MEDICAL PROPERTIES TRUST INC
Form 424B5
March 14, 2017
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Registration No. 333-213027

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, nor are they soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated March 14, 2017

P R O S P E C T U S S U P P L E M E N T

(To Prospectus dated August 9, 2016)

500,000,000

MPT OPERATING PARTNERSHIP, L.P.

MPT FINANCE CORPORATION

% Senior Notes due 2025

Unconditionally Guaranteed by

Medical Properties Trust, Inc.

MPT Operating Partnership, L.P., a Delaware limited partnership (the Operating Partnership), and MPT Finance Corporation, a Delaware corporation (Finco and, together with the Operating Partnership, the Issuers), are offering, as co-issuers, 500,000,000 aggregate principal amount of % senior notes due 2025 (the Notes). The Notes will mature on , 2025. The Issuers will pay interest on the Notes annually in arrears on of each year. Interest will accrue on the Notes offered hereby from , 2017 and the first interest payment date will be ,

2018.

The Issuers may redeem some or all of the Notes at any time and from time to time at our option. The redemption prices are described under the heading Description of Notes Optional Redemption. In addition, the Issuers may redeem the Notes in whole but not in part in the event of certain developments affecting United States taxation as described under the heading Description of Notes Redemption for Changes in Taxes. The Issuers must offer to purchase the Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the purchase date, if we experience a change of control under certain circumstances.

The Notes will be the Issuers senior unsecured obligations and will be fully and unconditionally guaranteed (the Guarantee) by the Issuers parent company, Medical Properties Trust, Inc. a Maryland corporation (Medical Properties and, as guarantor of the Notes, the Guarantor). The Notes and the Guarantee will rank equally in right of payment with all of the Issuers and the Guarantor s existing and future senior indebtedness and will rank senior in right of payment to any future indebtedness that is subordinated to the Notes and the Guarantee. The Notes and the Guarantee will be effectively subordinated to all of the Issuers and the Guarantor s secured indebtedness to the extent of the value of the collateral securing such indebtedness. The Notes and the Guarantee will be structurally subordinated to all indebtedness and other liabilities of any of the Issuers subsidiaries and the Guarantor s subsidiaries (other than the Issuers).

Investing in the Notes involves risks. See Risk Factors beginning on page S-14 of this prospectus supplement.

	Public offering price[(1)]	**Underwriting discount**	**Proceeds, before expenses, to the Issuers[(1)]**
Per Note	%	%	%
Total			

(1) Plus accrued interest, if any, from , 2017, if settlement occurs after that date.

Neither the Securities and Exchange Commission 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.

Currently there is no market for the Notes. Application will be made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its Global Exchange Market. No certainty can be given that this application will be granted, and we cannot assure you that an active trading market for the Notes will develop.

The Notes will be issued only in minimum denominations of 100,000 and integral multiples of 1,000 in excess thereof.

We expect that delivery of the Notes to the purchasers will be made on or about , 2017 only in book-entry form through the facilities of Clearstream Banking, SA and Euroclear Bank, SA/NV.

Joint Book-Running Managers

Crédit Agricole CIB **Goldman, Sachs & Co.**

BBVA **Barclays** **BofA Merrill Lynch** **Credit Suisse**

J.P. Morgan **Wells Fargo Securities**

Co-Lead Managers

KeyBanc Capital Markets **MUFG** **RBC Capital Markets** **Scotiabank** **Stifel** **SunTrust Robinson Humphrey**

The date of this prospectus supplement is , 2017.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read this entire document, including this prospectus supplement, the accompanying prospectus, the documents incorporated herein and therein by reference and any free writing prospectus that we authorize to be delivered to you. In the event that the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. The accompanying prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission (SEC) using a shelf registration statement. Under the shelf registration process, from time to time, we may offer and sell securities in one or more offerings.

This prospectus supplement and the accompanying prospectus contain, or incorporate by reference, forward-looking statements. Such forward-looking statements should be considered together with the cautionary statements and important factors included or referred to in this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference. Please see Cautionary Language Regarding Forward-Looking Statements in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we authorize to be delivered to you. We have not authorized anyone to provide information different from that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any such free writing prospectus. If anyone provides you with different or additional information, you should not rely on it. This prospectus supplement, the accompanying prospectus and any authorized free writing prospectus are not an offer to sell or the solicitation of an offer to buy any securities other than the Notes, nor is this prospectus supplement, the accompanying prospectus or any authorized free writing prospectus an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should assume that the information contained in this prospectus supplement, the accompanying prospectus, the documents incorporated herein and therein by reference and any authorized free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless the context requires or otherwise indicates, references in this prospectus to we, our, us or our company refer MPT Operating Partnership, L.P., a Delaware limited partnership, its consolidated subsidiaries, together with Medical Properties Trust, LLC, a Delaware limited liability company and MPT Operating Partnership, L.P. s sole general partner, and Medical Properties Trust, Inc., a Maryland corporation and the sole member of Medical Properties Trust, LLC. References to the Operating Partnership are to MPT Operating Partnership, L.P. References to Finco are to MPT Finance Corporation, a Delaware corporation and a wholly owned subsidiary of the Operating Partnership. References to the Issuers are to the Operating Partnership and Finco, the co-Issuers of the Notes. References to Medical Properties are to Medical Properties Trust, Inc. As of the date hereof, Medical Properties has a 99.9% equity ownership interest in the Operating Partnership.

NOTICE TO CERTAIN EUROPEAN INVESTORS

IN CONNECTION WITH THIS ISSUE, CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK (THE STABILIZING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF

THE STABILIZING MANAGER) WILL UNDERTAKE SUCH ACTION. ANY STABILIZING ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH

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ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES TAKES PLACE AND, IF BEGUN, MAY BE DISCONTINUED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZING ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE UNDERWRITING.

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CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement, the accompanying prospectus, any documents we incorporate by reference herein and therein and in any free writing prospectus we authorize to be delivered to you constitute forward-looking statements within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in 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)) and are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business strategy;
- our projected operating results;
- our ability to close the remaining New MEDIAN Transactions and the RCCH Transactions (each as defined in Prospectus Supplement Summary Recent Developments) on the time schedule or terms described herein or at all;
- our ability to acquire or develop additional facilities in the United States or Europe;
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases and loans;
- our ability to raise additional funds through offerings of debt and equity securities and/or property disposals;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to service our debt and comply with all of our debt covenants;
- our intended use of proceeds from this offering of Notes;

- our ability to compete in the marketplace;
- lease rates and interest rates;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an

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investment decision with respect to the Notes offered hereby, along with, among others, the following factors that could cause actual results to vary from our forward-looking statements:

- factors referenced in this prospectus supplement, including those set forth under the section captioned Risk Factors and factors referenced in documents incorporated by reference in this prospectus supplement, including those set forth under the sections captioned Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business in the combined Annual Report of Medical Properties and the Operating Partnership on Form 10-K for the year ended December 31, 2016 (our 2016 10-K);
- the risk that a condition to closing under the agreements governing any or all of the Transactions (as defined in Prospectus Supplement Summary Recent Developments) that have not closed as of the date hereof may not be satisfied;
- the possibility that the anticipated benefits from any or all of the Transactions will take longer to realize than expected or will not be realized at all;
- U.S. (both national and local) and European (in particular Germany, the United Kingdom, Spain and Italy) political, 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;
- adverse developments affecting the financial health of one or more of our tenants, including insolvency;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;

our ability to maintain our status as a real estate investment trust (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 may in the future 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 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, comply with debt covenants and our future interest expense; and

- the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

When we use the words believe, expect, may, potential, anticipate, estimate, plan, will, could, inter expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained in this prospectus supplement, the accompanying prospectus, any documents we incorporate by reference herein and therein or any free writing prospectus we authorize to be delivered to you to reflect future events or developments.

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CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

In this prospectus supplement, references to:

$, dollars, $U.S., USD or U.S. dollar refer to the lawful currency of the United States; and

, EUR or euro refer to the lawful currency of the member states of the European Monetary Union that have adopted or that adopt the single currency in accordance with the treaty establishing the European Community, as amended by the Treaty on European Union, as amended from time to time.

We present our consolidated financial statements in U.S. dollars. The following table shows, for the periods indicated, the period end, average, high and low noon buying rates in the City of New York for cable transfers of euro as certified for customs purposes by the Federal Reserve Bank of New York, expressed as U.S. dollars per 1.00.

	U.S. dollars per 1.00			
Period	**End**	**Average(1)**	**High**	**Low**
Year				
2014	1.2101	1.3297	1.3927	1.2101
2015	1.0859	1.1096	1.2015	1.0524
2016	1.0552	1.1072	1.1516	1.0375
Month				
January 2017	1.0794	1.0635	1.0794	1.0416
February 2017	1.0618	1.0650	1.0802	1.0551
March 1 through March 10, 2017	1.0667	1.0575	1.0667	1.0514

(1) The average of the noon buying rates for each business day during the relevant year, month or period.

The noon buying rate of the euro on March 10, 2017 was $1.0667 per 1.00.

The above rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this prospectus supplement. We have provided these exchange rates solely for the convenience of potential investors. Our inclusion of these exchange rates is not meant to suggest that the euro amounts actually represent such dollar amounts or that such amounts could have been converted into dollars at any particular rate, if at all.

Unless noted otherwise, all translations between euros and U.S. dollars in this prospectus supplement are based on an exchange rate of 1.3285 USD, 1.1102 USD and 1.1069 USD per euro for operating data for the years ended December 31, 2014, 2015 and 2016, respectively, and 1.0783 USD per euro for operating data for the three months ended December 31, 2016. Balance sheet data as of December 31, 2015 is based on an exchange rate of 1.0862 USD per euro and balance sheet date as of December 31, 2016 is based on an exchange rate of 1.0517 USD per euro. The applicable exchange rates in effect at the time additional euro-denominated transactions are completed in the future may be higher or lower.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere in the prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein and therein. This summary does not contain all of the information that may be important to you or that you should consider before making an investment decision. You should read carefully this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the information under the heading Risk Factors, the financial data and other information included in or incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus we authorize to be delivered to you before making an investment decision.

Our Company

Medical Properties is a self-advised REIT listed on the New York Stock Exchange (NYSE) focused on investing in and owning net-leased healthcare facilities across the United States and selectively in foreign jurisdictions. Medical Properties conducts substantially all of its business through the Operating Partnership. 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 acquisition and working capital purposes. Finally, from time to time, we acquire a profits or other equity interest in our tenants that gives us a right to share in these tenants profits and losses.

As of December 31, 2016, our portfolio consisted of 231 properties leased to or mortgaged by 30 operators, of which six properties were under development, 12 properties were in the form of mortgage loans and 33 properties were subject to long-term ground leases. As of December 31, 2016, our properties located in United States and Europe consisted of the following:

- 133 general acute care hospitals;
- 78 inpatient rehabilitation hospitals;
- 17 long-term acute care hospitals; and
- 3 medical office buildings.

Medical Properties (Registration No. D07550106) was incorporated under Maryland law on August 27, 2003, the Operating Partnership (Registration No. 3701429) was formed under Delaware law on September 10, 2003 and MPT Finance Corporation (Registration No. 4964092) was incorporated under Delaware law on April 4, 2011. Medical Properties conducts substantially all of its business through the Operating Partnership. Medical Properties has operated as a REIT since April 6, 2004, and elected REIT status upon the filing of its federal income tax return for its taxable year that ended on December 31, 2004. The Operating Partnership will be considered the issuer of the Notes for purposes of the International Central Securities Depository.

Our principal executive offices are located at 1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242. Our telephone number is (205) 969-3755. Our Internet address is www.medicalpropertiestrust.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement, the accompanying prospectus or any other report or document we file with the SEC that is incorporated by reference herein or therein. For additional information, see Where You Can Find More Information in the accompanying prospectus and Incorporation by Reference in this prospectus supplement and the accompanying prospectus.

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Recent Developments

New MEDIAN Transactions

Overview

In July and September 2016, we entered into agreements to acquire the real estate assets of 26 non-acute hospitals in Germany, which will be leased to affiliates of Median Kliniken S.a.r.l. (MEDIAN). The acquisitions are subject to certain closing conditions and regulatory approvals. We expect the acquisition of the real estate and the additional investments in the equity of MEDIAN to maintain our 5.1% interest to approximate 270 million (exclusive of any acquisition costs such as real estate transfer taxes). The properties are expected to be joined to the existing master lease or a new master lease agreement with MEDIAN that will have terms similar to the existing master lease. The existing master lease had an initial term of 27 years with annual escalators at the greater of one percent or 70% of the German consumer price index. We closed on 13 of the acquisitions prior to the date of this prospectus supplement for approximately 94 million, and we expect the remaining transactions to close in the first half of 2017. In this prospectus supplement, we refer to the transactions described in this paragraph with respect to MEDIAN as the New MEDIAN Transactions.

Financing

We financed the New MEDIAN Transactions that closed prior to the date hereof with cash on hand. We intend to finance the remaining New MEDIAN Transactions, including the related costs, expenses and real estate transfer taxes, with a portion of the net proceeds from this offering of Notes. The closing of the remaining New MEDIAN Transactions is not conditioned upon the closing of this offering of Notes. No assurance can be given that any of the remaining New MEDIAN Transactions will occur as described herein or at all. To the extent the remaining New MEDIAN Transactions are not consummated, we intend to use the portion of the net proceeds from this offering that we otherwise would have used to finance the remaining New MEDIAN Transactions for general corporate purposes, which may include debt repayment and funding future acquisitions and investments.

RCCH Transactions

On September 28, 2016, we entered into a definitive agreement to purchase the real estate assets of two general acute care hospitals in Lewiston, Idaho and Pasco, Washington for approximately $105 million. Upon closing, we will lease the real estate to RCCH HealthCare Partners (RCCH) pursuant to the existing master lease that had an initial term of 13.5 years with four 5-year extension options and annual consumer price-indexed increases, limited to a 2% floor and a 4% ceiling. We intend to finance the purchase, which is expected to close in the first half of 2017, with borrowings under our revolving credit facility and cash on hand. We refer to these transactions together as the RCCH Transactions. No assurance can be given that we will consummate the RCCH Transactions on the terms described herein or at all and this offering of Notes is not conditioned upon the closing of such transactions.

Other Recent Activity

On February 1, 2017, we entered into a new revolving credit and term loan facility (the Senior Credit Facilities), which is comprised of a $1.3 billion unsecured revolving credit facility, a $200 million unsecured term loan facility (the USD term loan facility), and a 200 million unsecured term loan (the EUR term loan facility). The Senior Credit Facilities replaced our then existing $1.3 billion senior unsecured revolving credit facility and $250 million unsecured term loan facility. The new unsecured revolving credit facility matures February 1, 2021 and can be extended for an additional 12 months at our option. The USD term loan facility matures on February 1, 2022 and the EUR term loan

facility matures on January 31, 2020, and can be extended for an additional 12 months at our option. The commitment fee on the total facility is paid at a rate of 0.25%. The term loan and the revolving loan commitments under the Senior Credit Facilities may be increased in an aggregate amount not to exceed $500 million.

On March 4, 2017, we redeemed in full 200 million aggregate principal amount of our 5.750% Senior Notes due 2020 using the proceeds from the EUR term loan facility, together with cash on hand.

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With the new Senior Credit Facilities and the redemption of the 5.750% Senior Notes due 2020, we expect to incur a one-time debt refinancing charge of approximately $13 million in the first quarter of 2017 (of which $9 million relates to the redemption premium).

We collectively refer to all of the transactions described in Recent Developments and the funding of approximately $30 million of development projects and capital additions since December 31, 2016, along with the 23.5 million of contingent consideration to be paid to MEDIAN in connection with the original transactions, as the Transactions. See Risk Factors Risks Related to the Transactions We may fail to consummate the remaining New MEDIAN Transactions and the RCCH Transactions or may not consummate them on the terms described herein.

Benefits of the New MEDIAN Transactions and the RCCH Transactions

Enhances Size, Quality and Diversity of our Portfolio. As described in more detail below, we believe that the New MEDIAN Transactions and the RCCH Transactions described above will enhance the size and quality of our healthcare portfolio and add diversity by property type, operator and geographic location. The following shows our portfolio as of December 31, 2016, after giving effect to the Transactions and assumes all committed development activities are fully funded:

Global Property Type **U.S. Property Type**

By Operator

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International Diversification

(A) Includes free standing ERs.
(B) Percentages aggregate to 79.5%, which equals our U.S. concentration.

* Percentages in all charts are based on our total gross assets. Total gross assets is total assets at December 31, 2016 plus accumulated depreciation/amortization and reflects the consummation of the Transactions and assumes all committed development activities are fully funded.

Increases to Adjusted EBITDA. The Transactions are expected to increase our Adjusted EBITDA (as defined in footnote (6) to Summary Historical Consolidated Financial Data).

*Expands Our Size and Scale***.** When fully consummated and development projects fully funded, the Transactions will significantly expand our total gross assets to $7.1 billion, increase the total number of properties in our portfolio to 247, and increase our total number of beds to approximately 27,000.

Further Increases Portfolio Diversification. Pro forma for the Transactions, no single asset in our portfolio of healthcare investments will represent more than 3.3% of total gross assets and our largest tenant will represent only 17.5% of total gross assets.

Extends Our Lease and Mortgage Loan Maturity Schedule. The Transactions will have the effect of extending our overall weighted average lease and mortgage loan expiration to 14.1 years, pro forma as of December 31, 2016. Pro forma for the Transactions, as of December 31, 2016, approximately 70% of the total annualized rent/interest of our portfolio of healthcare properties will have lease and mortgage loan expirations beyond 2026, with average annual lease and mortgage loan maturities of approximately 2.9% per annum through 2026.

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Adeptus Health, Inc. (Adeptus Health) Update

On March 2, 2017, Adeptus Health, our sixth largest tenant, advised in a filing with the SEC that it would be delayed in the filing of its Annual Report on Form 10-K for the fiscal year ended December 31, 2016 due principally to the additional time required to complete its analysis of impairment of goodwill, intangible assets and investments in unconsolidated subsidiaries and evaluation of the need to write down its deferred tax assets. In the filing, Adeptus Health further advised that it had identified material weaknesses with respect to internal control over financial reporting in the areas of revenue recognition, accounts receivable, accounting for a contribution to an unconsolidated joint venture, and accounting for equity in (loss) earnings of unconsolidated joint ventures. In addition, Adeptus Health s filing disclosed that there is substantial doubt about its ability to continue as a going concern absent its securing committed long-term financing. As of the date hereof, Adeptus Health has not filed its Annual Report on Form 10-K, and we have not been able to fully analyze its financial position. We believe that a bankruptcy filing in the near term by Adeptus Health is likely.

At December 31, 2016, we have no outstanding receivables due from Adeptus Health. Furthermore, Adeptus Health is current on its rent obligations to us through the date of this prospectus supplement. In addition, we currently hold letters of credit approximating $12.4 million to cover defaults in rent payments. These letters of credit would cover approximately four months of rent.

See Risk Factors Risks Related to Our Business Adeptus Health, our sixth largest tenant, has announced a cash shortfall and identified material weaknesses in its internal controls and financial reporting and may file for bankruptcy protection in the near term. If we are required to find one or more replacement tenants to lease one or more properties currently leased by Adeptus Health, we may face delays and increased costs in locating a suitable replacement tenant.

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THE OFFERING

The offering terms are summarized below solely for your convenience. This summary is not a complete description of the Notes. You should read the full text and more specific details contained elsewhere in this prospectus supplement. For a more detailed description of the Notes, see Description of Notes in this prospectus supplement. For purposes of this section entitled The Offering and the Description of Notes, references to we, us and our refer only to MPT Operating Partnership, L.P. and MPT Finance Corporation, the Issuers of the Notes, and not to their subsidiaries or any other entity, including the Guarantor.

Issuers	MPT Operating Partnership, L.P. and MPT Finance Corporation, as co-issuers.
Guarantor	Medical Properties Trust, Inc.
Securities Offered	500 million aggregate principal amount of % senior notes due 2025.
Issue Price	% plus accrued interest, if any, from 2017.
Maturity Date	The Notes will mature on , 2025.
Interest	The Notes will accrue interest at a rate of % per year, payable in arrears on of each year, commencing , 2018, until maturity or earlier redemption or repurchase.
Optional Redemption	The Notes will be redeemable in whole at any time or in part from time to time, at the Issuers option. If the Notes are redeemed prior to days before maturity, the redemption price will be equal to 100% of the principal amount thereof, plus a make-whole premium described in this prospectus supplement, plus accrued and unpaid interest up to, but excluding, the applicable redemption date. Within the period beginning on or after days before maturity, the Notes may be redeemed, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the applicable redemption date. For more details, see Description of Notes Optional Redemption.

Tax Redemption	In the event of certain changes in the tax laws of the United States (or any taxing authority in the United States) which would obligate the Issuers to pay Additional Amounts, the Issuers may redeem the Notes, in whole but not in part, at a redemption price equal to 100% plus accrued and unpaid interest up to, but excluding, the applicable redemption date. See Description of Notes Redemption for Changes in Taxes.
Change of Control; Certain Asset Sales	If a Change of Control (as defined in Description of Notes Certain Definitions) occurs, the Issuers will be required to make an offer to purchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the purchase date under certain circumstances. See Description of

	Notes Repurchase of Notes upon a Change of Control. If the Operating Partnership or any of its restricted subsidiaries sell assets, under certain circumstances the Issuers will be required to make an offer to purchase the Notes at a price equal to 100% of the principal amount, plus accrued interest and unpaid interest, if any, up to, but excluding, the purchase date. See Description of Notes Certain Covenants Limitation on Asset Sales.
Guarantee	The Notes will be fully and unconditionally guaranteed on a senior unsecured basis by Medical Properties and any of our U.S. domestic restricted subsidiaries that borrows under or guarantees borrowings under our Senior Credit Facilities in the future. The Notes offered hereby will not be guaranteed by any of our subsidiaries on the date of issuance.
Ranking	The Notes and Medical Properties guarantee of the Notes will be the Issuers and Medical Properties general senior unsecured obligations, will rank equal in right of payment with such entities existing and future senior indebtedness, including borrowings under our Senior Credit Facilities and our existing debt securities and will rank senior in right of payment to all of such entities future subordinated indebtedness; however, the Notes and the Guarantee will be effectively subordinated to all of the Issuers and Medical Properties secured indebtedness to the extent of the value of the collateral securing such indebtedness. The Notes and the Guarantee will also be structurally subordinated to the indebtedness and other liabilities of our subsidiaries with respect to the assets of such subsidiaries.
	As of December 31, 2016, after giving effect to the Transactions, the issuance of the Notes offered hereby and the use of proceeds therefrom as described in Use of Proceeds, the Issuers and Medical Properties would have had $3.3 billion of indebtedness (none of which would have been secured indebtedness) and the Issuers subsidiaries, none of which will guarantee the Notes on the date of issuance, would have had $13 million of indebtedness, all of which would have been structurally senior to the Notes and the Guarantee.
	In addition, as of December 31, 2016, after giving effect to the Transactions, this offering of Notes and the use of proceeds therefrom as described in Use of Proceeds, we would have had $0.5 billion of borrowings outstanding and $0.8 billion of availability under our revolving credit facility.
Certain Covenants	

The indenture governing the Notes will restrict the Issuers ability and the ability of their restricted subsidiaries to, among other things:

- incur debt;
- pay dividends and make distributions;
- create liens;
- enter into transactions with affiliates; and
- merge, consolidate or transfer all or substantially all of their assets.

	The indenture governing the Notes will also require the Issuers and their restricted subsidiaries to maintain total unencumbered assets of at least 150% of our collective unsecured debt.
	These covenants are subject to important exceptions and qualifications. See Description of Notes Certain Covenants. In addition, the indenture governing the Notes will provide that if the Notes have both (1) a rating of Baa3 or higher from Moody s Investors Service, Inc. (Moody s), and (2) a rating of BBB- or higher from Standard & Poor s Ratings Services (S&P), several material covenants included in the indenture will be suspended or become more lenient, as the case may be, if the Issuers provide notice of such ratings to the trustee, until such time as the Notes are no longer rated investment grade by both such rating agencies. See Description of Notes Certain Covenants Suspension of Covenants.
Additional Amounts	Subject to certain exceptions and limitations, the Issuers will pay such Additional Amounts (as defined in the section entitled Description of Notes Additional Amounts) on the Notes (or payments under the Guarantee in respect thereof) as may be necessary so that the net amount received by each holder of the Notes after all withholding or deductions, if any, will equal the respective amount the holder would have received in respect of such Note (or payments under the Guarantee in respect thereof) in the absence of such withholding or deduction. See Description of Notes Additional Amounts.
Listing	Application will be made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its Global Exchange Market. No assurance can be given that this application will be granted.
No Public Market	The Notes will be new securities for which there is currently no established trading market. The underwriters have advised us that they intend to make a market in the Notes. The underwriters are not obligated, however, to make a market in the Notes, and any such market-making may be discontinued by the underwriters in their discretion at any time without notice. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes. See Underwriting.
Currency of Payment	All payments of interest and principal, including payments made upon any redemption of the notes, will be made in euro. If the euro is unavailable to us due to the imposition of exchange controls or other circumstances beyond our control or if the euro is no longer being used by the then member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by

public institutions of or within the international banking community, then all payments in respect of the notes will be made in U.S. dollars until the euro is again available to us or so used. See Risk Factors Risks Related to the Notes and the Offering and Description of Notes Issuance in Euros in this prospectus supplement.

Form and Denomination	The Notes will be ready for delivery to investors in book-entry form through the facilities of Clearstream Banking *société anonyme* (Clearstream) and Euroclear Bank, S.A./N.V (Euroclear) on or about , 2017. The Notes will be issued in the form of one or more fully registered global securities in denominations of 100,000 in principal amount and integral multiples of 1,000 in excess thereof. Beneficial interests in the global certificates representing the Notes will be shown on, and transfers will be effected only through, records maintained by Euroclear and Clearstream and their direct and indirect participants and such interests may not be exchanged for certificated Notes, except in limited circumstances. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS1523028436 Common Code: 152302843
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately 496 million after deducting underwriting discounts and commissions and our estimated offering expenses. We intend to use approximately 200 million of the net proceeds from this offering to prepay and extinguish the 200 million of outstanding term loans under the EUR term loan facility portion of our Senior Credit Facilities, and accrued and unpaid interest thereon. We intend to use approximately 200 million of the remaining net proceeds from this offering to pay capital gain taxes from the original MEDIAN transactions, finance the closing of the remaining New MEDIAN Transactions, including related fees, expenses, and real estate transfer taxes, and the remaining net proceeds for general corporate purposes, which may include investing in additional healthcare properties. See Use of Proceeds.
Trustee	Wilmington Trust, National Association
Paying Agent, Registrar and Transfer Agent	Deutsche Bank Trust Company Americas
Irish Stock Exchange Listing Agent	McCann FitzGerald Listing Services Limited
Governing Law	New York

Risk Factors	Investment in the Notes involves risk. You should carefully consider the information under the section titled Risk Factors and all other information included and incorporated by reference in this prospectus supplement before investing in the Notes.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The summary historical consolidated financial data presented below as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016, have been derived from the Operating Partnership s audited consolidated financial statements and accompanying notes appearing in our 2016 10-K, which is incorporated by reference into this prospectus supplement. The summary historical consolidated financial data for the three months ended December 31, 2016 has been derived from the Operating Partnership

Exercised
(28,000) $0.33
Forfeited or Cancelled
(66,000) $2.07

Outstanding at September 30, 2010
1,316,000 $2.14 6.97 $43,000

Exercisable at September 30, 2010
823,000 $2.47 6.65 $36,000

The exercise prices of the options outstanding at September 30, 2010 ranged from $0.21 to $4.35. The weighted average grant-date fair value of options granted during the nine months ended September 30, 2009 was $0.57. There were no new options granted during the nine months ended September 30, 2010. The Company s policy is to issue shares from its authorized shares upon the exercise of stock options.

The fair values of all stock options granted during the three and nine months ended September 30, 2010 and 2009 were estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions:

	For the nine months ended		For the three months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Expected life (in years)		4		
Average risk-free interest rate		2%		
Expected volatility		194%		
Expected dividend yield		0%		
Forfeiture rate		3%		

The estimated fair value of grants of stock options to nonemployees of the Company is charged to expense in the financial statements. These options vest in the same manner as the employee options granted under each of the option plans as described above.

11. Concentrations

The Company s trade receivables are concentrated with few customers. The Company performs credit evaluations on their customers financial condition. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Three customers represented 40%, 40% and 10%, respectively, of total gross accounts receivable at September 30, 2010, and two customers represented 77% and 11%, respectively, of total gross accounts receivable at December 31, 2009.

The Company s revenues are concentrated with few customers. For the three and nine months ended September 30, 2010, two customers represented 51% and 32% of gross revenues and three customers represented 39%, 33% and 14% of gross revenues, respectively. For the three and nine months ended September 30, 2009, three customers represented 75%, 12% and 10% of gross revenues and four customers represented 58%, 15%, 14% and 10% of gross revenues, respectively.

12. Recent Accounting Pronouncements

There have been no recent accounting pronouncements issued applicable to Enova Systems, Inc. other than those disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, future, intend, potential, or continue or the negative of these terms or similar expressions to identify forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our future operating expenses, our future losses, our future expenditures for research and development and the sufficiency of our cash resources. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in our Annual Report on Form 10-K for the year ended December 31, 2009.

The following discussion and analysis should be read in conjunction with the unaudited interim financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

Enova believes it is a leader in the development and production of proprietary, commercial digital power management systems for transportation vehicles and stationary power generation systems. Power management systems control and monitor electric power in an

automotive or commercial application such as an automobile or a stand-alone power generator. Electric drive systems are comprised of an electric motor, an electronics control unit, a gear unit and batteries which power an electric vehicle. Hybrid systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric motor, eliminating external recharging of the battery system. Our hybrid systems can alternatively utilize a hydrogen fuel cell as a power source to recharge the battery system. Stationary power systems utilize similar components to those which are in a mobile drive system in addition to other elements.

A fundamental element of Enova s strategy is to develop and produce advanced proprietary software, firmware and hardware for applications in these alternative power markets. Our focus is digital power conversion, power management, and system integration, focusing chiefly on vehicle power generation.

Specifically, we develop, design and produce drive systems and related components for electric, hybrid-electric and fuel cell vehicles. We also develop, design and produce power management and power conversion components for stationary distributed power generation systems. Additionally, we perform research and development (R&D) to augment and support others and our own related product development efforts.

Our product development strategy is to design and introduce to market successively advanced products, each based on our core technical competencies. In each of our product/market segments, we provide products and services to leverage our core competencies in digital power management, power conversion and system integration. We believe that the underlying technical requirements shared among the market segments will allow us to more quickly transition from one emerging market to the next, with the goal of capturing early market share.

Enova s primary market focus centers on both electric series and parallel hybrid medium and heavy-duty drive systems for multiple vehicle and marine applications. A series hybrid system is one where only the electric motor connects to the drive shaft; a parallel hybrid system is one where both the internal combustion engine and the electric motor are connected to the drive shaft. We believe series-hybrid and parallel-hybrid medium and heavy-duty drive system sales offer Enova the greatest return on investment in both the short and long term. We believe the medium and heavy-duty hybrid market s best chances of significant growth lie in identifying and pooling the largest possible numbers of early adopters in high-volume applications. By aligning ourselves with key customers in our target markets, we believe that alliances will result in the latest technology being implemented and customer requirements being met, with an optimized level of additional time or expense. As we penetrate more market areas, we are continually refining both our market strategy and our product line to maintain our leading edge in power management and conversion systems for mobile applications.

Our website, www.enovasystems.com, contains up-to-date information on our company, our products, programs and current events. Our website is a prime focal point for current and prospective customers, investors and other affiliated parties seeking data on our business.

Recent Developments

In February 2010, Enova was awarded an exclusive supplier contract with the U.S. General Services Administration (GSA), which provides vehicles for government agencies and armed forces. Under that contract, Enova will supply our Zero Emissions (Ze) all-electric walk-in step vans to the GSA under the Cargo Vans category. Enova has partnered with Freightliner Custom Chassis Corporation (Freightliner), a subsidiary of Daimler Trucks North America LLC, to integrate and deploy the Ze technology with their MT-45 walk-in van chassis.

Also in February 2010, one of our key customers, Smith Electric Vehicles (Smith), announced the placement of their Smith Newton product offering in the GSA Medium and Heavy Duty Vans category with a gross vehicle weight rating (GVWR) of 25,500 lbs. The Smith Newton is an exclusive, all-electric medium and heavy duty truck offering on the GSA product menu. This was augmented by Navistar s continued leadership in the American school bus market with its exclusive GSA contract to supply hybrid school buses.

In March 2010, Smith was selected to receive an additional $22 million in grant funding from the Department of Energy (DOE), bringing the total DOE grant funding available to Smith to $32 million toward the production of all-electric, zero emissions commercial trucks. Smith has selected Enova as the exclusive drive system supplier for its flagship Newton route delivery vehicles, which incorporates Enova s 120kW drive system controller. The DOE grant is being used to help offset Smith s future vehicle development cost and to incentivize its customers to participate in a commercial electric vehicle demonstration program.

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In April 2010, Enova expanded its all electric Ze drive system offerings to include a Ford F-150 utility truck and Chevrolet Express cargo van. The Ford F-150 is the highest sales volume pick-up truck in the United States and has been integrated with a 90kW all-electric Ze drive system. The Chevy Express cargo van is one of the top selling domestic fleet vans in its vehicle classification and has been integrated with a 120kW all-electric Ze drive system. The all-electric Ford F-150 is being evaluated for a series of 3rd party testing at a nationally recognized clean vehicle testing center that started in June. Testing includes a range of dynamometer and on-road testing programs.

In June 2010, the California Air Resources Board (CARB) continued the Hybrid Voucher Incentive Program (HVIP) by approving the State of California s AB 118 Air Quality Improvement Program Funding Plan for Fiscal Year 2010-11 for $25 million. The HVIP was designed to stimulate the purchase of both hybrid and zero-emission commercial trucks and buses by offsetting a portion of the incremental cost for these commercial vehicles through rebates. Currently, Navistar s Hybrid School Buses with Enova s Charge Depleting systems are eligible for rebates of between $20,000 and $30,000 depending on the weight class. The Smith Newton, which is powered by Enova s Ze all-electric drive system, is also eligible for a $20,000 rebate.

Also in June 2010, Enova partnered with Remy International, Inc. (Remy) to develop a new electric drive system based on the new Enova Omni Controller and the patented Remy High Voltage Hairpin (HVH) motor. The Omni Controller is Enova s next-generation 200kVA-capable power inverter for hybrid-electric and all-electric medium and heavy-duty commercial vehicles. The Remy HVH Permanent Magnet Motor maximizes fuel efficiency and offers class leading torque and power density. Together, the Remy/Enova electric drive system aims to increase the value proposition with more alternative propulsion energy and thus more miles on the road.

In September 2010, Freightliner unveiled an Enova-powered all-electric walk-in van (MT-EV or WIV) at the 2010 Hybrid Truck Users Forum (HTUF). The new, unique aerodynamic body from Morgan Olson, is projected to have a favorable economic payback. Freightliner makes 80% of all chassis in the parcel delivery segment. The MT-EV all-electric chassis utilizes Enova Systems 120kW all-electric drive system technology. Powered by Tesla Motors lithium-ion batteries, the chassis is 100 percent electric, including its HVAC system, making it the only fully featured WIV chassis in the industry to be completely electrically powered. Freightliner is the first company within the industry to utilize Tesla batteries for commercial applications.

Enova has incurred significant operating losses in the past. As of September 30, 2010, we had an accumulated deficit of approximately $141.8 million. We expect to incur additional operating losses until we achieve a level of product sales sufficient to cover our operating and other expenses. However, the Company believes that its business outlook will improve, especially in light of government policies being implemented in the United States, China and the United Kingdom regarding the curbing of green house gas emissions in the future as well as intentions to provide government incentives that may induce consumption of our products and services.

We continue to receive greater recognition from both governmental and private industry with regards to both commercial and military application of our hybrid drive systems and fuel cell power management technologies. Although we believe that current negotiations with above named parties may result in additional production contracts during 2010 and beyond, there are no assurances that such additional agreements will be realized.

Critical Accounting Policies

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Estimates and assumptions include, but are not limited to, customer receivables, inventories, warranty costs, stock based compensation, fixed asset lives, contingencies and litigation. There have been no material changes in estimates or assumptions compared to our most recent Annual Report for the fiscal year ended December 31, 2009.

The following represents a summary of our critical accounting policies, defined as those policies that we believe: (a) are the most important to the portrayal of our financial condition and results of operations and (b) involve inherently uncertain issues which require management s most difficult, subjective or complex judgments.

Cash and cash equivalents Cash consists of currency held at reputable financial institutions. Short-term, highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Inventory Inventories are priced at the lower of cost or market utilizing first-in, first-out (FIFO) cost flow assumption. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including

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purchased components, subassemblies and finished goods. We maintain the integrity of perpetual inventory records through periodic physical counts of quantities on hand. Finished goods are reported as inventories until the point of transfer to the customer. Generally, title transfer is documented in the terms of sale.

Inventory reserve We maintain an allowance against inventory for the potential future obsolescence or excess inventory. A substantial decrease in expected demand for our products, or decreases in our selling prices could lead to excess or overvalued inventories and could require us to substantially increase our allowance for excess inventory. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required, and would be reflected in cost of revenues in the period the revision is made.

Allowance for doubtful accounts We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The assessment of the ultimate realization of accounts receivable including the current credit-worthiness of each customer is subject to a considerable degree to the judgment of our management. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Stock-based Compensation Stock-based compensation expense is calculated in accordance with FASB ASC 718, Share-Based Payment (FASB ASC 718) for all share-based payment awards made to employees and directors. The Company measures the compensation cost for stock-based awards classified as equity at their fair value on the date of grant and recognizes compensation expense over the service period for awards expected to vest, net of estimated forfeitures.

This pronouncement requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options to be based on estimated fair values.

Revenue recognition The Company is required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to its customers. These judgments are required to assess the propriety of the recognition of revenue based on ASC 605 and related guidance. The Company makes these assessments based on the following factors: i) customer-specific information, ii) return policies, and iii) historical experience for issues not yet identified.

The Company manufactures proprietary products and other products based on design specifications provided by its customers. Revenue from sales of products are generally recognized at the time title to the goods and the benefits and risks of ownership passes to the customer which is typically when products are shipped based on the terms of the customer purchase agreement. Revenue relating to long-term fixed price contracts is recognized using the percentage of completion method. Under the percentage of completion method, contract revenues and related costs are recognized based on the percentage that costs incurred to date bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements may result in revisions to cost and revenue, and are recognized in the period in which the revisions are determined. Contract costs include all direct materials, subcontract and labor costs and other indirect costs. General and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued. The aggregate of costs incurred and estimated earnings recognized on uncompleted contracts in excess of related billings is shown as a current asset, and billings on uncompleted contracts in excess of costs incurred and estimated earnings is shown as a current liability.

These accounting policies were applied consistently for all periods presented. Our operating results would be affected if other alternatives were used. Information about the impact on our operating results is included in the footnotes to our financial statements.

Several other factors related to the Company may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition related to product contracts are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as acceptance of services provided, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred.

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RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2010 compared to Three and Nine Months Ended September 30, 2009

Third Quarter of Fiscal 2010 vs. Third Quarter of Fiscal 2009

	Three Months Ended September 30,			As a % of Revenues September 30,	
	2010	**2009**	**% Change**	**2010**	**2009**
Revenues	$ 1,904,000	$ 2,890,000	-34%	100%	100%
Cost of revenues	1,615,000	2,532,000	-36%	85%	88%
Gross income	289,000	358,000	-19%	15%	12%
Operating expenses					
Research and development	483,000	310,000	56%	25%	11%
Selling, general & administrative	1,520,000	1,308,000	16%	80%	45%
Total operating expenses	2,003,000	1,618,000	24%	105%	56%
Operating loss	(1,714,000)	(1,260,000)	36%	-90%	-44%
Other income and (expense)					
Interest and other income (expense)	(36,000)	(24,000)	50%	-2%	-1%
Loss from non-consolidated joint venture				0%	0%
Total other income (expense)	(36,000)	(24,000)	50%	-2%	-1%
Net loss	$ (1,750,000)	$ (1,284,000)	36%	-92%	-44%

First Nine Months of Fiscal 2010 vs. First Nine Months of Fiscal 2009

	Nine Months Ended September 30,			As a % of Revenues September 30,	
	2010	**2009**	**% Change**	**2010**	**2009**
Revenues	$ 4,887,000	$ 4,154,000	18%	100%	100%
Cost of revenues	4,225,000	3,724,000	13%	86%	90%
Gross income	662,000	430,000	54%	14%	10%
Operating expenses					
Research and development	1,166,000	899,000	30%	24%	22%
Selling, general & administrative	4,548,000	4,373,000	4%	93%	105%
Total operating expenses	5,714,000	5,272,000	8%	117%	127%
Operating loss	(5,052,000)	(4,842,000)	-4%	-103%	-117%
Other income and (expense)					
Interest and other income (expense)	(41,000)	(128,000)	-68%	-1%	-3%

Loss from non-consolidated joint venture		(4,000)	-100%	0%	0%
Total other income (expense)	(41,000)	(132,000)	-69%	-1%	-3%
Net loss	$ (5,093,000)	$ (4,974,000)	2%	-104%	-120%

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Computations of percentage change period over period are based upon our results, as rounded and presented herein.

Revenues. Revenues in the current year benefited from U.S. government grant programs, resulting in increased sales for fulfillment of initial orders from Smith Electric Vehicles and Navistar Inc. The increase in revenue for the nine months ended September 30, 2010 compared to 2009 was mainly due to the delivery of eighty electric drive systems to Smith Electric Vehicles, sixteen of our hybrid drive systems to Navistar and continued shipments to First Auto Works (FAW). Revenues decreased in the third quarter of 2010 compared to the third quarter of 2009 mainly due to the delivery of a large order for 200 hybrid drive systems to FAW in the third quarter of 2009. Although we have seen indications for future production growth, there can be no assurance there will be continuing demand for our products and services.

Cost of Revenues. Cost of revenues consists of component and material costs, direct labor costs, integration costs and overhead related to manufacturing our products as well as inventory valuation reserve amounts. Cost of revenues increased in the first nine months of the 2010 compared to the same period in the prior year primarily due to the increase in revenue and decreased for the three months ended September 30, 2010 compared to the same period in the prior year primarily due to the decrease in revenue. The

improvement in the cost of revenue percentage is primarily attributable to our continuing focus on manufacturing and inventory processes that resulted in tighter control over production costs.

Gross Income. The change in gross margin is primarily attributable to increased efficiencies and tighter control over production costs in 2010 compared to 2009. Additionally, we recorded a lower inventory charge in 2010 compared to 2009. We continue to focus on key customer production contracts, maturity of our supply chain, and efficiencies gained through increased in-house manufacturing and inventory processes that have resulted in tighter controls over production costs. As we make deliveries on higher volume production contracts in the fourth quarter of 2010, we expect to achieve continued benefit from these initiatives, although we may continue to experience variability in our gross margin.

Research and Development (R&D). R&D costs were higher as we devoted increased engineering personnel resources to the development of our next generation motor control unit and charger, continued testing of our EV vehicles, new battery technologies and electric motors, as well as engine off capability for our post transmission parallel hybrid drive system. We also continued to allocate necessary resources to the development and testing of upgraded proprietary control software, DC-DC converters and digital inverters as well as other power management firmware.

Selling, General, and Administrative Expenses (S, G & A). S, G & A is comprised of activities in the executive, finance, marketing, field service and quality departments, and non-cash charges for depreciation and options expense. The Company implemented a series of cost savings measures in response to the severe sales environment through the first quarter of 2009 and has selectively increased expenditures in support of key strategic marketing and customer service initiatives in 2010. S, G & A increased in the third quarter and first nine months of 2010 compared to the third quarter and first nine months of 2009 primarily due to an increase in customer service costs as headcount was increased in support of our domestic and international customers and an increase in stock-based compensation related to a larger number of outstanding equity option grants.

Interest and Other Income (Expense). Interest and other income decreased during the nine months ended September 30, 2010 as compared to the same period in 2009 as a result of the Company having a larger average investable cash balance in 2010 after our equity raise in December 2009 and a non-recurring cost of $88,000 to settle a vendor dispute that was recorded in the second quarter of 2009.

Loss from Non-Consolidated Joint Venture. A loss of $4,000 was recorded in the nine month period ended September 30, 2009, reflecting the pro-rata share of gains/losses attributable to the dissolution of the joint venture and the forty percent investment interest in the Hyundai-Enova Innovative Technology Center (ITC). The joint venture partners, Hyundai Heavy Industries, Enova and ITC, mutually agreed to the dissolution of ITC, which was completed on April 6, 2009. No such gains or losses were realized during the three or nine months ended September 30, 2010.

Net Loss. The increase in the net loss for both the three and nine months ended September 30, 2010 compared to the same period in 2009 was mainly due to increase in R&D and S, G &A costs incurred in support of our strategic initiatives. Additionally, the net loss per share for the nine months ended September 30, 2010 compared to the same period in 2009 decreased due to the increase in the number of shares outstanding following our equity issuance in December 2009.

Comparability of Quarterly Results. Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part I, Item 1A-Risk Factors contained in our Form 10-K for 2009. Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance.

LIQUIDITY AND CAPITAL RESOURCES

We have experienced cash flow shortages due to operating losses primarily attributable to research and development, marketing and other general and administrative costs associated with our strategic plan as an international developer and supplier of electric drive and power management systems and components. Cash flows from operations have not been sufficient to meet our obligations. Therefore, we have had to raise funds through several financing transactions. We expect that the extent of our capital needs will phase out once we reach a breakeven volume in sales or develop and/or acquire the capability to manufacture and sell our products profitably. Our operations during the nine months ended September 30, 2010 were financed by product sales as well as from working

capital reserves.

The Company has a secured revolving credit facility with a financial institution (the Credit Agreement) for $200,000 which

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expired on June 30, 2010 and was renewed on July 1, 2010 for a term of 3 years and 6 months for the same amount and credit terms. The Credit Agreement is secured by a $200,000 certificate of deposit (CD). The interest rate is the certificate of deposit rate plus 1.25% with interest payable monthly and the principal due at maturity. As of September 30, 2010, the renewed Credit Agreement was fully drawn as the financial institution has issued a $200,000 irrevocable letter of credit in favor of our landlord, Sunshine Distribution LP, with respect to the lease of the Company s new corporate headquarters at 1560 West 190th Street, Torrance, California.

Net cash used in operating activities was $3,308,000 for the nine months ended September 30, 2010, an increase of $307,000 compared to $3,001,000 for the nine months ended September 30, 2009. The increase in 2010 was primarily due to a realization of revenue associated with a decrease in the deferred revenue liability and a decrease in inventory and inventory reserve charge. Non-cash items include expense for stock-based compensation, depreciation and amortization, and issuance of common stock for employee services. Stock compensation to our directors was changed effective in 2010 from the issuance of common stock to the issuance of stock options. This resulted in a decrease in the issuance of common stock for director services from $135,000 to $0 and an increase in stock options expense from $329,000 to $428,000 in the first nine months of 2010 compared to the first nine months of 2009. We continued to conserve cash resources by maintaining our reduced employee headcount and restrictions on administration and operating expenditures. As of September 30, 2010, the Company had $9,478,000 of cash and cash equivalents.

Net cash used in investing activities for capital expenditures was $277,000 for the first nine months of 2010 compared to net cash provided of $1,826,000 for the first nine months of 2009. In 2009, in conjunction with the reduction of our credit facility, we redeemed a certificate of deposit for $2,000,000 for use in operating activities and renewed the certificate of deposit at a reduced amount of $200,000.

Net cash used in financing activities totaled $15,000 for the first nine months of 2010, compared to net cash used in financing activities of $50,000 for the first nine months of 2009. This decrease was attributed to proceeds from the exercise of stock options and lower payments on notes payable in the first nine months of 2010 compared to the same period in 2009.

As of September 30, 2010, net accounts receivable was $1,275,000, a 12% decrease from the balance at December 31, 2009 of $1,442,000. The decrease in the receivable balance was primarily due to our collection of receivables from customers during the third quarter of 2010 and a decrease in sales in the third quarter of 2010 compared to the same period in 2009.

Inventory decreased by $1,096,000 when comparing the balances at September 30, 2010 and December 31, 2009, which represents a 20% decrease in the inventory balance between the two dates. The decrease resulted from net inventory activity including receipts totaling approximately $2,026,000 and normal consumption of approximately $3,122,000, net of write-offs, due to sales and R&D activities during the first nine months of 2010.

Prepaid expenses and other current assets increased by a net $88,000, or 33%, to $351,000 at September 30, 2010 from the December 31, 2009 balance of $263,000. The increase was due to a deposit of $179,000 made on a purchase order to Hyundai Heavy Industries for electric motors with deliveries expected in the fourth quarter of 2010.

Long term accounts receivable increased to $215,000 at September 30, 2010 compared to $0 at December 31, 2009. The Company agreed to defer collection of accounts receivable as requested by a customer for the term of the Company s warranty guarantee. The Company has remedied all past and current warranty claims and anticipates full collection of the receivable.

Property and equipment decreased by $103,000, net of depreciation, at September 30, 2010, when compared to the December 31, 2009 balance of $1,363,000. In the first nine months of 2010, the Company recognized depreciation expense of $406,000 and recorded additions to fixed assets totaling $277,000.

Accounts payable increased in the first nine months of 2010 by $1,000 to $416,000 from $415,000 at December 31, 2009. The increase is considered immaterial.

Deferred revenues decreased by $303,000 to a balance of $54,000 at September 30, 2010 compared to a $357,000 balance at December 31, 2009. This balance is anticipated to be realized into revenue in the fourth quarter of 2010 and is associated with prepayment on purchase orders from several different customers.

Accrued payroll and related expenses increased by $526,000, or 190%, to $803,000 at September 30, 2010 compared to a balance of $277,000 at December 31, 2009. The change is primarily due to the accrual of a

management estimate of 2010 employee incentive bonuses.

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Other accrued liabilities decreased by $368,000, or 29%, to $919,000 at September 30, 2010 from the balance of $1,287,000 at December 31, 2009, primarily due to payments for accrued professional services and inventory, as well as a net decrease in the accrued warranty balance as costs for warranty repairs were greater than warranty accruals for sales during the nine months ended September 30, 2010.

Accrued interest payable was $1,135,000 at September 30, 2010, an increase of 6% from the balance of $1,074,000 at December 31, 2009. The increase is due to interest related to our debt instruments, primarily the secured note payable in the amount of $1,238,000 to the Credit Managers Association of California.

Our ongoing operations and anticipated growth will require us to make necessary investments in human and production resources, regulatory compliance, as well as sales and marketing efforts. We anticipate that our current cash balance and projected cash inflow as mentioned in the Recent Development section above regarding our capital raise will be adequate to meet our working capital and capital expenditure needs for at least the next 12 months. If we require additional capital resources to grow our Company, we may seek to sell more equity securities. The sale of equity securities could result in dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, we may be compelled to delay or curtail our plans to develop our business, which could have a material adverse effect on our operations, market position and competitiveness.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures which are designed to provide reasonable assurance that information required to be disclosed in the Company s periodic Securities and Exchange Commission (SEC) reports 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 its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures for the period covered by this report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s internal control over disclosure controls and procedures was effective as of September 30, 2010.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising

out of the conduct of our business, including matters relating to commercial transactions. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse outcomes in these matters, as well as potential ranges of probable losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts.

Given the uncertainty inherent in litigation, we do not believe it is possible to develop estimates of the range of reasonably possible loss in excess of current accruals for these matters. Considering our past experience and existing accruals, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our consolidated financial position. Because most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

ITEM 1A. Risk Factors

There have been no other material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

ITEM 2. Unregistered Sales of Equity and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Removed and Reserved

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

a) Exhibits

31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.*

31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* - Filed herewith

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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.

Date: November 12, 2010

ENOVA SYSTEMS, INC. (Registrant)

/s/ Jarett Fenton

By: Jarett Fenton, Chief Financial Officer

EXHIBIT INDEX

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