton, Oklahoma, that we made to subsidiaries of Capella in connection with the Capella transaction on August 31, 2015. We made a new $93.3 million loan for a hospital property in Olympia, Washington. Additionally, we and an Apollo affiliate invested $50 million each in unsecured senior notes issued by RegionalCare, which we sold to a large institution on June 20, 2016 at par. The proceeds from this transaction represented the recoverability of our investment in full, except for transaction costs incurred of $6.3 million.

We maintained our ownership of five Capella hospitals in Hot Springs, Arkansas; Camden, South Carolina; Hartsville, South Carolina; Muskogee, Oklahoma; and McMinnville, Oregon. Pursuant to the transaction described above, the underlying leases, one of which is a master lease covering all but one property, was amended to shorten the initial fixed lease term, increase the security deposit, and eliminate the lessees purchase option provisions. Due to this lease amendment, we reclassified the lease of the properties under the master lease from a direct finance lease (DFL) to an operating lease. This reclassification resulted in a write-off of $2.6 million in unbilled DFL rent in the 2016 second quarter.

On July 22, 2016, we acquired the Olympia, Washington property in exchange for the $93.3 million loan and an additional $7 million, which was contemplated in the original Capella transaction. The terms of the Olympia lease will be similar to the other leases with this tenant.

Post Acute Transaction

On May 23, 2016, we sold five properties (three of which were in Texas and two in Louisiana) that were leased and operated by Post Acute Medical (Post Acute). As part of this transaction, our outstanding loans of $4 million were paid in full, and we recovered our investment in the operations. Total proceeds from this transaction were $71 million resulting in a net gain of approximately $15 million.

Corinth Transaction

On June 17, 2016, we sold the Atrium Medical Center real estate located in Corinth, Texas, which was leased and operated by Corinth Investor Holdings. Total proceeds from the transaction were $28 million resulting in a gain on real estate of approximately $8 million. This gain on real estate was offset by approximately $9 million of non-cash charges that included the write-off of our investment in the operations of the facility, straight-line rent receivables, and a lease intangible.

HealthSouth Transaction

On May 20, 2016, we reached a firm commitment to sell three inpatient rehabilitation hospitals located in Texas and operated by HealthSouth Corporation (HealthSouth) for $111.5 million. At June 30, 2016, these facilities and related net assets were designated as held for sale and included the following (in thousands):

Real estate held for sale	$ 63,074
Straight-line rent receivables	2,441
Other, net	(625)

$ 64,890

On July 20, 2016, we completed this sale resulting in a net gain of approximately $45 million.

Summary of Operations for Disposed Assets

The properties which sold during the quarter and the assets held for sale at June 30, 2016, do not meet the definition of discontinued operations. However, the following represents the operating results (excluding gain on sale, transaction costs, and impairment or other non-cash charges) from these properties (excluding loans repaid in the Capella Transaction) for the periods presented (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$ 3,092	$ 4,525	$ 7,607	$ 9,075
Real estate depreciation and amortization	(805)	(949)	(1,754)	(1,897)
Property-related expenses	(72)	(12)	(113)	(72)
Other income (expense)	(9)	228	(68)	557
Income from real estate dispositions, net	$ 2,206	$ 3,792	$ 5,672	$ 7,663

Leasing Operations

All of our leases are currently accounted for as operating leases except for the master lease of 15 Ernest facilities and six Prime facilities which are accounted for as DFLs. The components of our net investment in DFLs (which includes the Capella properties for 2015 only) consisted of the following (in thousands):

	As of June 30, 2016	As of December 31, 2015
Minimum lease payments receivable	$ 1,875,751	$ 2,587,912
Estimated residual values	292,646	393,097
Less: Unearned income	(1,639,650)	(2,354,013)
Net investment in direct financing leases	$ 528,747	$ 626,996

Twelve Oaks Facility

In the third quarter of 2015, we sent notice of termination of the lease to the tenant at our Twelve Oaks facility. This former tenant continues to occupy the facility. We called their letter of credit for approximately $0.5 million in the 2016 first quarter. At June 30, 2016, all past due receivables are fully reserved. Although no assurances can be made that we will not have any impairment charges in the future, we believe our real estate investment in Twelve Oaks at June 30, 2016 is fully recoverable.

Subsequent to June 30, 2016, we received approximately $2.5 million representing substantially all of amounts owed to us and agreed to general terms of a new lease, which we expect to execute during the 2016 third quarter.

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Loans

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

	As of June 30, 2016	As of December 31, 2015
Mortgage loans	$ 549,337	$ 757,581
Acquisition loans	216,100	610,469
Working capital and other loans	43,229	54,353
	$ 808,666	$ 1,422,403

The decrease in our mortgage and acquisition loans are related to the Capella Transaction as discussed previously.

Our non-mortgage loans typically consist of loans to our tenants for acquisitions and working capital purposes. At June 30, 2016, acquisition loans includes our original $93.2 million loan to Ernest and the $93.3 million loan to RCCH, which was repaid in July as discussed above.

On March 1, 2012, pursuant to our convertible note agreement, we converted $1.7 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 June 30, 2016, $3.3 million remains outstanding on the convertible note, and we retain the option, subject to regulatory approvals, to convert this remainder into 15.1% of equity interest in the operator.

Concentrations of Credit Risk

Our revenue concentration for the six months ended June 30, 2016 as compared to the prior year is as follows (dollars in thousands):

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Revenue by Operator

Operators	For the Six Months Ended June 30, 2016 Total Revenue	Percentage of Total Revenue	For the Six Months Ended June 30, 2015 Total Revenue	Percentage of Total Revenue
Prime	$ 58,859	22.5%	$ 49,869	25.5%
MEDIAN	47,745	18.3%	32,212	16.5%
Ernest	33,322	12.8%	29,695	15.2%
RCCH	32,909	12.6%		
Adeptus Health	16,205	6.2%	7,425	3.8%

Revenue by U.S. State and Country

U.S. States and Other Countries	For the Six Months Ended June 30, 2016 Total Revenue	Percentage of Total Revenue	For the Six Months Ended June 30, 2015 Total Revenue	Percentage of Total Revenue
Texas	$ 48,256	18.5%	$ 42,689	21.8%
California	33,187	12.7%	33,065	16.9%
All other states	129,896	49.7%	85,620	43.7%
Total U.S.	$ 211,339	80.9%	$ 161,374	82.4%
Germany	$ 47,745	18.3%	$ 32,212	16.5%
United Kingdom, Italy, and Spain	2,215	0.8%	2,176	1.1%
Total International	$ 49,960	19.1%	$ 34,388	17.6%
Grand Total	$ 261,299	100.0%	$ 195,762	100.0%

From an asset basis, our concentration as of June 30, 2016 as compared to December 31, 2015 is as follows (dollars in thousands):

Gross Assets by Operator

Operators	As of June 30, 2016 Total Gross Assets (A)	Percentage of Total Gross Assets (B)	As of December 31, 2015 Total Gross Assets (A)	Percentage of Total Gross Assets (B)
Prime	$ 1,126,654	20.8%	$ 1,032,353	17.1%
MEDIAN	1,054,368	19.4%	1,031,039	17.1%
Ernest	584,411	10.8%	579,182	9.6%
Adeptus Health	500,000	9.2%	500,000	8.3%

RCCH	458,659	8.5%	1,059,989	17.6%

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Gross Assets by U.S. State and Country

U.S. States and Other Countries	As of June 30, 2016 Total Gross Assets (A)	As of June 30, 2016 Percentage of Total Gross Assets (B)	As of December 31, 2015 Total Gross Assets (A)	As of December 31, 2015 Percentage of Total Gross Assets (B)
Texas	$ 920,959	17.0%	$ 1,060,990	17.6%
California	547,079	10.1%	547,085	9.1%
All other states	2,530,018	46.6%	3,047,204	50.5%
Other domestic assets	189,358	3.5%	177,317	2.9%
Total U.S.	$ 4,187,414	77.2%	$ 4,832,596	80.1%
Germany	$ 1,054,368	19.4%	$ 1,031,039	17.1%
United Kingdom, Italy, and Spain	156,630	3.0%	161,317	2.7%
Other international assets	23,983	0.4%	10,970	0.1%
Total International	$ 1,234,981	22.8%	$ 1,203,326	19.9%
Grand Total	$ 5,422,395	100.0%	$ 6,035,922	100.0%

(A) Gross Assets represents total assets plus accumulated depreciation/amortization assuming all real estate commitments as of the period end are fully funded.

(B) Includes both leased and loaned assets.

On an individual property basis, we had no investment of any single property greater than 2.3% of our total assets as of June 30, 2016.

4. Debt

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

	As of June 30, 2016 Balance	As of June 30, 2016 Interest Rate	As of December 31, 2015 Balance	As of December 31, 2015 Interest Rate
Revolving credit facility	$ 25,000	Variable	$ 1,100,000	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%	350,000	6.375%
Unamortized premium	1,991		2,168	
	351,991		352,168	
2013 Senior Unsecured Notes (A)	222,120	5.750%	217,240	5.750%
2014 Senior Unsecured Notes	300,000	5.500%	300,000	5.500%

2015 Senior Unsecured Notes (A)	555,300	4.000%	543,100	4.000%
2016 Senior Unsecured Notes	500,000	6.375%		
Term loans	263,253	Various	263,400	Various
	$ 2,792,664		$ 3,350,908	
Debt issue costs, net	(34,029)		(28,367)	
	$ 2,758,635		$ 3,322,541	

(A) These notes are Euro-denominated and reflect the exchange rate at June 30, 2016 and December 31, 2015, respectively.

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As of June 30, 2016, principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows (in thousands):

2016	$ 125,152(A)
2017	320
2018	37,781
2019	250,000
2020	222,120
Thereafter	2,155,300
Total	$ 2,790,673

(A) $65 million of our 2006 Senior Unsecured Notes were paid in full in July 2016, while the remaining $60 million will mature in October 2016.

On February 22, 2016, we completed a $500 million senior unsecured notes offering (2016 Senior Unsecured Notes), proceeds of which were used to repay borrowings under our revolving credit facility. Interest on the notes will be payable on March 1 and September 1 of each year, commencing on September 1, 2016. Interest on the notes will be paid in cash at a rate of 6.375% per year. The notes mature on March 1, 2024. We may redeem some or all of the notes at any time prior to March 1, 2019 at a make whole redemption price. On or after March 1, 2019, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to March 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 106.375% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

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 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 our 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%. The fair value of the interest rate swaps was $1.3 million and $2.9 million as of June 30, 2016 and December 31, 2015, 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 effect 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 June 30, 2016 and therefore, there was no income statement effect recorded during the three and six month periods ended June 30, 2016 or 2015. We do expect current losses included in accumulated other comprehensive loss to be reclassified into earnings through October 2016. At June 30, 2016 and December 31, 2015, we have posted $0.8 million and $1.7 million of collateral related to our interest rate swaps, respectively, which is reflected in other assets on our consolidated balance sheets.

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 term loan limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations (FFO), as defined in the agreements, on a rolling four quarter basis. At June 30, 2016, the dividend restriction was 95% of normalized adjusted FFO. The indentures governing our 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 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 term loan contain customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, secured leverage ratio, consolidated adjusted net worth, unsecured leverage ratio, and unsecured interest coverage ratio. This 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 June 30, 2016, we were in compliance with all such financial and operating covenants.

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At June 30, 2016, the unsecured leverage ratio covenant was 77.5%. In September 2016, the unsecured leverage ratio will reset to 65%. We are currently in compliance with the reset leverage covenant.

5. Common Stock/Partners Capital

Medical Properties Trust, Inc.

On March 1, 2016, we updated our at-the-market equity offering program, which gives us the ability to sell up to $227 million of stock with a commission rate of 1.25%. During the six months ended June 30, 2016, we sold approximately 3 million shares of our common stock under this program, resulting in net proceeds of approximately $45 million, after deducting approximately $0.6 million of commissions.

On January 14, 2015, we completed an underwritten public offering of 34.5 million shares (including the exercise of the underwriters 30-day option to purchase an additional 4.5 million shares) of our common stock, resulting in net proceeds of approximately $480 million, after deducting estimated offering expenses.

MPT Operating Partnership, L.P.

At June 30, 2016, the Company has a 99.83% ownership interest in the Operating Partnership with the remainder owned by three other partners, two of whom are employees and one of whom is a director. During the six months ended June 30, 2016 and 2015, the Operating Partnership issued 3 million units and 34.5 million units, respectively, in direct response to the common stock offerings by Medical Properties Trust, Inc.

6. Stock Awards

We adopted the 2013 Equity Incentive Plan (the Equity Incentive Plan) during the second quarter of 2013, which 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. The Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. We have reserved 8,196,770 shares of common stock for awards under the Equity Incentive Plan for which 5,615,497 shares remain available for future stock awards as of June 30, 2016. We awarded the following stock awards during 2016 and 2015:

Time-based awards We granted 45,528 shares to independent directors in 2016 and 217,177 shares to management, independent directors and certain employees in time-based restricted stock. These awards vest quarterly based on service, over three years, in equal amounts.

Performance-based awards Our management team and certain employees were awarded 176,046 shares of performance based awards in 2015. No such awards have been granted in 2016. These awards vest ratably over a three-year period based on the achievement of certain total shareholder return measures, with a carry-back and carry-forward provision through December 31, 2017. Dividends on these awards are paid only upon achievement of the performance measures.

Multi-year Performance-based awards We awarded 505,050 shares in 2015 of multi-year performance-based awards to management. No such awards have been granted in 2016. These shares are subject to three-year cumulative performance hurdles based on measures of total shareholder return. At the end of the three-year performance period, any earned shares will be subject to an additional two years of ratable time-based vesting on an annual basis. Dividends are paid on these shares only upon achievement of the performance measures.

7. 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 such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our senior unsecured notes (excluding our 2006 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, our revolving credit facility, 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.

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

Asset (Liability)	June 30, 2016 Book Value	June 30, 2016 Fair Value	December 31, 2015 Book Value	December 31, 2015 Fair Value
Interest and rent receivables	$ 47,699	$ 47,653	$ 46,939	$ 46,858
Loans (1)	590,037	623,399	508,851	543,859
Debt, net	(2,758,635)	(2,863,382)	(3,322,541)	(3,372,773)

(1) Excludes loans related to Ernest and Capella (2015 only) 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, which were acquired in 2012, 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 made in or prior to 2016, except for our investments in Capella that were disposed of in the 2016 second quarter.

At June 30, 2016, these amounts were as follows (in thousands):

Asset Type	Fair Value	Cost	Asset Type Classification
Mortgage loans	$ 101,762	$ 101,762	Mortgage loans
Acquisition and other loans	116,867	116,867	Other loans
Equity investments	3,300	3,300	Other assets
	$ 221,929	$ 221,929	

Our mortgage loans with Ernest are recorded at fair value based on Level 2 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our acquisition loans 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 marketability discount (DLOM) on our equity investment of 40% at June 30, 2016.

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):

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Basis Point Change in Marketability Discount	Estimated Increase (Decrease) In Fair Value
+100 basis points	$ (54)
- 100 basis points	54

Because the fair value of Ernest investments noted above approximate their original cost, we did not recognize any unrealized gains/losses during the first half of 2016 or 2015.

8. Earnings Per Share/Common Unit

Medical Properties Trust, Inc.

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

	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015
Numerator:		
Income from continuing operations	$ 53,924	$ 22,489
Non-controlling interests share in continuing operations	(200)	(82)
Participating securities share in earnings	(132)	(250)
Income from continuing operations, less participating securities share in earnings	53,592	22,157
Income from discontinued operations attributable to MPT common stockholders		
Net income, less participating securities share in earnings	$ 53,592	$ 22,157
Denominator:		
Basic weighted-average common shares	238,082	208,071
Dilutive potential common shares	926	569
Dilutive weighted-average common shares	239,008	208,640

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Numerator:		
Income from continuing operations	$ 112,150	$ 58,465
Non-controlling interests share in continuing operations	(498)	(161)
Participating securities share in earnings	(276)	(516)
Income from continuing operations, less participating securities share in earnings	111,376	57,788

Loss from discontinued operations attributable to MPT common stockholders	(1)	
Net income, less participating securities share in earnings	$ 111,375	$ 57,788
Denominator:		
Basic weighted-average common shares	237,796	205,515
Dilutive potential common shares	617	612
Dilutive weighted-average common shares	238,413	206,127

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MPT Operating Partnership, L.P.

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

	For the Three Months Ended June 30, 2016	2015
Numerator:		
Income from continuing operations	$ 53,924	$ 22,489
Non-controlling interests share in continuing operations	(200)	(82)
Participating securities share in earnings	(132)	(250)
Income from continuing operations, less participating securities share in earnings	53,592	22,157
Income from discontinued operations attributable to MPT Operating Partnership partners		
Net income, less participating securities share in earnings	$ 53,592	$ 22,157
Denominator:		
Basic weighted-average units	238,082	208,071
Dilutive potential units	926	569
Dilutive weighted-average units	239,008	208,640

	For the Six Months Ended June 30, 2016	2015
Numerator:		
Income from continuing operations	$ 112,150	$ 58,465
Non-controlling interests share in continuing operations	(498)	(161)
Participating securities share in earnings	(276)	(516)
Income from continuing operations, less participating securities share in earnings	111,376	57,788
Loss from discontinued operations attributable to MPT Operating Partnership partners	(1)	
Net income, less participating securities share in earnings	$ 111,375	$ 57,788
Denominator:		
Basic weighted-average units	237,796	205,515
Dilutive potential units	617	612

Dilutive weighted-average units	238,413	206,127

9. Commitments and Contingencies

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.

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10. Subsequent Events

Stock Issuance

During the month of July, we sold 2.7 million shares of common stock under our at-the-market program generating net proceeds of $41.1 million.

Bond Issuance

On July 22, 2016, we completed a $500 million senior unsecured notes offering. Interest on the notes will be payable on February 1 and August 1 of each year, commencing on February 1, 2017. Interest on the notes will be paid in cash at a rate of 5.25% per year. The notes mature on August 1, 2026. We may redeem some or all of the notes at any time prior to August 1, 2021 at a make whole redemption price. On or after August 1, 2021, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to August 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 105.25% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

We used the net proceeds from this offering to redeem our $450 million 2011 bonds, which will be completed on August 12, 2016. We expect to incur a one-time charge related to the redemption of approximately $23 million.

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

The following discussion and analysis of the consolidated financial condition and consolidated results of operations are presented on a combined basis for Medical Properties Trust and MPT Operating Partnership, L.P. as there are no material differences between these two entities.

The following discussion and analysis of the consolidated financial condition and consolidated results of operations should be read together with the condensed consolidated financial statements and notes thereto contained in this Form 10-Q and the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

Forward-Looking Statements.

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results or future performance, achievements or transactions or events to be materially different from those expressed or implied by such forward-looking statements, including, but not limited to, the risks described in our Annual Report on Form 10-K and as updated in our quarterly reports on Form 10-Q for future periods, and current reports on Form 8-K as we file them with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. Such factors include, among others, the following:

- U.S. (both national and local) and European (in particular Germany, the United Kingdom, Spain, and Italy) 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 real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a REIT for U.S. federal and state income tax purposes;
- our ability to attract and retain qualified personnel;
- changes in foreign currency exchange rates;
- U.S. (both federal and state) and European (in particular Germany, the United Kingdom, Spain, and Italy) healthcare and other regulatory requirements; and
- U.S. national and local economic conditions, as well as conditions in Europe and any other foreign jurisdictions where we own or will own healthcare facilities, which may have a negative effect on the following, among other things:
  - the financial condition of our tenants, our lenders, 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, 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.

Key Factors that May Affect Our Operations

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

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

admission levels and surgery/procedure/diagnosis volumes by type;

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

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

trends in the source of our tenants or borrowers revenue, including the relative mix of public payors (including Medicare, Medicaid/MediCal, managed care in the U.S. and pension funds in Germany) and private payors (including commercial insurance and private pay patients);

the effect of evolving healthcare regulations on our tenants and borrowers profitability; and

the competition and demographics of the local and surrounding areas in which the tenants or borrowers operate.

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

trends in the cost and availability of capital, including market interest rates, that our prospective tenants may use for their real estate assets instead of financing their real estate assets through lease structures;

changes in healthcare regulations that may limit the opportunities for physicians to participate in the ownership of healthcare providers and healthcare real estate;

reductions in reimbursements from Medicare, state healthcare programs, and commercial insurance providers that may reduce our tenants or borrowers profitability and our lease rates;

competition from other financing sources; and

the ability of our tenants and borrowers to access funds in the credit markets.

CRITICAL ACCOUNTING POLICIES

Refer to our 2015 Annual Report on Form 10-K, for a discussion of our critical accounting policies, which include revenue recognition, investment in real estate, purchase price allocation, loans, losses from rent receivables, stock-based compensation, our fair value option election, and our accounting policy on consolidation. During the six months ended June 30, 2016, there were no material changes to these policies.

Overview

We are a self-advised real estate investment trust (REIT) focused on investing in and owning net-leased healthcare facilities across the U.S. and selectively in foreign jurisdictions. We have operated as a REIT since April 6, 2004, and accordingly, elected REIT status upon the filing of our calendar year 2004 federal income tax return. Medical Properties Trust, Inc. was incorporated under Maryland law on August 27, 2004, and MPT Operating Partnership, L.P. was formed under Delaware law on September 10, 2003. We conduct substantially all of our business through MPT Operating Partnership, L.P. We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases, which require the tenant to bear most of the costs associated with the property. We also make mortgage loans to healthcare operators collateralized by their real estate assets. In addition, we selectively make loans to certain of our operators through our taxable REIT subsidiaries, the proceeds of which are typically used for acquisitions and working capital. Finally, from time to time, we acquire a profits or other equity interest in our tenants that gives us a right to share in such tenant s profits and losses.

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At June 30, 2016, our portfolio consisted of 209 properties leased or loaned to 27 operators, of which 14 are under development and 12 are in the form of mortgage loans.

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

	As of June 30, 2016	% of Total	As of December 31, 2015	% of Total
Real estate owned (gross)	$ 4,074,020	79.6%	$ 3,924,701	70.0%
Mortgage loans	549,337	10.7%	757,581	13.5%
Other loans	259,329	5.1%	664,822	11.9%
Other assets	235,247	4.6%	262,247	4.6%
Total assets (1)	$ 5,117,933	100.0%	$ 5,609,351	100.0%

(1) Includes $1.2 billion and $1.3 billion of healthcare real estate assets in Europe at June 30, 2016 and December 31, 2015, respectively.

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

Revenue by property type:

	For the Three Months Ended June 30, 2016	% of Total	For the Three Months Ended June 30, 2015	% of Total
General Acute Care Hospitals (1)	$ 76,468	60.5%	$ 55,868	56.0%
Rehabilitation Hospitals	38,265	30.3%	30,528	30.6%
Long-term Acute Care Hospitals	11,567	9.2%	13,405	13.4%
Total revenue	$ 126,300	100.0%	$ 99,801	100.0%

	For the Six Months Ended June 30, 2016	% of Total	For the Six Months Ended June 30, 2015	% of Total
General Acute Care Hospitals (1)	$ 159,978	61.2%	$ 109,921	56.1%
Rehabilitation Hospitals	76,388	29.3%	58,994	30.2%
Long-term Acute Care Hospitals	24,933	9.5%	26,847	13.7%
Total revenue	$ 261,299	100.0%	$ 195,762	100.0%

(1) Includes three medical office buildings.

We have 54 employees as of August 1, 2016. We believe that any foreseeable increase in the number of our employees will have only immaterial effects on our operations and general and administrative expenses. We believe that our relations with our employees are good. None of our employees are members of any labor union.

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Results of Operations

Three Months Ended June 30, 2016 Compared to June 30, 2015

Net income for the three months ended June 30, 2016, was $53.7 million, compared to $22.4 million for the three months ended June 30, 2015. This increase is due primarily to additional revenue from MEDIAN and Capella, completed development projects, and gains on real estate disposals, along with a reduction in acquisition expenses. Funds from operations (FFO), after adjusting for certain items (as more fully described in Reconciliation of Non-GAAP Financial Measures), was $75.5 million, or $0.32 per diluted share for the 2016 second quarter as compared to $62.9 million, or $0.30 per diluted share for the 2015 second quarter. This 20% increase in FFO is primarily due to the increase in revenue from acquisitions and loan investments made since June 2015 along with the completion of development properties in 2016.

A comparison of revenues for the three month periods ended June 30, 2016 and 2015 is as follows (dollar amounts in thousands):

	2016	% of Total	2015	% of Total	Year over Year Change
Rent billed	$ 77,960	61.7%	$ 53,893	54.0%	44.7%
Straight-line rent	8,551	6.8%	5,252	5.3%	62.8%
Income from direct financing leases	13,552	10.7%	12,808	12.8%	5.8%
Interest and fee income	26,237	20.8%	27,848	27.9%	(5.8)%
Total revenues	$ 126,300	100.0%	$ 99,801	100.0%	26.6%

Our total revenue for the 2016 second quarter is up $26.5 million or 26.6% over the prior year. This increase is made up of the following:

Operating lease revenue (including rent billed and straight-line rent) up $27.4 million over the prior year of which $0.1 million is from our annual escalation provisions in our leases, $24.6 million is from incremental revenue from acquisitions made after June 2015, and $5.2 million is incremental revenue from development properties that were completed and put into service in 2015 and 2016. These increases are partially offset by a $0.5 million straight-line rent write-off related to our Corinth facility in the 2016 second quarter and $1.8 million of lower revenue related to dispositions post June 30, 2015.

Income from direct financing leases up $0.7 million over the prior year of which $0.2 million is from our annual escalation provisions in our leases and $3.0 million is from incremental revenue from acquisitions made after June 2015, offset by a $2.6 million write-off of direct financing lease non-cash income related to the Capella Transaction.

Interest from loans down $1.6 million over the prior year primarily attributable to approximately $11 million of revenue in 2015 from loans that were converted to real estate in connection with the MEDIAN Transaction on or after June 30, 2015 (see Note 3 to Item 1 of this Form 10-Q for further details). This decrease in revenue was partially offset by $9.5 million of additional interest in 2016 from new loans made on or after June 30, 2015.

Real estate depreciation and amortization during the second quarter of 2016 increased to $22.8 million from $15.0 million in 2015, due to the incremental depreciation from the properties acquired since June 30, 2015 and the development properties completed in 2015 and 2016. In the 2016 second quarter, we accelerated the amortization of the lease intangible asset related to our Corinth facility resulting in $1.1 million of additional expense.

Acquisition expenses decreased from $25.8 million in 2015 to $4.8 million in 2016 primarily as a result of the MEDIAN acquisitions in 2015, including approximately $21.5 million of real estate transfer taxes.

During the three months ended June 30, 2016, we had various dispositions resulting in a net gain on sale of real estate and other asset dispositions of $16.6 million and impairment charges of $7.4 million (see Note 3 to Item 1 of this Form 10-Q for further details).

General and administrative expenses totaled $12.0 million for the 2016 second quarter, which is 9.5% of total revenues compared to 10.7% in the 2015 second quarter. The decline in general and administrative expenses as a percentage of revenue is primarily due to our business model as we can generally increase our revenue significantly without increasing our head count and related expenses at the same rate. On a dollar basis, general and administrative expenses were up $1.4 million from the prior year second quarter due to higher international administrative expenses from the growth and expansion of our company along with approximately $0.8 million of higher professional expenses that we do not expect to incur next quarter. We expect general and administrative expenses to be in the $11 million range next quarter.

Interest expense, for the quarters ended June 30, 2016 and 2015, totaled $41.5 million and $26.9 million, respectively. This increase is primarily related to higher average debt balances in the current year quarter associated with our 2015 and 2016 Senior Unsecured Notes and our expanded credit facility. Our weighted average interest rate is 4.9% for the quarter ended June 30, 2016, which is a slight increase from 4.8% in 2015 due to obtaining more permanent financing in 2016. See Note 4 to our Condensed Consolidated Financial Statements in Item 1 to this Form 10-Q for further information on our debt activities.

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Income tax expense typically includes U.S. federal and state income taxes on our TRS entities, as well as non-U.S. income based or withholding taxes on certain investments located in jurisdictions outside the U.S. The income tax expense for the three months ended June 30, 2016, was primarily due to our European investments. We utilize the asset and liability method of accounting for income taxes. Deferred tax assets are recorded to the extent we believe these assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based upon our review of all positive and negative evidence, including our three-year cumulative pre-tax book loss position in many entities, we concluded that a full valuation allowance should continue to be recorded against the majority of our U.S and foreign net deferred tax assets at June 30, 2016. In the future, if we determine that it is more likely than not that we will realize our U.S. and foreign net deferred tax assets, we will reverse the applicable portion of the valuation allowance, recognize an income tax benefit in the period in which such determination is made, and incur higher income taxes in future periods.

Six Months Ended June 30, 2016 Compared to June 30, 2015

Net income for the six months ended June 30, 2016, was $111.7 million compared to net income of $58.3 million for the six months ended June 30, 2015, primarily due to additional revenue from MEDIAN and Capella, completed development projects, and gains on real estate disposals, along with a reduction in acquisition expenses. FFO, after adjusting for certain items (as more fully described in Reconciliation of Non-GAAP Financial Measures), was $159.0 million, or $0.67 per diluted share for the first six months in 2016 as compared to $119.8 million, or $0.58 per diluted share for the first six months of 2015. This 33% increase in FFO is primarily due to the increase in revenue from acquisitions and completed development projects made since June 2015.

A comparison of revenues for the six month periods ended June 30, 2016 and 2015 is as follows (dollar amounts in thousands):

	2016	**% of Total**	**2015**	**% of Total**	**Year over Year Change**
Rent billed	$ 152,021	58.2%	$ 106,994	54.7%	42.1%
Straight-line rent	16,768	6.4%	9,980	5.1%	68.0%
Income from direct financing leases	32,503	12.4%	25,363	12.9%	28.2%
Interest and fee income	60,007	23.0%	53,425	27.3%	12.3%
Total revenues	$ 261,299	100.0%	$ 195,762	100.0%	33.5%

Our total revenue for the first six months of 2016 is up $65.5 million or 33.5% over the prior year. This increase is made up of the following:

- Operating lease revenue (including rent billed and straight-line rent) up $51.8 million over the prior year of which $0.2 million is from our annual escalation provisions in our leases, $47.0 million is from incremental revenue from acquisitions made after June 2015, and $9.3 million is incremental revenue from development properties that were completed and put into service in 2015 and 2016. These increases are partially offset by a $0.5 million straight-line rent write-off related to our Corinth facility in the 2016 second quarter and $2.3

million related to dispositions.

Income from direct financing leases up $7.1 million over the prior year of which $0.4 million is from our annual escalation provisions in our leases and $9.1 million is from incremental revenue from acquisitions made after June 2015, offset by a $2.6 million write-off of direct financing lease non-cash income related to the Capella Transaction.

Interest from loans up $6.6 million over the prior year of which $26.5 million is from incremental revenue in 2016 from acquisitions (primarily from the Capella Transaction), partially offset by $20.2 million of interest revenue in 2015 from loans that were converted to real estate on or after June 30, 2015 in connection with the MEDIAN Transaction see Note 3 to Item 1 of this Form 10-Q for further details.

Real estate depreciation and amortization during the first six months of 2016 increased to $44.0 million from $29.7 million in the same period of 2015 due to the incremental depreciation from the properties acquired and the development properties completed in 2015 and 2016. In the 2016 second quarter, we accelerated the amortization of the lease intangible asset related to our Corinth facility resulting in $1.1 million of additional expense.

Acquisition expenses decreased from $32.0 million in 2015 to $3.7 million in 2016 primarily as a result of the MEDIAN acquisitions in 2015, including $21.5 million of real estate transfer taxes.

During the six months ended June 30, 2016, we had various dispositions resulting in a net gain on sale of real estate and other asset dispositions of $16.7 million and impairment charges of $7.4 million (see Note 3 to Item 1 of this Form 10-Q for further details).

Earnings from our equity interests declined from $2.0 million of income in the first six months of 2015 to a loss of $(3.8) million in 2016. The loss in 2016 includes $5.3 million of acquisition expenses, representing our share of such expenses incurred by our Italian joint venture to acquire its eight hospital properties.

General and administrative expenses in the first six months of 2016 totaled $23.5 million, which is 9.0% of revenues down from 11.0% of revenues in the prior year. The decline in general and administrative expenses as a percentage of revenues is primarily due to our business model as we can generally increase our revenues significantly without increasing our head count and related expense at the same rate. On a dollar basis, general and administrative expenses were up $2.0 million from the prior year first six months due to higher international administrative expenses, which are up as a result of the growth and expansion of our company, and $0.8 million of non-recurring other professional fees.

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Interest expense for the first six months of 2016 and 2015 totaled $80.9 million and $53.6 million, respectively. This increase is related to higher average debt balances in the current year associated with our 2015 and 2016 Senior Unsecured Notes and our expanded credit facility. Our weighted average interest rate is slightly lower period over period 4.7% for the first six months of 2016 and 5.1% for the first six months of 2015. See Note 4 to our Condensed Consolidated Financial Statements in Item 1 to this Form 10-Q for further information on our debt activities.

Reconciliation of Non-GAAP Financial Measures

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. 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 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.

The following table presents a reconciliation of net income attributable to MPT common stockholders to FFO for the three and six months ended June 30, 2016 and 2015 (in thousands, except per share data):

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
FFO information:				
Net income attributable to MPT common stockholders	$ 53,724	$ 22,407	$ 111,651	$ 58,304
Participating securities share in earnings	(132)	(250)	(276)	(516)
Net income, less participating securities share in earnings	$ 53,592	$ 22,157	$ 111,375	$ 57,788

Depreciation and amortization	23,335	14,956	44,807	29,712
Gain on sale of real estate	(22,613)		(22,653)	
Funds from operations	$ 54,314	$ 37,113	$ 133,529	$ 87,500
Write-off of straight line rent and other	3,063		3,063	
Transaction costs from non-real estate dispositions	5,975		5,975	
Acquisition expenses	4,801	25,809	9,034	32,048
Impairment charges	7,375		7,375	
Unutilized financing fees / debt refinancing costs			4	238
Normalized funds from operations	$ 75,528	$ 62,922	$ 158,980	$ 119,786

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	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Per diluted share data:				
Net income, less participating securities share in earnings	$ 0.22	$ 0.11	$ 0.47	$ 0.28
Depreciation and amortization	0.10	0.07	0.18	0.14
Gain on sale of real estate	(0.09)		(0.09)	
Funds from operations	$ 0.23	$ 0.18	$ 0.56	$ 0.42
Write-off of straight line rent and other	0.01		0.01	
Transaction costs from non-real estate dispositions	0.03		0.03	
Acquisition expenses	0.02	0.12	0.04	0.16
Impairment charges	0.03		0.03	
Unutilized financing fees / debt refinancing costs				
Normalized funds from operations	$ 0.32	$ 0.30	$ 0.67	$ 0.58

LIQUIDITY AND CAPITAL RESOURCES

2016 Cash Flow Activity

During the first half of 2016, we generated $137.3 million of cash flows from operating activities, primarily consisting of rent and interest from mortgage and other loans. We used these operating cash flows along with cash on-hand to fund our dividends of $104.8 million and certain investing activities.

On February 22, 2016, we completed the 2016 Senior Unsecured Notes offering for $500 million. On April 30, 2016, we closed on the Capella Transaction (as further discussed in Note 3 to Item 1 of this Form 10-Q) resulting in net proceeds of $550 million along with an additional $50 million once we sold our investment in RegionalCare bonds in June 2016. On May 23, 2016, we sold our investment in five properties leased and operated by Post Acute for $71 million. On June 17, 2016, we sold our investment in one property leased and operated by Corinth Investor Holdings for $28 million. Finally, during June, we sold 3 million shares under our at-the-market offering program realizing net proceeds of approximately $45 million. We used these proceeds to reduce our revolving credit facility by $1.1 billion during 2016 and fund our remaining investing activities.

Subsequent to June 30, 2016, we sold an additional 2.7 million shares of common stock under our at-the-market program generating net proceeds of $41.1 million. On July 13, 2016, we completed a new $500 million senior unsecured notes offering. We used the net proceeds from this offering to redeem our $450 million 2011 Senior Unsecured Notes, which will be completed on August 12, 2016. Net proceeds from the bond offering and redemption will approximate $19 million, and we expect to incur a one-time charge related to the redemption of approximately $23 million (see Note 10 to Item 1 of this Form 10-Q for further details). Finally, on July 20, 2016, we sold three facilities leased to HealthSouth for $111.5 million.

2015 Cash Flow Activity

During the six months ended June 30, 2015, we generated $87.4 million of cash flow from operating activities, primarily consisting of rent and interest from mortgage and other loans. We used these operating cash flows along with cash on-hand to fund our dividends of $84.5 million and certain investing activities including the additional funding of our development activities.

On January 14, 2015, we completed an underwritten public offering of 34.5 million shares (including the exercise of the underwriters 30-day option to purchase an additional 4.5 million shares) of our common stock, resulting in net proceeds of approximately $480 million, after deducting estimated offering expenses. We used the net proceeds from this offering along with $81 million from our revolving credit facility to fund our acquisitions and new loan investments in 2015.

Short-term Liquidity Requirements: As of June 30, 2016, we have $125.2 million in debt principal payments due in 2016 see debt maturity schedule below. At August 1, 2016, our availability under our revolving credit facility plus cash on-hand approximated $1.5 billion. We have an at-the-market equity offering program under which we may sell up to an additional $140 million in shares, which may be used for general corporate purposes as needed. We believe any excess availability in our revolving credit facility, our current monthly cash receipts from rent and loan interest, and the availability under our at-the-market equity offering program is sufficient to fund our operations, debt and interest obligations, our firm commitments (including capital expenditures, if any, and expected funding requirements on our development projects), and dividends in order to comply with REIT requirements for the next twelve months.

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Long-term Liquidity Requirements: Exclusive of the revolving credit facility (which we can extend for an additional year to June 2019), we have less than $150 million in debt principal payments due between now and June 2019 (see debt maturity schedule below). With our liquidity at August 1, 2016 of approximately $1.5 billion along with our current monthly cash receipts from rent and loan interest and with the availability under our at-the-market equity offering program, we believe we have the liquidity available to us to fund our operations, debt and interest obligations, dividends in order to comply with REIT requirements, and firm commitments (including capital expenditures, if any, and expected funding requirements on our development projects) currently.

However, access to capital is an integral part of our business plan. In order to fund debt maturities coming due in 2019 and later years, and as we consider strategic investment opportunities, while maintaining compliance with our debt covenants (as described in Note 4 to Item 1 of this Form 10-Q), we believe additional capital may be needed and we may access one or a combination of the following:

- sale of equity securities,
- proceeds from strategic property or other asset sales,
- entering into new bank term loans,
- issuing of new U.S. dollar or euro denominated debt securities, including senior unsecured notes,
- entering into joint venture arrangements, and/or
- amending our current credit facility.

However, there is no assurance that conditions will be favorable for such possible transactions or that our plans will be successful.

As of June 30, 2016, principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows (in thousands):

2016	$ 125,152(A)
2017	320
2018	37,781
2019	250,000
2020	222,120
Thereafter	2,155,300
Total	$ 2,790,673

(A) $65 million of our 2006 Senior Unsecured Notes were paid in full in July 2016, while the remaining $60 million will mature in October 2016.

Disclosure of Contractual Obligations

We presented our contractual obligations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Except for the issuance of the 2016 Senior Unsecured Notes and the subsequent pay down of our revolving credit facility from this bond issuance and asset disposals, there have been no significant changes in those obligations during the six months ended June 30, 2016. See Note 4 of Item 1 of this Form 10-Q for more detailed information.

The following table updates our contractual obligations schedule for the reduction in our revolving credit facility and for the 2016 Senior Unsecured Notes offering (in thousands):

Contractual Obligations	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**	**Total**
Revolving credit facility (1)	$ 4,368	$ 29,222	$	$	$ 33,590
2016 Senior Unsecured Notes	32,583	63,750	63,750	595,625	755,708

(1) As of June 30, 2016, we have a $1.3 billion revolving credit facility. However, this table assumes the balance outstanding under the revolver and rate in effect at June 30, 2016 remain in effect through maturity.

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Distribution Policy

The table below is a summary of our distributions declared during the two year period ended June 30, 2016:

Declaration Date	Record Date	Date of Distribution	Distribution per Share	
May 19, 2016	June 16, 2016	July 14, 2016	$	0.23
February 19, 2016	March 17, 2016	April 14, 2016	$	0.22
November 12, 2015	December 10, 2015	January 14, 2016	$	0.22
August 20, 2015	September 17, 2015	October 15, 2015	$	0.22
May 14, 2015	June 11, 2015	July 9, 2015	$	0.22
February 23, 2015	March 12, 2015	April 9, 2015	$	0.22
November 13, 2014	December 4, 2014	January 8, 2015	$	0.21
August 21, 2014	September 18, 2014	October 15, 2014	$	0.21

We intend to pay to our stockholders, within the time periods prescribed by the Internal Revenue Code (Code), all or substantially all of our annual taxable income, including taxable gains (if any) from the sale of real estate and recognized gains on the sale of securities. It is our policy to make sufficient cash distributions to stockholders in order for us to maintain our status as a REIT under the Code and to avoid corporate income and excise taxes on undistributed income. See Note 4 to our condensed consolidated financial statements in Item 1 to this Form 10-Q for any restrictions placed on dividends by our new credit facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates.

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

Our primary exposure to market risks relates to fluctuations in interest rates and foreign currency. The following analyses present the sensitivity of the market value, earnings and cash flows of our significant financial instruments to hypothetical changes in interest rates and exchange rates as if these changes had occurred. The hypothetical changes chosen for these analyses reflect our view of changes that are reasonably possible over a one-year period. These forward looking disclosures are selective in nature and only address the potential impact from these hypothetical changes. They do not include other potential effects which could impact our business as a result of changes in market conditions. In addition, they do not include measures we may take to minimize our exposure such as entering into future interest rate swaps to hedge against interest rate increases on our variable rate debt.

Interest Rate Sensitivity

For fixed rate debt, interest rate changes affect the fair market value but do not impact net income to common stockholders or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact net income to common stockholders and cash flows, assuming other factors are held constant. At June 30, 2016, our outstanding debt totaled $2.8 billion, which consisted of fixed-rate debt of $2.5 billion (including $125 million of floating debt swapped to fixed) and variable rate debt of $0.3 billion. If market interest rates increase by 1%, the fair value of our debt at June 30, 2016 would decrease by $4.2 million. Changes in the fair value of our fixed rate debt will not have any impact on us unless we decided to repurchase the debt in the open market.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by $0.1 million per year. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by $0.1 million per year. This assumes that the average amount outstanding under our variable rate debt for a year is $0.3 billion, the balance of such variable rate debt at June 30, 2016.

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Foreign Currency Sensitivity

With our investments in Germany and throughout Europe, we are subject to fluctuations in the Euro and British Pound to U.S. dollar currency exchange rates. Increases or decreases in the value of the Euro to U.S. dollar and the British Pound to U.S. dollar exchange rates may impact our financial condition and/or our results of operations. Based solely on operating results to-date in 2016 and on an annualized basis, if the Euro exchange rate were to change by 5%, our FFO would change by approximately $3.0 million. Based solely on operating results to-date in 2016 and on an annualized basis, if the British Pound exchange rate were to change by 5%, our FFO would change by approximately $0.2 million.

Item 4. Controls and Procedures.

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

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Our Adjusted EBITDA is dependent upon our relationship with, and success of, our largest tenants, Prime, MEDIAN, Ernest, Adeptus Health and RCCH.

As of June 30, 2016, affiliates of Prime, MEDIAN, Ernest, Adeptus Health and RCCH leased or mortgaged facilities representing 21%, 19%, 11%, 9% and 9%, respectively, of our total gross assets assuming all current real estate commitments (such as remaining commitments on ongoing development projects) are fully funded.

Our relationship with these operators and their financial performance and resulting ability to satisfy their lease and loan obligations to us are material to our financial results and our ability to service our debt. We are dependent upon the ability of these operators to make rent and loan payments to us, and any failure or delay to meet these obligations could have a material adverse effect on our financial condition and results of operations.

In addition, the healthcare industry is highly regulated by federal, state, and local laws, and is directly affected by federal conditions of participation, state licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations, and rules. We are aware of various federal and state inquiries, investigations, and other proceedings currently affecting several of our tenants and would expect such governmental compliance and enforcement activities to be ongoing at any given time with respect to one or more of our tenants, either on a confidential or public basis. During the second quarter of 2016, the Department of Justice joined a lawsuit against Prime alleging irregular admission practices intended to increase the number of inpatient care admissions of Medicare patients, including unnecessarily classifying some patients as inpatient rather than observation . Other large acute hospital operators have also recently defended such allegations, sometimes resulting in financial settlements and agreements with regulators to modify admission policies, resulting in lower reimbursements for those patients.

An adverse result to Prime or one of our other largest tenants in one or more such governmental proceedings may have a material adverse effect on the relevant tenant s operations and financial condition and on its ability to make required lease and mortgage payments to us. In instances where we have an equity investment in our tenants operations, in addition to the effect on these tenants ability to meet their financial obligation to us, our ownership and investment interests may also be negatively impacted.

The United Kingdom s anticipated exit from the European Union could adversely affect us.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union, known as Brexit. Negotiations are expected to commence to determine the future terms of the United Kingdom s relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, may adversely affect us.

We currently hold, and may acquire additional, interests in healthcare facilities located in the United Kingdom and Europe, as well as other investments that are denominated in British Pounds and Euros. In addition, our operating partnership has issued, and may issue in the future, senior unsecured notes denominated in Euros. Any of the effects of Brexit described above, and others we cannot anticipate, could have a material adverse effect on our business, the value of our real estate and other investments, and our potential growth in Europe, and could amplify the currency risks faced by us.

There have been no material changes to the Risk Factors as presented in our Annual Report on Form 10-K for the year ended December 31, 2015 other than what is noted above.

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

(a) None.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

(a) None.

(b) None.

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Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. (Medical Properties Trust, Inc.)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. (Medical Properties Trust, Inc.)
31.3	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. (MPT Operating Partnership, L.P.)
31.4	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. (MPT Operating Partnership, L.P.)
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Medical Properties Trust, Inc.)
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Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

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

MEDICAL PROPERTIES TRUST, INC.

By: /s/ J. Kevin Hanna
J. Kevin Hanna
Vice President, Controller, Assistant
Treasurer, and Chief Accounting Officer

(Principal Accounting Officer)

MPT OPERATING PARTNERSHIP, L.P.

By: /s/ J. Kevin Hanna
J. Kevin Hanna
Vice President, Controller, Assistant

Treasurer, and Chief Accounting Officer

of the sole member of the general partner

of MPT Operating Partnership, L.P.

(Principal Accounting Officer)
Date: August 9, 2016

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