MEDICAL PROPERTIES TRUST INC
Form 10-Q
May 10, 2016
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2016**

**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 incorporation or organization)** | **(I. R. S. Employer 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 x 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 x No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x (Medical Properties Trust, Inc. only) | Accelerated filer | ¨ |
| Non-accelerated filer | x (MPT Operating Partnership, L.P. only)<br>(Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

As of May 5, 2016, Medical Properties Trust, Inc. had 237,871,522 shares of common stock, par value $0.001, outstanding.

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## EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three months ended March 31, 2016 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.

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**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, 2016**

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## 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, 2016 (Unaudited) | December 31, 2015 (Note 2) |
|---|---|---|
| **Assets** | | |
| Real estate assets | | |
| Land, buildings and improvements, intangible lease assets, and other | $ 3,395,836 | $ 3,297,705 |
| Mortgage loans | 757,578 | 757,581 |
| Net investment in direct financing leases | 630,482 | 626,996 |
| Gross investment in real estate assets | 4,783,896 | 4,682,282 |
| Accumulated depreciation and amortization | (280,099) | (257,928) |
| Net investment in real estate assets | 4,503,797 | 4,424,354 |
| Cash and cash equivalents | 206,410 | 195,541 |
| Interest and rent receivables | 50,467 | 46,939 |
| Straight-line rent receivables | 90,791 | 82,155 |
| Other loans | 663,259 | 664,822 |
| Other assets | 195,671 | 195,540 |
| **Total Assets** | **$ 5,710,395** | **$ 5,609,351** |
| **Liabilities and Equity** | | |
| Liabilities | | |
| Debt, net | $ 3,396,604 | $ 3,322,541 |
| Accounts payable and accrued expenses | 139,443 | 137,356 |
| Deferred revenue | 21,585 | 29,358 |
| Lease deposits and other obligations to tenants | 16,615 | 12,831 |
| Total liabilities | 3,574,247 | 3,502,086 |
| 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 237,242 shares at March 31, 2016 and 236,744 shares at December 31, 2015 | 237 | 237 |
| Additional paid in capital | 2,595,725 | 2,593,827 |
| Distributions in excess of net income | (413,108) | (418,650) |
| Accumulated other comprehensive loss | (51,482) | (72,884) |

| | | |
|---|---|---|
| Treasury shares, at cost | (262) | (262) |
| Total Medical Properties Trust, Inc. Stockholders Equity | 2,131,110 | 2,102,268 |
| Non-controlling interests | 5,038 | 4,997 |
| Total Equity | 2,136,148 | 2,107,265 |
| **Total Liabilities and Equity** | **$ 5,710,395** | **$ 5,609,351** |

See accompanying notes to condensed consolidated financial statements.

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**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, 2016 | 2015 |
|---|---|---|
| **Revenues** | | |
| Rent billed | $ 74,061 | $ 53,100 |
| Straight-line rent | 8,217 | 4,728 |
| Income from direct financing leases | 18,951 | 12,555 |
| Interest and fee income | 33,770 | 25,578 |
| Total revenues | 134,999 | 95,961 |
| **Expenses** | | |
| Real estate depreciation and amortization | 21,142 | 14,756 |
| Property-related | 901 | 351 |
| General and administrative | 11,471 | 10,905 |
| Acquisition expenses | (1,065) | 6,239 |
| Total operating expenses | 32,449 | 32,251 |
| Operating income | 102,550 | 63,710 |
| **Other income (expense)** | | |
| Other income (expense) | 369 | (796) |
| Earnings (loss) from equity and other interests | (5,001) | 103 |
| Interest expense | (39,373) | (26,666) |
| Income tax expense | (319) | (375) |
| Net other expense | (44,324) | (27,734) |
| **Income from continuing operations** | 58,226 | 35,976 |
| Loss from discontinued operations | (1) | |
| Net income | 58,225 | 35,976 |
| Net income attributable to non-controlling interests | (298) | (79) |
| **Net income attributable to MPT common stockholders** | **$ 57,927** | **$ 35,897** |
| **Earnings per common share basic** | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.24 | $ 0.18 |
| Loss from discontinued operations attributable to MPT common stockholders | | |
| Net income attributable to MPT common stockholders | $ 0.24 | $ 0.18 |

| | | |
|---|---|---|
| **Weighted average shares outstanding basic** | 237,510 | 202,958 |
| **Earnings per common share diluted** | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.24 | $ 0.17 |
| Loss from discontinued operations attributable to MPT common stockholders | | |
| Net income attributable to MPT common stockholders | $ 0.24 | $ 0.17 |
| **Weighted average shares outstanding diluted** | 237,819 | 203,615 |
| **Dividends declared per common share** | **$ 0.22** | **$ 0.22** |

See accompanying notes to condensed consolidated financial statements.

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**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

| **(In thousands)** | **For the Three Months Ended March 31, 2016** | **2015** |
|---|---|---|
| Net income | $ 58,225 | $ 35,976 |
| Other comprehensive income: | | |
| Unrealized gain on interest rate swap | 815 | 585 |
| Foreign currency translation gain (loss) | 20,587 | (59,593) |
| Total comprehensive income (loss) | 79,627 | (23,032) |
| Comprehensive income (loss) attributable to non-controlling interests | (298) | (79) |
| Comprehensive income (loss) attributable to MPT common stockholders | $ 79,329 | $ (23,111) |

See accompanying notes to condensed consolidated financial statements.

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**MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| | For the Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| **Operating activities** | | |
| Net income | $ 58,225 | $ 35,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,694 | 15,074 |
| Direct financing lease interest accretion | (2,612) | (1,604) |
| Straight-line rent revenue | (8,217) | (4,728) |
| Share-based compensation | 2,020 | 2,825 |
| Amortization and write-off of deferred financing costs and debt discount | 1,835 | 1,377 |
| Other adjustments | (3,178) | (1,290) |
| Changes in: | | |
| Interest and rent receivables | (3,453) | 667 |
| Accounts payable and accrued liabilities | 3,022 | (6,271) |
| Net cash provided by operating activities | 69,336 | 42,026 |
| **Investing activities** | | |
| Cash paid for acquisitions and other related investments | | (165,700) |
| Principal received on loans receivable | 1,954 | 1,466 |
| Investment in loans receivable | | (80,301) |
| Construction in progress and other | (55,301) | (46,511) |
| Net cash used for investing activities | (53,347) | (291,046) |
| **Financing activities** | | |
| Revolving credit facilities, net | (455,000) | (285,000) |
| Proceeds from term debt | 500,000 | |
| Payments of term debt | (74) | (71) |
| Distributions paid | (52,402) | (38,461) |
| Proceeds from sale of common shares, net of offering costs | | 479,966 |
| Lease deposits and other obligations to tenants | 3,371 | (15,319) |
| Debt issuance costs paid and other financing activities | (8,173) | (126) |
| Net cash (used for) provided by financing activities | (12,278) | 140,989 |
| Increase (decrease) in cash and cash equivalents for period | 3,711 | (108,031) |
| Effect of exchange rate changes | 7,158 | (2,962) |
| Cash and cash equivalents at beginning of period | 195,541 | 144,541 |

| | | |
|---|---|---|
| **Cash and cash equivalents at end of period** | **$ 206,410** | **$ 33,548** |
| Interest paid | $ 26,470 | $ 22,832 |
| Supplemental schedule of non-cash financing activities: | | |
| Distributions declared, unpaid | $ 52,386 | $ 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) | March 31, 2016 (Unaudited) | December 31, 2015 (Note 2) |
|---|---|---|
| **Assets** | | |
| Real estate assets | | |
| Land, buildings and improvements, intangible lease assets, and other | $ 3,395,836 | $ 3,297,705 |
| Mortgage loans | 757,578 | 757,581 |
| Net investment in direct financing leases | 630,482 | 626,996 |
| Gross investment in real estate assets | 4,783,896 | 4,682,282 |
| Accumulated depreciation and amortization | (280,099) | (257,928) |
| Net investment in real estate assets | 4,503,797 | 4,424,354 |
| Cash and cash equivalents | 206,410 | 195,541 |
| Interest and rent receivables | 50,467 | 46,939 |
| Straight-line rent receivables | 90,791 | 82,155 |
| Other loans | 663,259 | 664,822 |
| Other assets | 195,671 | 195,540 |
| **Total Assets** | **$ 5,710,395** | **$ 5,609,351** |
| **Liabilities and Capital** | | |
| Liabilities | | |
| Debt, net | $ 3,396,604 | $ 3,322,541 |
| Accounts payable and accrued expenses | 86,731 | 84,628 |
| Deferred revenue | 21,585 | 29,358 |
| Lease deposits and other obligations to tenants | 16,615 | 12,831 |
| Payable due to Medical Properties Trust, Inc. | 52,322 | 52,338 |
| Total liabilities | 3,573,857 | 3,501,696 |
| Capital | | |
| General Partner issued and outstanding 2,368 units at March 31, 2016 and 2,363 units at December 31, 2015 | 21,848 | 21,773 |
| Limited Partners: | | |
| Common units issued and outstanding 234,874 units at March 31, 2016 and 234,381 units at December 31, 2015 | 2,161,134 | 2,153,769 |
| LTIP units issued and outstanding 292 units at March 31, 2016 and December 31, 2015 | | |
| Accumulated other comprehensive loss | (51,482) | (72,884) |
| Total MPT Operating Partnership, L.P. Capital | 2,131,500 | 2,102,658 |
| Non-controlling interests | 5,038 | 4,997 |

| | | |
|---|---|---|
| Total capital | 2,136,538 | 2,107,655 |
| **Total Liabilities and Capital** | **$ 5,710,395** | **$ 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)

| | For the Three Months Ended March 31, | |
|---|---|---|
| **(In thousands, except per unit amounts)** | **2016** | **2015** |
| **Revenues** | | |
| Rent billed | $ 74,061 | $ 53,100 |
| Straight-line rent | 8,217 | 4,728 |
| Income from direct financing leases | 18,951 | 12,555 |
| Interest and fee income | 33,770 | 25,578 |
| Total revenues | 134,999 | 95,961 |
| **Expenses** | | |
| Real estate depreciation and amortization | 21,142 | 14,756 |
| Property-related | 901 | 351 |
| General and administrative | 11,471 | 10,905 |
| Acquisition expenses | (1,065) | 6,239 |
| Total operating expenses | 32,449 | 32,251 |
| Operating income | 102,550 | 63,710 |
| **Other income (expense)** | | |
| Other income (expense) | 369 | (796) |
| Earnings (loss) from equity and other interests | (5,001) | 103 |
| Interest expense | (39,373) | (26,666) |
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| **Income from continuing operations** | 58,226 | 35,976 |
| Loss from discontinued operations | (1) | |
| Net income | 58,225 | 35,976 |
| Net income attributable to non-controlling interests | (298) | (79) |
| **Net income attributable to MPT Operating Partnership partners** | **$ 57,927** | **$ 35,897** |
| **Earnings per units basic** | | |
| Income from continuing operations attributable to MPT Operating Partnership partners | $ 0.24 | $ 0.18 |
| Loss from discontinued operations attributable to MPT Operating Partnership partners | | |
| Net income attributable to MPT Operating Partnership partners | $ 0.24 | $ 0.18 |

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| **Weighted average units outstanding basic** | 237,510 | 202,958 |
| **Earnings per units diluted** | | |
| Income from continuing operations attributable to MPT Operating Partnership partners | $ 0.24 | $ 0.17 |
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| **Weighted average units outstanding diluted** | 237,819 | 203,615 |
| **Dividends declared per unit** | **$ 0.22** | **$ 0.22** |

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**MPT OPERATING PARTNERSHIP, L.P. AND SUBSIDIARIES**

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

| (In thousands) | For the Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Net income | $ 58,225 | $ 35,976 |
| Other comprehensive income: | | |
| Unrealized gain on interest rate swap | 815 | 585 |
| Foreign currency translation gain (loss) | 20,587 | (59,593) |
| Total comprehensive income (loss) | 79,627 | (23,032) |
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(Unaudited)

| | For the Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| **Operating activities** | | |
| Net income | $ 58,225 | $ 35,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
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| Amortization and write-off of deferred financing costs and debt discount | 1,835 | 1,377 |
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| Accounts payable and accrued expenses | 3,022 | (6,271) |
| Net cash provided by operating activities | 69,336 | 42,026 |
| **Investing activities** | | |
| Cash paid for acquisitions and other related investments | | (165,700) |
| Principal received on loans receivable | 1,954 | 1,466 |
| Investment in loans receivable | | (80,301) |
| Construction in progress and other | (55,301) | (46,511) |
| Net cash used for investing activities | (53,347) | (291,046) |
| **Financing activities** | | |
| Revolving credit facilities, net | (455,000) | (285,000) |
| Proceeds from term debt | 500,000 | |
| Payments of term debt | (74) | (71) |
| Distributions paid | (52,402) | (38,461) |
| Proceeds from sale of common shares, net of offering costs | | 479,966 |
| Lease deposits and other obligations to tenants | 3,371 | (15,319) |
| Debt issuance costs paid and other financing activities | (8,173) | (126) |
| Net cash (used for) provided by financing activities | (12,278) | 140,989 |
| Increase (decrease) in cash and cash equivalents for period | 3,711 | (108,031) |
| Effect of exchange rate changes | 7,158 | (2,962) |
| Cash and cash equivalents at beginning of period | 195,541 | 144,541 |

| | | |
|---|---|---|
| **Cash and cash equivalents at end of period** | **$ 206,410** | **$ 33,548** |
| Interest paid | $ 26,470 | $ 22,832 |
| Supplemental schedule of non-cash financing activities: | | |
| Distributions declared, unpaid | $ 52,386 | $ 46,026 |

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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 ( 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 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 month period ended March 31, 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 three months ended March 31, 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.

*Variable Interest Entities*

At March 31, 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 ) and Capella Healthcare, Inc. ( Capella ). 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, 2016 (in thousands):

| **VIE Type** | **Maximum Loss Exposure(1)** | **Asset Type Classification** | **Carrying Amount(2)** |
|---|---|---|---|
| Loans, net | $ 998,447 | Mortgage and other loans | $ 921,503 |
| Equity investments | $ 55,489 | Other assets | $ 6,239 |

(1) Our maximum loss exposure related to loans with VIEs represents our current aggregate gross carrying value of the loan plus accrued interest and any other related assets (such as rents receivable), less any liabilities. Our maximum loss exposure related to our equity investment in VIEs 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, 2016, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

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

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

**3. Real Estate and Lending Activities**

*Acquisitions*

We acquired the following assets (in thousands):

| | Three Months Ended March 31, 2016 | Three Months Ended March 31, 2015 |
|---|---|---|
| **Assets Acquired** | | |
| Land | $ | $ 14,844 |
| Building | | 87,914 |
| Intangible lease assets subject to amortization (weighted average useful life 20 years) | | 7,242 |
| Mortgage loans | | 40,000 |
| Net investments in direct financing leases | | 10,700 |
| Other loans | | 5,000 |
| Total assets acquired | $ | $ 165,700 |

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On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. Affiliates of Prime Healthcare Services, Inc. ( Prime ) is the tenant and operator pursuant to a master lease with 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.

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 initial 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.

*Development Activities*

During the 2016 first quarter, we completed construction and began recording rental income on five acute care facilities that are leased to Adeptus Health Inc. ( Adeptus Health ), pursuant to the 2014 master lease agreement. In the first quarter of 2016, we began construction on four additional facilities pursuant to the master funding and development agreement with Adeptus Health executed in 2014.

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

| **Operator** | **Commitment** | **Costs Incurred as of March 31, 2016** | **Estimated Completion Date** |
|---|---|---|---|
| Ernest | $ 19,212 | $ 16,894 | 2Q 2016 |
| Adeptus Health | 12,639 | 8,734 | 2Q 2016 |
| Adeptus Health | 62,155 | 36,257 | 3Q 2016 |
| Adeptus Health | 61,997 | 8,745 | 2Q 2017 |
| Adeptus Health | 123,033 | | Various |
| | **$ 279,036** | **$ 70,630** | |

*Leasing Operations*

All of our leases are accounted for as operating leases except for the master lease of 15 Ernest facilities, five Prime facilities, and four Capella facilities which 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, 2016** | **As of December 31, 2015** |
|---|---|---|
| Minimum lease payments receivable | $ 2,571,638 | $ 2,587,912 |
| Estimated residual values | 393,970 | 393,097 |
| Less: Unearned income | (2,335,126) | (2,354,013) |

| | | |
|---|---|---|
| Net investment in direct financing leases | $ 630,482 | $ 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 operate the facility and has made payments of approximately $1.5 million in 2016. We called their letter of credit for approximately $0.5 million in the 2016 first quarter. At March 31, 2016, we have less than $0.1 million of receivables outstanding with this tenant (net of reserves). Although no assurances can be made that we will not have any impairment charges or write-offs of receivables in the future, we believe our investment in Twelve Oaks at March 31, 2016 is fully recoverable.

*Loans*

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

| | **As of March 31, 2016** | **As of December 31, 2015** |
|---|---|---|
| Mortgage loans | $ 757,578 | $ 757,581 |
| Acquisition loans | 610,003 | 610,469 |
| Working capital and other loans | 53,256 | 54,353 |
| | $ 1,420,837 | $ 1,422,403 |

Our non-mortgage loans typically consist of loans to our tenants for acquisitions and working capital purposes. At March 31, 2016, acquisition loans includes $114.4 million in loans to Ernest plus $487.7 million related to Capella (which was repaid in full as of April 30, 2016 see Note 10 for further details).

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 March 31, 2016, $3.3 million remains outstanding on the convertible note, and we retain the option, subject to regulatory approvals, to convert this remainder into an additional 15.1% equity interest in the operator.

*Concentrations of Credit Risk*

Our revenue concentration for the three months ended March 31, 2016 as compared to the prior year is as follows (dollars in thousands):

***Revenue by Operator***

| | For the Three Months Ended March 31, 2016 | | For the Three Months Ended March 31, 2015 | |
|---|---|---|---|---|
| **Operators** | **Total Revenue** | **Percentage of Total Revenue** | **Total Revenue** | **Percentage of Total Revenue** |
| Prime | $ 28,897 | 21.4% | $ 24,021 | 25.0% |
| MEDIAN | 23,510 | 17.4% | 15,210 | 15.9% |
| Capella | 21,477 | 15.9% | | |