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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-32559

Commission file number 333-177186

MEDICAL PROPERTIES TRUST, INC.

MPT OPERATING PARTNERSHIP, L.P.

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	20-0191742
DELAWARE	20-0242069
(State or other jurisdiction of	(I. R. S. Employer

incorporation or organization) Identification No.)

1000 URBAN CENTER DRIVE, SUITE 501

BIRMINGHAM, AL	35242
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	(Medical Properties Trust, Inc. only)	Accelerated filer
Non-accelerated filer	(MPT Operating Partnership, L.P. only)	Smaller reporting company
	(Do not check if a smaller reporting company)	Emerging growth company

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

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

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

EXPLANATORY NOTE

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

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

AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED March 31, 2018

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

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

See accompanying notes to condensed consolidated financial statements.

3

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

4

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

6

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

See accompanying notes to condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Net Income

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

8

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

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

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

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

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

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

2. Summary of Significant Accounting Policies

Unaudited Interim Condensed Consolidated Financial Statements: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information, including rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

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

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

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

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

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

Recent Accounting Developments:

Leases

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

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

Reclassifications and Revisions

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

Variable Interest Entities

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

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

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

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

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

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

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

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

3. Real Estate and Lending Activities

Acquisitions

We acquired the following assets (in thousands):

	Three Months Ended March 31, 2018	2017
Assets Acquired		
Land	$—	$1,230
Building	—	6,901
Intangible lease assets — subject to amortization	—	873
Total assets acquired	$—	$9,004

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

Development Activities

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

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

Property	Commitment	Costs Incurred as of	Estimated Completion Date

		March 31, 2018	
Circle Health (Birmingham, England)	$ 45,211	$ 18,369	1Q 2019
Surgery Partners (Idaho Falls, Idaho)	113,468	16,753	1Q 2020
	$ 158,679	$ 35,122	

Disposals

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

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

Leasing Operations

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

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

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

Adeptus Health

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

Gilbert and Florence Facilities

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

Loans

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

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

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

Concentrations of Credit Risk

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

Revenue by Operator

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

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

Revenue by U.S. State and Country

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

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

Gross Assets by Operator

As of March 31, 2018	As of December 31, 2017

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

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

Gross Assets by U.S. State and Country

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

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

4. Debt

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

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

	$4,898,364	$ 4,898,667

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

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

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

2018	$—
2019	—
2020	