

HOSPITALITY PROPERTIES TRUST  
Form 10-K/A  
March 18, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K/A**

**Amendment No. 1**

- x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2012**
- o **or**  
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number 1-115272**

**HOSPITALITY PROPERTIES TRUST**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**  
(State of Organization)  
**Two Newton Place,**  
**255 Washington Street, Suite 300,**  
**Newton, Massachusetts**  
(Address of Principal Executive Offices)

**04-3262075**  
(IRS Employer Identification No.)

**02458-1634**  
(Zip Code)

Registrant's Telephone Number, Including Area Code **617-964-8389**

Securities registered pursuant to Section 12(b) of the Act:

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Title Of Each Class	Name Of Each Exchange On Which Registered
Common Shares of Beneficial Interest	New York Stock Exchange
Series C Cumulative Redeemable Preferred Shares of Beneficial Interest	New York Stock Exchange
Series D Cumulative Redeemable Preferred Shares of Beneficial Interest	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The aggregate market value of the voting shares of the registrant held by non-affiliates was \$3.0 billion based on the \$24.77 closing price per common share on the New York Stock Exchange on June 29, 2012. For purposes of this calculation, an aggregate of 582,325 common shares of beneficial interest \$.01 par value, held by the trustees and officers of the registrant have been included in the number of shares held by affiliates.

Number of the registrant's common shares outstanding as of February 26, 2013: 123,637,424.

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In this Amendment No. 1 to Annual Report on Form 10-K, and unless the context otherwise requires, the terms "HPT," "we," "us" or "our" refer to Hospitality Properties Trust and its consolidated subsidiaries; and the term "TA" refers to TravelCenters of America LLC and its consolidated subsidiaries.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is to be incorporated herein by reference to our definitive Proxy Statement as filed with the SEC for the Annual Meeting of Shareholders to be held on May 15, 2013, or our definitive Proxy Statement.

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**EXPLANATORY NOTE**

We are filing this Amendment No. 1 to our Annual Report on Form 10-K, or Form 10-K/A, to amend Item 7 and Item 15 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, or the Annual Report, which was originally filed with the Securities and Exchange Commission, or the SEC, on March 1, 2013.

Item 7 of the Annual Report is amended and being filed in its entirety solely to include the rent coverage ratios for our two lease agreements with TA for the year ended December 31, 2012. Item 15 of the Annual Report is amended and being filed in its entirety solely to include in the notes to our consolidated financial statements, summary audited financial information for TA for the fiscal years ended December 31, 2012, 2011 and 2010, as reported by TA in its Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2012. The rent coverage ratios and summary audited financial information described above were not available when we originally filed our Annual Report.

In addition, we are filing or furnishing, as indicated in this Form 10-K/A, as exhibits certain currently dated certifications and a currently dated consent of Ernst & Young LLP.

This amendment is limited in scope to the rent coverage ratios and summary audited financial information described above and does not amend, update, or change any other items or disclosures contained in the Annual Report. Accordingly, all other items that remain unaffected are omitted in this filing. Except as described in the preceding paragraphs, we do not purport by this Form 10-K/A to update any of the information contained in the Annual Report.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read in conjunction with our consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K.

**Overview (dollar amounts in thousands)**

*Hotel operations.* In 2012, the U.S. hotel industry generally showed improvement in average daily rate, or ADR, occupancy and RevPAR over 2011, but these measures are still below levels prior to the recent recession. We believe the increases in ADR, occupancy and RevPAR at certain of our hotels in 2012 have been below hotel industry averages primarily due to the disruption and displacement caused by renovation and rebranding activities. During the twelve months ended December 31, 2012, we had 138 of our hotels under renovation for all or part of the period and we rebranded 39 hotels during 2012. We expect our high level of hotel renovation activity to continue through 2013 and into 2014.

*Our hotel tenants and managers.* Many of our hotel operating agreements contain security features, such as guarantees and security deposits, which are intended to protect minimum returns and rents due to us in accordance with our operating agreements regardless of hotel performance. However, the effectiveness of various security features to provide uninterrupted receipt by us of minimum returns and rents is not assured, particularly if the U.S. economy and the lodging industry take an extended period to recover from the severe declines experienced during the recent recession, if economic conditions decline, or if our hotel renovation activities described above do not result in improved operating results at these hotels. Further, certain of the guarantees that have been granted to us are limited in amount and duration and do not provide for payment of the entire amount of the applicable minimum return shortfalls. If our tenants, managers or guarantors do not earn or pay the minimum returns and rents due to us, our cash flows will decline and we may be unable to pay distributions to our shareholders, repay our debt or fund our debt service obligations.

As of February 26, 2013, all payments due to us under our hotel leases and hotel management contracts were current except for certain payments from Marriott and InterContinental.

*Marriott No. 234 agreement.* Additional details of this agreement are set forth in Note 5 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

During the twelve months ended December 31, 2012, the payments we received under our Marriott No. 234 agreement, which requires annual minimum returns to us of \$101,837, were \$10,114 less than the minimum amounts contractually required. Pursuant to our Marriott No. 234 agreement, Marriott provided us with a limited guaranty for shortfalls up to 90% of our minimum returns. During the twelve months ended December 31, 2012, Marriott provided \$4,895 of guaranty payments to us. Also, during the period from December 31, 2012 to February 26, 2013, the payments we received for these hotels were \$849 less than the contractual minimum returns due to us and Marriott provided \$2,162 of guaranty payments to us to cover up to 90% of the minimum returns due to us. The balance of this guaranty was \$23,815 as of February 26, 2013.

*InterContinental agreement.* Additional details of this agreement are set forth in Note 5 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

During the twelve months ended December 31, 2012, the payments we received under our InterContinental agreement, which requires minimum returns to us of \$135,159, were \$29,354 less than the minimum amounts contractually required. We applied the available security deposit to cover these shortfalls. Also, during the period from December 31, 2012 to February 26, 2013, the minimum return payments we received under our InterContinental agreement were \$8,978 less than the minimum amounts due to us. We applied the available security deposit to cover these shortfalls. The remaining balance of the security deposit was \$17,487 as of February 26, 2013.

*Sonesta agreements.* On January 31, 2012, we completed our acquisition of the entities which own the Royal Sonesta Hotel Boston in Cambridge, MA, or the Cambridge Hotel, and lease the New Orleans Hotel for \$153,062 (\$150,500 cash consideration and \$2,562 of assumed net liabilities), excluding acquisition costs. Additional details of this transaction are set forth in Notes 4 and 8 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

We do not have any security deposits or guarantees for our hotels managed by Sonesta. Sonesta's incentive management fees, but not its other fees, are only earned after we receive our minimum returns, and we may cancel these

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management agreements if approximately 75% of our minimum returns are not paid for certain periods. Accordingly, the returns we receive from hotels managed by Sonesta will depend exclusively upon the performance of those hotels.

*Wyndham agreement.* Details of this agreement are set forth in Note 5 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

*Morgans agreement.* Details of this agreement are set forth in Note 5 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

*Marriott No. 1 agreement.* Our lease with Host for 53 hotels, which we have historically referred to as our Marriott No. 1 agreement, expired on December 31, 2012. As required upon the expiration of the lease, we returned the \$50,540 security deposit we held to Host. As of January 1, 2013, we leased these hotels to one of our TRSs and continued the previously existing hotel brand and management agreements with Marriott. Our management agreement with Marriott does not have a security deposit or guarantee. Accordingly, the future minimum returns we receive under this agreement will depend exclusively upon the performance of the hotels.

*Other management agreement and lease matters.* Additional details of our guarantees from Hyatt and Carlson and our lease agreements with TA are set forth in Notes 8 (with respect to TA) and 9 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference. Other information about TA is set forth in Note 5 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

When we reduce the amounts of the security deposits we hold under our operating agreements for payment deficiencies, we record income equal to the amounts by which these deposits are reduced up to the minimum return or minimum rent due to us. However, reducing the security deposits does not result in additional cash flow to us of the deficiency amounts, but reducing amounts of security deposits may reduce the refunds due to the respective lessees or managers who have provided us with these deposits upon expiration of the respective lease or management agreement. Security deposits are non-interest bearing and are not required to be held in escrow. Under all of our hotel contracts that include a security deposit, any amount of the security deposits which is applied to payment deficits may be replenished from future cash flows from the applicable hotel operations pursuant to the terms of the respective contracts. When we receive payments under guarantees under our leases or operating agreements, we receive cash. When we receive guaranty payments under our hotel operating agreements, generally the hotel operator is allowed to recapture payments it makes to us out of some or all of the hotels' future cash flows after our minimum returns are paid.

### Management Agreements and Leases

At December 31, 2012, we owned or leased 289 hotels operated under 10 operating agreements; 232 of these hotels were leased by us to our wholly owned TRSs and managed by hotel operating companies, one hotel was leased by one of our TRSs from a third party and managed by a hotel operating company and 56 were leased to third parties. As described above, our lease with Host for 53 hotels expired on December 31, 2012. As of January 1, 2013, we leased these hotels to one of our TRSs and continued the previously existing brand and hotel management agreement. At December 31, 2012, we also owned 185 travel centers that were leased to TA under two agreements. Our Consolidated Statements of Income and Comprehensive Income include operating revenues and expenses of our managed hotels and rental income from leased hotels and travel centers. Additional information regarding the terms of our management agreements and leases is included in the table on pages 19 through 22 below.





**Results of Operations (dollar amounts in thousands, except per share amounts)**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

	2012	2011	Increase (Decrease)	% Increase (Decrease)
	For the Year Ended December 31, (amounts in thousands, except per share amounts)			
Revenues:				
Hotel operating revenues	\$980,732	\$889,120	\$91,612	10.3%
Rental income:				
Minimum rents hotels	87,456	101,198	(13,742)	(13.6)%
Minimum rents travel centers	208,560	201,505	7,055	3.5%
	296,016	302,703	(6,687)	(2.2)%
Percentage rent hotels	2,873	1,879	994	52.9%
Percentage rent travel centers	1,465		1,465	
	4,338	1,879	2,459	130.9%
Total rental income	300,354	304,582	(4,228)	(1.4)%
FF&E reserve income	15,896	16,631	(735)	(4.4)%
Expenses:				
Hotel operating expenses	700,939	596,616	104,323	17.5%
Depreciation and amortization hotels	173,308	146,567	26,741	18.2%
Depreciation and amortization travel centers	87,523	81,775	5,748	7.0%
Total depreciation and amortization	260,831	228,342	32,489	14.2%
General and administrative	44,032	40,963	3,069	7.5%
Acquisition related costs	4,173	2,185	1,988	91.0%
Loss on asset impairment	8,547	16,384	(7,837)	(47.8)%
Operating income	278,460	325,843	(47,383)	(14.5)%
Interest income	268	70	198	282.9%
Interest expense	(136,111)	(134,110)	2,001	1.5%
Gain on sale of real estate	10,602		10,602	
Equity in earnings of an investee	316	139	177	127.3%
Income before income taxes	153,535	191,942	(38,407)	(20.0)%
Income tax expense	(1,612)	(1,502)	110	7.3%
Net income	151,923	190,440	(38,517)	(20.2)%
Net income available for common shareholders	103,794	160,560	(56,766)	(35.4)%
Weighted average shares outstanding	123,574	123,470	104	0.1%
Net income available for common shareholders per common share	\$0.84	\$1.30	\$(0.46)	(35.4)%

References to changes in the income and expense categories below relate to the comparison to consolidated results for the year ended December 31, 2012, compared with the year ended December 31, 2011.

The increase in hotel operating revenues in 2012 compared to 2011 was caused primarily by increased revenues at certain of our managed hotels due to increases in ADR and higher occupancies, the conversion of 19 hotels from leased to managed properties in June 2011 and our 2012 hotel acquisitions. These increases were partially offset by decreases in revenues at certain of our managed hotels undergoing renovations or rebrandings during 2012 which resulted in lower occupancies. Additional revenue statistics of our hotels are included in the table on page 23.

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The decrease in rental income hotels is a result of the conversion of the 19 hotels from leased to managed in June 2011, partially offset by increases in the minimum rents due to us as we funded improvements at certain of our leased hotels since January 1, 2011.

The increase in rental income travel centers is primarily a result of increases in the minimum rents due to us from TA for improvements we purchased at certain of our travel centers since January 1, 2011. Rental income for the 2012 and 2011 periods includes \$149 and \$4,789 of straight line rent, respectively.

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The increase in percentage rent hotels is a result of increased sales at certain of our leased hotels in 2012 versus 2011.

The increase in percentage rent travel centers is a result of the payment of percentage rent to us under one of our leases with TA, which first became payable in 2012.

FF&E reserve income represents amounts paid by certain of our hotel tenants into restricted accounts owned by us, the purpose of which is to accumulate funds for future capital expenditures. The terms of our hotel leases require these amounts to be calculated as a percentage of total sales at our hotels. The decrease in FF&E reserve income is primarily the result of the conversion of the 19 hotels from leased to managed in June 2011, partially offset by increased levels of sales at our leased hotels in the respective periods of 2012 versus 2011. We do not report the amounts, if any, which are escrowed as FF&E reserves for our managed hotels as FF&E reserve income.

The increase in hotel operating expenses was primarily caused by the conversion of the 19 hotels from leased to managed in June 2011, our 2012 hotel acquisitions and increased expenses associated with higher occupancy at certain of our managed hotels, partially offset by operating expense decreases at certain hotels undergoing renovations. Certain of our managed hotel portfolios had net operating results that were, in the aggregate, \$76,978 and \$60,265 less than the minimum returns due to us in 2012 and 2011, respectively. When the shortfalls are funded by the managers of these hotels under the terms of our operating agreements, we reflect such fundings (including security deposit applications) in our Consolidated Statements of Income and Comprehensive Income as a reduction to hotel operating expenses. The reduction to hotel operating expenses was \$46,386 and \$58,772 for 2012 and 2011, respectively. We had \$30,592 and \$1,493 of shortfalls not funded by managers for 2012 and 2011, respectively, which represents the unguaranteed portion of our minimum returns from Marriott and from Sonesta.

The increase in depreciation and amortization hotels is primarily due to the depreciation and amortization of assets acquired with funds from our FF&E reserves or directly funded by us since January 1, 2011 and our 2012 hotel acquisitions, partially offset by certain of our depreciable assets becoming fully depreciated since January 1, 2011.

The increase in depreciation and amortization travel centers is primarily due to the depreciation and amortization of improvements made to our travel centers since January 1, 2011.

The increase in general and administrative costs is primarily due to increased business management fees, franchise taxes and professional services expense in 2012 versus 2011.

Acquisition related costs represent legal and other costs incurred in connection with our hotel acquisition activities.

We recorded a \$7,658 loss on asset impairment in the fourth quarter of 2012 to write off the carrying value of goodwill. We recorded a \$889 loss on asset impairment in the first quarter of 2012 in connection with our decision to remove certain hotels from held for sale status. We recorded a \$16,384 loss on asset impairment in 2011 in connection with our consideration of selling certain hotels.

The decrease in operating income is primarily due to the revenue and expense changes discussed above.

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The increase in interest income is due to higher average cash balances during 2012 versus 2011.

The increase in interest expense is primarily due to higher average borrowings partially offset by lower weighted average interest rates in 2012 compared 2011.

We recorded a \$10,602 gain on sale of real estate in the third quarter of 2012 in connection with the sale of our Marriott hotel in St. Louis, MO in July 2012 and the sale of our Staybridge Suites hotels in Auburn Hills, MI and Schaumburg, IL in August 2012.

Equity in earnings of an investee represents our proportionate share of the earnings of AIC.

The increase in income tax expense is primarily the result of federal income taxes related to our TRS that leases the New Orleans Hotel that we acquired in January 2012, and higher state income taxes, partially offset by lower foreign income taxes recognized in 2012 compared to 2011.

We reduced net income available for common shareholders in 2012 by an aggregate of \$7,984, which represents the amount by which the liquidation preference for our Series B cumulative redeemable preferred shares that were redeemed in February 2012 and for our Series C cumulative redeemable preferred shares that were redeemed in September 2012 exceeded our carrying amount for those preferred shares as of the date of redemption.

The increase in preferred distributions in 2012 compared to 2011 is the result of our issuance of 11,600,000 of our 7.125% Series D cumulative redeemable preferred shares in January 2012, partially offset by our redemption of 3,450,000 of our 8.875% Series B cumulative redeemable preferred shares in February 2012 and our redemption of 6,000,000 of our 7.00% Series C cumulative redeemable preferred shares in September 2012.

The decreases in net income, net income available for common shareholders and net income available for common shareholders per common share in 2012 compared to 2011 are primarily a result of the changes discussed above.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

	2011	2010	For the Year Ended December 31, Increase (Decrease)	% Increase (Decrease)
		(amounts in thousands, except per share amounts)		
Revenues:				
Hotel operating revenues	\$889,120	\$736,363	\$152,757	20.7%
Rental income:				
Minimum rents hotels	101,198	135,077	(33,879)	(25.1)%
Minimum rents travel centers	201,505	190,244	11,261	5.9%
	302,703	325,321	(22,618)	(7.0)%
Percentage rent hotels	1,879	1,450	429	29.6%
Total rental income	304,582	326,771	(22,189)	(6.8)%
FF&E reserve income	16,631	22,354	(5,723)	(25.6)%
Expenses:				
Hotel operating expenses	596,616	477,595	119,021	24.9%
Depreciation and amortization hotels	146,567	157,497	(10,930)	(6.9)%
Depreciation and amortization travel centers	81,775	80,592	1,183	1.5%
Total depreciation and amortization	228,342	238,089	(9,747)	(4.1)%
General and administrative	40,963	38,961	2,002	5.1%
Acquisition related costs	2,185		2,185	
Loss on asset impairment	16,384	163,681	(147,297)	(90.0)%
Operating income	325,843	167,162	158,681	94.9%
Interest income	70	260	(190)	(73.1)%
Interest expense	(134,110)	(138,712)	(4,602)	(3.3)%
Loss on extinguishment of debt		(6,720)	6,720	100.0%
Equity in income (losses) of an investee	139	(1)	140	n/m
Income before income taxes	191,942	21,989	169,953	772.9%
Income tax expense	(1,502)	(638)	864	135.4%
Net income	190,440	21,351	169,089	791.9%
Net income (loss) available for common shareholders	160,560	(8,529)	169,089	n/m
Weighted average shares outstanding	123,470	123,403	67	0.1%
Net income (loss) available for common shareholders per common share	\$1.30	\$(0.07)	\$1.37	n/m

References to changes in the income and expense categories below relate to the comparison to consolidated results for the year ended December 31, 2011, compared with the year ended December 31, 2010.

The increase in hotel operating revenues in 2011 compared to 2010 was caused primarily by the increase in revenues at our managed hotels and the conversion of 18 hotels in January 2011 and 19 hotels in June 2011 from leased to managed properties. Revenues at most of our managed hotels increased from 2010 due to higher occupancy rates and increases in ADR. Additional revenue statistics of our hotels are included in the table on page 23.

The decrease in rental income hotels is a result of the conversion of the 37 hotels from leased portfolios to managed portfolios during 2011, partially offset by increases in the minimum rents due to us as we funded improvements at certain of our leased hotels in 2010 and 2011.

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The increase in rental income travel centers is primarily the result of the increase in rental income we recognized in 2011 under our leases with TA due to TA ceasing as of December 31, 2010, to be able to defer additional rent pursuant to our rent deferral agreement with TA (\$23,196, including \$4,789 of straight line rent) and the increase in rents due to us from TA as a result of our funding of improvements to certain of our travel centers in 2011 (\$2,165), partially offset by the elimination of interest paid to us by TA on deferred rent amounts in 2010 (\$14,100 and recorded as rental income in our consolidated financial statements) pursuant to the terms of our rent deferral agreement with TA (see Note 8 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K for further information on our agreements with TA).

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The increase in percentage rent hotels is a result of increased sales at certain of our leased hotels in 2011 versus 2010.

The decrease in FF&E reserve income is primarily the result of the conversion of the 37 hotels from leased to managed during 2011, partially offset by increased levels of sales at certain of our leased hotels in 2011 versus 2010.

The increase in hotel operating expenses was primarily caused by the conversion of 37 hotels from leased to managed during 2011, and increased expenses associated with higher occupancy at our managed hotels, partially offset by the funding by certain of our managers of minimum return deficiencies and our application of security deposits to cover minimum return deficiencies. Certain of our managed hotel portfolios had net operating results that were, in the aggregate, \$60,264 and \$85,592 less than the minimum returns due to us in 2011 and 2010, respectively. When the shortfalls are funded by the managers of these hotels under the terms of our operating agreements, we reflect these fundings (including security deposit applications) in our consolidated statements of income as a reduction to hotel operating expenses. The reduction in operating expenses was \$58,771 and \$85,592 in 2011 and 2010, respectively. We had \$1,493 of shortfalls not funded by managers in 2011 which represents the unguaranteed portion of our minimum returns from Marriott.

The decrease in depreciation and amortization hotels is primarily due to certain of our depreciable assets becoming fully depreciated in 2010 and 2011 and the impact of not recording depreciation on 21 hotels classified as held for sale beginning in July 2011, partially offset by the depreciation and amortization of assets acquired with funds from our FF&E reserve accounts in 2010 and 2011.

The increase in depreciation and amortization travel centers is primarily due to the depreciation and amortization of improvements made to our travel centers during 2010 and 2011.

The increase in general and administrative costs is primarily due to an increase in business management and legal fees in 2011 versus 2010.

Acquisition related costs represent legal and other costs incurred in connection with our hotel acquisition activities.

We recorded a \$163,681 loss on asset impairment in 2010 to reduce the carrying value of certain of our hotels to their estimated fair value. We recorded a \$16,384 loss on asset impairment in 2011 to further reduce the carrying value of certain of these hotels.

The increase in operating income is primarily due to the revenue and expense changes discussed above, particularly the loss on asset impairment recorded in 2010.

The decrease in interest income is due to lower average cash balances during 2011 versus 2010.



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The decrease in interest expense is primarily due to lower weighted average interest rates and lower average borrowings in 2011 compared to 2010.

In 2010, we recorded a \$6,720 loss on the extinguishment of debt relating to the purchase of \$185,696 aggregate principal amount of our 3.8% convertible senior notes due 2027 for an aggregate purchase price of \$185,626, excluding accrued interest. The loss on extinguishment of debt includes unamortized issuance costs and discounts of \$7,260 and \$588 of transaction costs, net of the equity component of the notes of \$1,058.

Equity in earnings (losses) of an investee represents our proportionate share of the earnings (losses) of AIC.

The increase in income tax expense is primarily the result of an increase in state income taxes as a result of higher taxable income for state income tax purposes in the 2011 period compared to the 2010 period.

The increases in net income, net income available for common shareholders and net income available for common shareholders per common share in 2011 compared to 2010 are primarily a result of the changes discussed above, particularly the loss on asset impairment recorded in 2010.

**Liquidity and Capital Resources (dollar amounts in thousands, except per share amounts)**

Our Managers and Tenants

As of December 31, 2012, all 474 of our properties are operated under 12 management agreements or leases. All costs of operating and maintaining our properties are paid by our hotel managers as agents for us or by our tenants for their own account. Our hotel managers and tenants derive their funding for property operating expenses, and returns and rents due to us, generally from property operating revenues and, to the extent that these parties themselves fund our minimum returns and minimum rents, from their separate resources. Our hotel managers and tenants include Marriott, InterContinental, Hyatt, Carlson, Sonesta, Wyndham and Morgans. Our travel centers are leased to TA.

We define coverage for each of our hotel management agreements or leases as total property level revenues minus all property level expenses which are not subordinated to the minimum returns and minimum rents due to us divided by the minimum returns or minimum rent payments due to us. More detail regarding coverage, guarantees and other features of our hotel operating agreements is presented on pages 19 through 22. During the year ended December 31, 2012, eight of our ten hotel operating agreements generated coverage of less than 1.0x (0.38x to 0.88x); our Sonesta No. 2 and Marriott No. 1 agreements generated coverage of 2.17x and 1.0x during the year ended December 31, 2012, respectively.

We define coverage for our travel center leases as property level revenues minus all property level expenses divided by the minimum rent payments due to us. During the twelve months ended December 31, 2012, the operating results from our 185 properties in our two travel center leases each generated coverage of 1.69x. Because a large percentage of TA's business is conducted at properties leased from us, property level rent coverage may not be an appropriate way to evaluate TA's ability to pay rents due to us. We believe property level rent coverage is nonetheless one useful indicator of the performance and value of our properties as we believe it is what an operator interested in acquiring these properties or leaseholds might use to evaluate the contribution of those properties to their earnings before corporate level expenses.

Three hundred and eight (308) of our properties, representing 63% of our total historical investments at cost as of December 31, 2012, are operated under seven management arrangements or leases which are subject to full or limited guarantees. These guarantees may provide us with continued payments if the property level cash flows fail to equal or exceed guaranteed or secured amounts due to us. Our minimum returns and minimum rents for 91 hotels are secured by a security deposit which we control. Some of our managers and tenants, or their affiliates, may also supplement cash flow from our properties in order to make payments to us and preserve their rights to continue operating our properties even if they are not required to do so by guarantees. Guarantee payments, security deposit applications or supplemental payments to us, if any, made under any of our management agreements or leases do not subject us to repayment obligations, but, under some of our agreements, the manager or tenant may recover these guarantee or supplemental payments and the security deposits may be replenished from the future cash flows from our properties after our future minimum returns and minimum rents are paid.

As described above, certain of our agreements are generating cash flows that are less than the minimum amounts contractually required and we have been utilizing the security features and guarantees in our agreements to cover these shortfalls. However, several of the guarantees and all the security deposits we hold are for limited amounts and are for limited durations and may be exhausted or expire, especially if the U.S. economy does not fully recover from the recent recession in a reasonable time period or if our hotel renovation and rebranding activities described below do not result in improved operating results at these hotels. Accordingly, the effectiveness of our various security features to provide uninterrupted payments to us is not assured. If any of our hotel managers, tenants or guarantors default in their payment obligations to us, our cash flows will decline.

Our Operating Liquidity and Capital Resources

Our principal source of funds for current expenses and distributions to shareholders are minimum returns from our managed hotels and minimum rents from our leased hotels and travel centers. We receive minimum returns and minimum rents from our managers and tenants monthly. We receive additional returns, percentage returns and rents and our share of the operating profits of our managed hotels after payment of management fees and other deductions, if any, either monthly or quarterly. This flow of funds has historically been sufficient for us to pay our operating expenses, interest expenses on our debt and distributions to shareholders declared by our Board of Trustees. We believe that our operating cash flow will be sufficient to meet our operating expenses, interest expense and distribution payments declared by our Board of Trustees for the next twelve months and the foreseeable future thereafter. However, because of the impact of the weak U.S. economy on the hotel and travel center industries, our managers and tenants may be unable to pay minimum returns and minimum rents to

us when due, in which case our cash flow and net income will decline and we may need to reduce the amount of, or even eliminate, our distributions to common shareholders.

Changes in our cash flows for the year ended December 31, 2012 compared to the year ended December 31, 2011 were as follows: (1) net cash flows provided by operating activities increased from \$355,102 in 2011 to \$363,908 in 2012; (2) net cash flows used in investing activities increased from \$94,307 in 2011 to \$728,920 in 2012; and (3) net cash flows provided by (used) in financing activities increased from (\$257,374) in 2011 to \$376,758 in 2012.

The increase in cash provided by operating activities for the year ended December 31, 2012 as compared to the year ended December 31, 2011 is due primarily to a reduction in the application of security deposits to fund payment shortfalls in 2012, the increase in rental income we received related to our TA leases in 2012 compared to 2011, and income from our 2012 hotel acquisitions. The increase in cash used in investing activities for the year ended December 31, 2012 as compared to the year ended December 31, 2011 is primarily due to our 2012 hotel acquisitions, our increased purchases in 2012 of improvements under our TA, InterContinental and Marriott No. 234 agreements and the refund in 2012 of the security deposit we held for our Marriott No. 1 agreement. The net increase in cash provided by financing activities for the year ended December 31, 2012 as compared to the year ended December 31, 2011 is primarily a result of the issuance of our 5.00% senior notes due 2022 and our Series D cumulative redeemable preferred shares, proceeds from our unsecured term loan, and increased borrowings under our revolving credit facility in 2012, partially offset by the redemption of our Series B cumulative redeemable preferred shares and some of our Series C cumulative redeemable preferred shares, the repayment of our 6.85% and 6.75% senior notes and the repurchase of certain of our 3.8% convertible senior notes in 2012.

We maintain our status as a REIT under the IRC by meeting certain requirements. As a REIT, we do not expect to pay federal income taxes on the majority of our income. The RMA, among other things, allows a REIT to lease hotels to a TRS if the hotel is managed by an independent third party. The income realized by our TRSs in excess of the rent they pay to us is subject to U.S. federal income tax at corporate tax rates. The income we receive from our hotels in Canada and Puerto Rico is subject to taxes in those jurisdictions and we are subject to taxes in certain states where we have properties. Our provision for tax expense for the year ended December 31, 2012 compared to the year ended December 31, 2011 increased by \$110 primarily because of higher state taxes imposed despite our tax status as a REIT and despite our TRS tax loss carry forwards and federal taxes related to our TRS that leases the New Orleans Hotel that we acquired on January 31, 2012.

#### Our Investment and Financing Liquidity and Capital Resources

Various percentages of total sales at some of our hotels are escrowed as FF&E reserves to fund future capital improvements. During the year ended December 31, 2012, our hotel managers and hotel tenants contributed \$23,364 to these accounts and \$119,460 was spent from the FF&E reserve escrow accounts and from separate payments by us to renovate and refurbish our hotels. As of December 31, 2012, there was \$40,744 on deposit in these escrow accounts, which was held directly by us and is reflected on our Consolidated Balance Sheets as restricted cash.

Our hotel operating agreements generally provide that, if necessary, we may provide our managers and tenants with funding for capital improvements to our hotels in excess of amounts otherwise available in escrowed FF&E reserves or when no FF&E reserves are available. We make these additional fundings by contributing amounts to the FF&E reserve escrow accounts or by purchasing the capital improvements. To the extent we make such additional fundings, our annual minimum returns or minimum rents generally increase by a percentage of the amount we fund. During the year ended December 31, 2012, we funded \$279,660 for capital improvements in excess of FF&E reserve fundings available from hotel operations to our hotels as follows:

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- During the year ended December 31, 2012, we funded \$1,000 for improvements to hotels included in our Marriott No. 1 agreement using cash on hand and borrowings under our revolving credit facility. We currently do not expect to make fundings for capital improvements materially in excess of amounts available in escrowed FF&E reserves under this agreement in 2013.

- Pursuant to the June 2011 and May 2012 agreements we entered with Marriott for management of 68 hotels (our Marriott No. 234 agreement), we expect to provide an aggregate of \$123,000 of funding for renovations of certain of these hotels and for other improvements. As of December 31, 2012, \$78,000 has been funded. We funded \$73,000 of this amount during the year ended December 31, 2012 using existing cash balances and borrowings under our revolving credit facility. We currently expect to fund the remaining \$45,000 during 2013 using existing cash balances or borrowings under our revolving credit facility. As we fund these improvements, the minimum return payable to us increases.

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- Pursuant to the July 2011 agreement we entered with InterContinental for management of 91 hotels, we expect to provide an aggregate of \$290,000 of funding for renovations of certain of these hotels and other improvements. As of December 31, 2012, \$212,768 has been funded. We funded \$174,131 of this amount during the year ended December 31, 2012 using existing cash balances and borrowings under our revolving credit facility. We currently expect to fund the remaining \$77,232 during 2013 using existing cash balances or borrowings under our revolving credit facility. As we fund these improvements, the minimum return payable to us increases.
- Our Sonesta management agreements do not require FF&E escrow deposits. Under our Sonesta No. 1 agreement, we are required to fund capital expenditures made at our hotels. On January 31, 2012, we purchased the Cambridge Hotel. During the second and third quarters of 2012 we rebranded as Royal Sonesta or Sonesta ES hotels, 17 hotels that we own that had been managed by InterContinental and two hotels that we own that had been managed by Marriott. In addition to recurring capital expenditures, we currently expect to provide an aggregate of \$195,000 of funding for rebranding, renovations and other improvements to the 20 hotels included in our Sonesta No. 1 agreement. During the year ended December 31, 2012, we funded \$11,280 for capital expenditures under this agreement using existing cash balances and borrowings under our revolving credit facility. We currently expect to fund approximately \$127,000 during 2013 and the remaining \$56,720 in 2014, using existing cash balances or borrowings under our revolving credit facility. As we fund improvements pursuant to our Sonesta No. 1 agreement, the minimum returns payable to us increase to the extent amounts funded exceed threshold amounts, as defined.
- We lease the New Orleans Hotel, under our Sonesta No. 2 agreement, from a third party. The annual rent payable by us under the lease is calculated as 75% of the sum of the net profit of the hotel, as defined, less capital expenditures made during the lease year. During the year ended December 31, 2012, we funded \$3,620 of capital expenditures from hotel net profits. We currently expect to fund approximately \$2,000 for capital expenditures during 2013 from this hotel's net profits.
- Pursuant to the May 2012 agreement we entered with Wyndham to rebrand 20 hotels we own and that had been managed by InterContinental to brands owned by Wyndham, we agreed to provide up to \$75,000 for refurbishment and rebranding of these 20 hotels to Wyndham Hotels and Resorts and Hawthorn Suites by Wyndham brand standards. We have also agreed to provide up to \$18,000 for the rebranding and renovation of the full service hotel we acquired on November 1, 2012 that was added to our Wyndham agreement. We funded \$8,985 for this rebranding and renovation under our Wyndham agreement during the year ended December 31, 2012 using existing cash balances and borrowings under our revolving credit facility. We currently expect to fund the remaining \$84,015 under this agreement during 2013 using existing cash balances and borrowings under our revolving credit facility. As we fund these improvements, the minimum return payable to us increases.
- In 2008, we sold a hotel that was included in our agreement with Carlson for net proceeds of \$7,644. In lieu of a decrease in the annual minimum return under the agreement when this hotel was sold, the net proceeds were to be used to fund the acquisition of a replacement hotel for the portfolio. We subsequently agreed that the net proceeds were instead to be used to fund certain improvements to the remaining hotels in the agreement and we transferred the net sales proceeds to the Carlson FF&E reserve account in the third quarter of 2012.

On December 31, 2012, our lease with Host for 53 Courtyard hotels which we have historically referred to as our Marriott No. 1 agreement expired and we returned the \$50,540 security deposit to Host. We funded the return of this security deposit using existing cash balances and borrowings under our revolving credit facility. As of January 1, 2013, we leased these hotels to one of our TRSs and continued the existing hotel and brand management agreements with Marriott. We do not have a security deposit or guarantee under our management agreement with Marriott for these 53 hotels.



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Our travel center leases with TA do not require FF&E escrow deposits. However, TA is required to maintain the leased travel centers, including structural and non-structural components. Under both of our leases with TA, TA may request that we purchase qualifying capital improvements to the leased facilities in return for minimum rent increases. We funded \$76,754 for purchases of capital improvements under this lease provision during the year ended December 31, 2012 and currently expect to fund approximately \$80,000 for purchases of capital improvements to our travel center properties during 2013 using existing cash balances or borrowings under our revolving credit facility. However, TA is not obligated to request and we are not obligated to purchase any such improvements.

On January 17, 2012, we paid a \$0.5546875 per share distribution to our Series B preferred shareholders with respect to the period ended January 14, 2012. We funded this distribution using existing cash balances and borrowings under our revolving credit facility.

On each of February 15, 2012, May 15, 2012, August 15, 2012 and November 15, 2012, we paid a \$0.4375 per share distribution to our Series C preferred shareholders with respect to the periods ended February 14, 2012, May 14, 2012, August 14, 2012 and November 14, 2012 respectively. We funded these distributions using existing cash balances and borrowings under our revolving credit facility. On January 4, 2013, we declared a \$0.4375 per share distribution to our Series C preferred shareholders of record on January 31, 2013, with respect to the period ending February 14, 2013. We paid this amount on February 15, 2013 using existing cash balances and borrowings under our revolving credit facility.

On April 16, 2012, July 16, 2012 and October 15, 2012, we paid a \$0.43046875, \$0.4453125 and \$0.4453125 per share distribution to our Series D preferred shareholders with respect to the periods ended April 14, 2012, July 14, 2012 and October 14, 2012, respectively. On December 3, 2012, we declared a \$0.4453125 per share distribution to our Series D preferred shareholders of record on December 28, 2012, with respect to the period ended January 14, 2013. We paid this amount on January 15, 2013. We funded these distributions using existing cash balances and borrowings under our revolving credit facility.

On each of February 23, 2012, May 24, 2012, August 22, 2012, and November 21, 2012, we paid a \$0.45, \$0.45, \$0.45 and \$0.47 per share distribution to our common shareholders, respectively. On January 10, 2013, we declared a \$0.47 per share distribution to our common shareholders of record on January 31, 2013. We paid this amount on February 22, 2013. We funded these distributions using existing cash balances and borrowings under our revolving credit facility.

In January 2012, we sold 11,600,000 7.125% Series D cumulative redeemable preferred shares at \$25.00 per share in a public offering. We used the net proceeds from this sale (approximately \$280,108 after underwriting and other offering expenses) to repay amounts outstanding under our revolving credit facility and to fund the Sonesta hotel acquisitions described below.

On February 13, 2012, we redeemed all of our 3,450,000 outstanding of 8.875% Series B cumulative redeemable preferred shares at the stated liquidation preference price of \$25.00 per share (an aggregate of \$86,250) plus accrued and unpaid distributions to the date of redemption. We funded this redemption using existing cash balances and borrowings under our revolving credit facility.

On March 12, 2012, we entered into a five year \$400,000 unsecured term loan. Our term loan matures on March 13, 2017, and is prepayable without penalty at any time. The amount outstanding under our term loan bears interest at a rate of LIBOR plus a premium that is subject to adjustment based upon changes to our credit ratings. As of December 31, 2012, the interest rate payable on the amount outstanding under our term loan was 1.67%. We used the net proceeds of the term loan to repay amounts outstanding under our revolving credit facility and as described below, to repurchase some of our 3.8% convertible senior notes due 2027, to redeem our 6.85% senior notes due 2012 and for general business purposes.



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On March 20, 2012, we repurchased at par plus accrued and unpaid interest \$70,576 of our 3.8% convertible senior notes due 2027 which were tendered by the holders for repurchase by us using cash on hand, including the proceeds from our unsecured term loan described above.

On April 11, 2012, we redeemed at par plus accrued and unpaid interest all of our outstanding 6.85% senior notes due 2012 (\$102,479 in total). We funded this redemption using cash on hand, including the proceeds from our unsecured term loan described above.

On August 16, 2012, we issued \$500,000 of 5.00% senior notes due 2022 in a public offering. Net proceeds from this offering (\$487,946 after underwriting and other offering expenses) were used to redeem all of our outstanding 6.75%

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senior notes due 2013 and 6,000,000 of our 12,700,000 outstanding 7% Series C cumulative redeemable preferred shares as described below.

On September 10, 2012, we redeemed 6,000,000 of our 12,700,000 outstanding 7% Series C cumulative redeemable preferred shares at the stated liquidation price of \$25.00 per share (an aggregate of \$150,000) plus accrued and unpaid distributions to the date of redemption. We funded this redemption using cash on hand, including the proceeds from our \$500,000 senior notes offering described above.

On September 10, 2012, we redeemed at par all of our outstanding 6.75% senior notes due 2013 for \$287,000 plus accrued and unpaid interest. We funded this redemption using cash on hand, including the proceeds from our \$500,000 senior notes offering described above.

In January 2012, we purchased the Cambridge Hotel and the New Orleans Hotel for \$153,062 (\$150,500 cash consideration and \$2,562 of assumed net liabilities), excluding acquisition costs, using cash on hand, including the proceeds from the issuance of our Series D preferred shares discussed above and borrowings under our revolving credit facility.

In July 2012, we sold our Marriott branded hotel in St. Louis, MO for net proceeds of \$28,850. Net proceeds from the sale were used for general business purposes, including the funding of renovations at certain hotels.

In August 2012, we sold our Staybridge Suites branded hotels located in Schaumburg, IL and Auburn Hills, MI for aggregate net proceeds of \$5,354. Net proceeds from the sales were used for general business purposes, including the funding of renovations at certain hotels.

On November 1, 2012, we acquired a full service hotel in Chicago, IL for \$85,000, excluding acquisition costs, using cash on hand and borrowings under our revolving credit facility.

On December 19, 2012, we acquired a full service hotel in San Francisco, CA for \$120,000, excluding acquisition costs, with cash on hand and borrowings under our revolving credit facility.

In January 2013, we entered an agreement to acquire a hotel located in Duluth, GA with 426 rooms. The contract purchase price is \$31,000, excluding closing costs. We currently expect to acquire this property during the first quarter of 2013 using cash on hand and borrowings under our revolving credit facility. This pending acquisition is subject to customary closing conditions; accordingly, we can provide no assurance that we will acquire the property.

In order to fund capital improvements to our properties and acquisitions and to meet cash needs that may result from timing differences between our receipt of returns and rents and our desire or need to pay operating expenses, debt service and distributions, we maintain a \$750,000 revolving credit facility. The maturity date of our revolving credit facility is September 7, 2015 and, subject to the payment of an extension fee and meeting certain other conditions, we have the option to extend the facility for one year to September 7, 2016. In addition, our revolving credit facility includes a feature under which maximum borrowings may be increased to up to \$1,500,000 in certain circumstances. Borrowings under our revolving credit facility bear interest at LIBOR plus a premium which was 130 basis points as of December 31, 2012. We also pay a facility fee of 30 basis points per annum on the total amount of lending commitments under our revolving credit facility. Both the interest rate

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premium and the facility fee are subject to adjustment based upon changes to our credit ratings. We can borrow, repay and reborrow funds available under our revolving credit facility until maturity, and no principal repayment is due until maturity. As of December 31, 2012, the interest rate payable on borrowings under our revolving credit facility was 1.51%, and the weighted average interest rate for borrowings under our revolving credit facility was 1.56% for the year ended December 31, 2012. As of December 31, 2012 and February 26, 2013, we had \$320,000 and \$400,000, respectively, outstanding under our revolving credit facility and \$430,000 and \$350,000 available to borrow under our revolving credit facility.

Our revolving credit facility agreement and our term loan agreement provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including a change of control of us and the termination of our business management agreement with RMR. Our revolving credit facility agreement and our term loan agreement also contain a number of covenants, including covenants that restrict our ability to incur debts or to make distributions under certain circumstances and require us to maintain financial ratios and a minimum net worth. We believe we were in compliance with the terms and conditions of our revolving credit facility agreement and our term loan agreement at December 31, 2012.

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Our term debt maturities (other than our revolving credit facility) as of December 31, 2012 were as follows: \$300,000 in 2014, \$280,000 in 2015, \$275,000 in 2016, \$700,000 in 2017, \$350,000 in 2018, \$500,000 in 2022 and \$8,478 in 2027. Our \$8,478 of 3.8% convertible senior notes due 2027 are convertible into our common shares, if certain conditions are met (including certain changes in control), into cash equal to the principal amount of the notes and, to the extent the market price of our common shares exceeds the exchange price of \$50.50 per share, subject to adjustment, either cash or our common shares at our option with a value based on such excess amount. Holders of our convertible senior notes may require us to repurchase all or a portion of the notes on March 15, 2017 and March 15, 2022, or upon the occurrence of certain change in control events. None of our other debt obligations require principal or sinking fund payments prior to their maturity dates.

We expect to use existing cash balances, the cash flow from our operations, borrowings under our revolving credit facility and net proceeds of offerings of equity or debt securities to fund future debt maturities, property acquisitions and for other general business purposes.

When significant amounts are outstanding for an extended period of time under our revolving credit facility and as the maturity dates of our revolving credit facility and term debts approach, we currently expect to explore alternatives for the repayment of amounts due or renewal or extension of the maturity dates. Such alternatives in the short term and long term may include incurring additional debt and issuing new equity securities. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities.

While we believe we will have access to various types of financings, including debt or equity, to fund our future acquisitions and to pay our debts and other obligations, there can be no assurance that we will be able to complete any debt or equity offerings or that our cost of any future public or private financings will be reasonable.

As of December 31, 2012, our contractual obligations were as follows (dollars in thousands):

Contractual Obligations	Total	Payment due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	\$2,733,478	\$	\$900,000	\$983,478	\$850,000
Ground lease obligations(2)	162,147	19,409	37,128	29,169	76,441
Security deposits(3)	26,577				26,577
Capital improvements(4)	391,967	335,247	56,720		
Projected interest expense(5)	647,521	134,834	236,606	139,356	136,725
Total	\$3,961,690	\$489,490	\$1,230,454	\$1,152,003	\$1,089,743

(1) Holders of our convertible senior notes (\$8,478 due in 2027) may require us to repurchase all or a portion of the notes on March 15, 2017 and March 15, 2022, or upon the occurrence of certain change in control events. The amounts in the table reflect these notes in the 3-5 years category as we expect to be required by their holders to repurchase them on March 15, 2017.

(2) 14 of our hotels and 20 of our travel centers are on land leased partially or in its entirety. In each case the ground lessors are unrelated to us. Generally, payments of ground lease obligations are made by our managers or tenants. However, if a manager or tenant fails to perform obligations under a ground lease or elects not to renew any ground lease, we might have to perform obligations under the ground lease or renew the ground lease in order to protect our investment in the affected hotel or travel center.

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(3) Represents the security deposit balance as of December 31, 2012. We may draw upon security deposits to cover any rent or return shortfalls thereby decreasing the potential obligation to repay some of these deposits.

(4) Represents amounts we have agreed to fund for capital improvements to our hotels in excess of amounts available in FF&E reserves as of December 31, 2012.

(5) Projected interest expense is interest attributable to only the long term debt obligations listed above at existing rates and is not intended to project future interest costs which may result from debt prepayments, new debt issuances or changes in interest rates.

On February 27, 2013, we announced that we had entered a letter of intent with NH Hoteles, SA, or NH Hoteles, under which we would loan NH Hoteles 170,000 secured by four hotels located in Spain (2 hotels), The Netherlands (1 hotel) and Belgium (1 hotel), acquire five hotels located in Mexico (2 hotels), Colombia (1 hotel), Chile (1 hotel) and Uruguay (1 hotel) and form a joint venture with NH Hoteles to acquire a hotel in New York City with an aggregate investment for the acquisitions and joint venture interest of approximately \$150,000. The letter of intent provides for an exclusive negotiating period. For the joint venture interest, we would fund \$80,000 to retire the ownership of NH Hoteles's current partner and fund a major renovation of the hotel that would be owned by the joint venture and the hotel would be branded jointly by NH Hoteles and Sonesta. We have not yet begun our diligence for this transaction and the final documentation of this transaction has not yet been agreed. Accordingly, we can provide no assurance that this transaction or any part of it will occur and, because of the preliminary status of our understanding with NH Hoteles, we have not included this possible investment in the table above.

### **Off Balance Sheet Arrangements**

As of December 31, 2012, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Debt Covenants**

Our debt obligations at December 31, 2012, consist of our revolving credit facility, our \$400,000 unsecured term loan and \$2,013,478 of publicly issued unsecured term debt and convertible notes. Our publicly issued unsecured term debt and convertible notes are governed by an indenture. This indenture and related supplements and our revolving credit facility and term loan agreements contain a number of financial ratio covenants which generally restrict our ability to incur debts, including debts secured by mortgages on our properties, in excess of calculated amounts, require us to maintain a minimum net worth, restrict our ability to make distributions under certain circumstances and require us to maintain various financial ratios. As of December 31, 2012, we believe we were in compliance with all of our covenants under our indenture and its supplements and our revolving credit facility and term loan agreements.

Neither our indenture and its supplements nor our revolving credit facility or term loan agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our revolving credit facility and term loan agreements, our highest senior unsecured debt rating is used to determine the fees and interest rates we pay. Accordingly, if that debt rating is downgraded by certain credit rating agencies, our interest expense and related costs under our revolving credit facility and term loan would increase.

Our public debt indenture and its supplements contain cross default provisions to any other debts of \$20,000 or more. Similarly, our revolving credit facility agreement and term loan agreement have cross default provisions to other indebtedness that is recourse of \$25,000 or more and indebtedness that is non-recourse of \$75,000 or more.

### **Related Person Transactions**

We have relationships and historical and continuing transactions with our Trustees, our executive officers, RMR, TA, Sonesta, AIC and other companies to which RMR provides management services and others affiliated with them. For example, we have no employees and personnel

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and various services we require to operate our business are provided to us by RMR pursuant to management agreements; and RMR is owned by our Managing Trustees. Also, as a further example, we have or had relationships with other companies to which RMR provides management services and which have trustees, directors and officers who are also trustees, directors or officers of ours or RMR or with entities affiliated with RMR, including: TA is our former subsidiary and our largest tenant and we are TA's largest shareholder; we acquired two hotels from Sonesta and Sonesta manages these hotels and others for our TRSs; we have recently sold two hotels to affiliates of RMR; and we, RMR, TA and five other companies to which RMR provides management services each currently own 12.5% of AIC, an Indiana insurance company, and we and the other shareholders of AIC have property insurance in place providing \$500,000 of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. For further information about these and other such relationships and related person transactions, please see Note 8 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference, and the section captioned "Business" above in Part I, Item 1 of this Annual Report on Form 10-K. In addition, for more information about these transactions and relationships and about the risks that may arise as a result of these and other related person transactions and relationships, please see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward Looking Statements" and Part I, Item 1A, "Risk Factors."

Copies of certain of our agreements with these related parties, including our business management agreement and property management agreement with RMR, various agreements we have entered with TA and Sonesta, our purchase and sale agreements with affiliates of RMR and our shareholders agreement with AIC and its shareholders, are publicly available as exhibits to our public filings with the SEC and accessible at the SEC's website at [www.sec.gov](http://www.sec.gov).

We believe that our agreements with RMR, TA, Sonesta and AIC are on commercially reasonable terms. We also believe that our relationships with RMR, TA, Sonesta and AIC and their affiliated and related persons and entities benefit us and, in fact, provide us with competitive advantages in operating and growing our business.

### **Critical Accounting Policies**

Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our:

- classification of leases and the related impact on the recognition of rental income;
  
- allocation of purchase prices between various asset categories and the related impact on the recognition of depreciation and amortization expenses;
  
- assessment of the carrying values and impairments of real estate and intangible assets;
  
- variable interest entities; and
  
- income taxes.

Certain of our properties are leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate its classification as either a capital or operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a leased property, appropriate present value discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.



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We allocate the acquisition cost of each property investment to various property components such as land, buildings and equipment and intangibles based on their fair values and each component generally has a different useful life. For real estate acquired, we record building, land, furniture, fixtures and equipment, and, if applicable, the value of acquired in-place leases, the fair market value of above or below market leases and customer relationships at fair value. We allocate the excess, if any, of the consideration over the fair value of assets acquired to goodwill. We base purchase price allocations and the determination of useful lives on our estimates and, under some circumstances, studies from independent real estate appraisal firms to provide market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determination of useful lives.

We compute depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements, and up to 12 years for personal property. We amortize the value of intangible assets over the shorter of their estimated useful lives, or the term of the respective lease or the affected contract. We do not depreciate the allocated cost of land. Purchase price allocations and estimates of useful lives require us to make certain assumptions and estimates. Incorrect assumptions and estimates may result in inaccurate depreciation and amortization charges over future periods.

We periodically evaluate our real estate and other assets for possible impairment indicators. These indicators may include weak or declining operating profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life or market or industry changes that could permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the related investment by comparing it to the expected future undiscounted cash flows to be generated from that investment. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value.

We test our indefinite lived intangible assets and goodwill for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual tests indicate that the asset might be impaired. The impairment test requires us to determine the estimated fair value of the intangible asset. An impairment charge is recorded if the fair value is determined to be lower than the carrying value.

We determine the fair value for our long lived assets and indefinite lived intangible assets by evaluating recent financial performance and projecting discounted cash flows using standard industry valuation techniques. These analyses require us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future operating profitability, market or industry factors differ from our expectations, we may record an impairment charge which is inappropriate, fail to record a charge when we should have done so or the amount of such charges may be inaccurate.

We have determined that each of our TRSs is a variable interest entity, or VIE, as defined under the Consolidation Topic of the FASB *Accounting Standards Codification*<sup>TM</sup>, or the Codification. We have concluded that we must consolidate each of our TRSs because we are the entity with the power to direct the activities that most significantly impact such VIEs performance and we have the obligation to absorb the majority of the potential variability in gains and losses of each VIE, with the primary focus on losses, and are therefore the primary beneficiary of each VIE.

We account for income taxes in accordance with the Income Taxes Topic of the Codification. Under this Topic, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We establish valuation allowances to reduce deferred tax assets to the amounts that are expected to be realized when necessary. We have elected to be taxed as a REIT under the IRC and are generally not subject to federal and state income taxation on our operating income provided we distribute our taxable income to our shareholders and meet certain organization and operating requirements. Despite our REIT status, we are subject to income tax in Canada, Puerto Rico and in certain states. Further, we lease our managed hotels to our wholly owned TRSs that, unlike most of our subsidiaries, are generally subject to federal, state and foreign income tax. Our consolidated income tax provision (or benefit) includes the income tax provision (or benefit) related to the operations of the TRSs and state and foreign income taxes incurred by us despite our tax status as a REIT. The Income Taxes Topic also prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Deferred tax benefits are recognized only to the extent that it is more likely than not that a particular tax position will be sustained upon examination or audit. To the extent the more likely than not standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that has a greater than 50% likelihood of being realized upon settlement. Tax returns filed for the 2009 through 2012 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

These policies involve significant judgments made based upon experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants and operators to perform their obligations to us, and the current and likely future operating and competitive environments in which our properties operate. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

#### **Property Management Agreements, Leases and Operating Statistics**

As of December 31, 2012, we owned or leased 289 hotels and 185 travel centers under 12 management agreements or leases. Our hotels are managed by or leased to separate affiliates of hotel operating companies including InterContinental, Marriott, Host, Hyatt, Carlson, Sonesta,

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Wyndham and Morgans under 10 agreements. Our 185 travel centers are leased to and operated by TA under two agreements.

The tables on the following pages summarize significant terms of our leases and management agreements as of December 31, 2012. The tables also include statistics reported to us or derived from information reported to us by our managers and tenants. These statistics include coverage of our minimum returns or minimum rents and occupancy, ADR and RevPAR for our hotel properties. We consider these statistics and the management agreement or lease security features also presented in the tables on the following pages, to be important measures of our managers and tenants' success in operating

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our properties and their ability to continue to pay us. However, none of this third party reported information is a direct measure of our financial performance and we have not independently verified this data.

Operating Agreement Reference Name	Number of Properties	Number of Rooms / Suites	Investment(1)	Annual Minimum Return / Rent(2)	Rent / Return Coverage(3) Year Ended December 31,	
					2012	2011
Marriott (No. 1)(4)	53	7,610	\$677,948	\$67,656	1.00x	0.81x
Marriott (No. 234)(5)	68	9,145	951,489	101,837	0.88x	0.74x
Marriott (No. 5)(6)	1	356	90,078	9,749	0.40x	0.50x
Marriott Total	122	17,111	1,719,515	179,242	0.90x	0.76x
InterContinental(7)	91	13,517	1,362,904	135,159	0.82x	0.95x
Sonesta (No. 1)(8)	20	3,701	491,638	37,081	0.38x	0.83x
Sonesta (No. 2)(9)	1	483	31,424	2,564	2.17x	2.86x
Sonesta Total	21	4,184	523,062	39,645	0.50x	0.96x
Hyatt(10)	22	2,724	301,942	22,037	0.82x	0.81x
Wyndham(11)	21	3,400	235,442	16,728	0.40x	0.61x
Carlson(12)	11	2,096	209,895	12,920	0.76x	0.64x
Morgans(13)	1	372	120,000	5,956	0.77x	0.76x
Hotels Total	289	43,404	4,472,760	411,687	0.80x	0.82x
TA (no. 1)(14)	145		1,951,806	154,105	1.69x	1.69x
TA (no. 2)(15)	40		746,805	57,720	1.69x	1.63x
TA Total	185		2,698,611	211,825	1.69x	1.67x
Total	474	43,404	\$7,171,371	\$623,512	1.11x	1.12x

(1) Represents the historical cost of our properties plus capital improvements funded by us less impairment writedowns, if any, and excludes capital improvements made from FF&E reserves funded from hotel operations.

(2) Each of our management agreements or leases provides for payment to us of an annual minimum return or minimum rent, respectively. Certain of these minimum payment amounts are secured by a full or limited guarantee or a security deposit as more fully described below. In addition, certain of our hotel management agreements provide for payment to us of additional amounts to the extent of available cash flow as defined in the management agreement. Payment of these additional amounts are not guaranteed or secured by deposits.

(3) We define coverage as combined total property level revenues minus FF&E reserve escrows, if any, and all property level expenses which are not subordinated to minimum returns and minimum rent payments to us (which data is provided to us by our managers or tenants), divided by the minimum return or minimum rent payments due to us. Coverage amounts for our Sonesta No. 1, Sonesta No. 2, Wyndham and Morgans agreements include data for periods prior to our ownership for certain hotels. Coverage amounts for our Sonesta No. 1 and Wyndham agreements include data for periods certain rebranded hotels were not operated by the current manager. Coverage amounts for our Marriott No. 234 and InterContinental agreements exclude data for hotels removed from the agreements during 2012.

(4) Our lease with a subsidiary of Host for 53 Courtyard by Marriott® branded hotels in 24 states expired on December 31, 2012 and we returned the \$50,540 security deposit we held to Host. As of January 1, 2013, we leased these 53 hotels to one of our TRSs and continued the existing combination management agreement with a subsidiary of Marriott, which expires in 2024 (Marriott has three renewal options for 12 years each for all, but not less than all, of the hotels).

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Because we no longer hold a security deposit for this agreement, payment by Marriott of the minimum return due to us under the management agreement is subject to available hotel cash flow after payment of operating expenses. In addition to our minimum return, this agreement provides for payment to us of 50% of available cash flow after payment of hotel operating expenses, funding of the required FF&E reserve, payment of our minimum return and payment of certain management fees.

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(5) We lease 68 of our Marriott branded hotels (1 full service Marriott®, 35 Residence Inn by Marriott®, 18 Courtyard by Marriott®, 12 TownePlace Suites by Marriott® and two SpringHill Suites by Marriott® hotels) in 24 states to one of our TRSs. The hotels are managed by subsidiaries of Marriott under a combination management agreement which expires in 2025 (Marriott has two renewal options for 10 years each for all, but not less than all, of the hotels).

We originally held a security deposit of \$64,700 under this agreement. As of December 31, 2012, we have fully exhausted this security deposit covering shortfalls in the payments of our minimum return. This security deposit may be replenished from future cash flows from these hotels in excess of our minimum return and certain management fees. Marriott has also provided us with a \$40,000 limited guaranty for payment shortfalls up to 90% of our minimum return, which expires in 2019. As of December 31, 2012, the available Marriott guaranty was \$25,977.

In addition to our minimum return, this agreement provides for payment to us of 62.5% of excess cash flow after payment of hotel operating expenses, funding of the required FF&E reserve, if any, payment of our minimum return, payment of certain management fees and replenishment of the security deposit. This additional return amount is not guaranteed or secured by the security deposit.

(6) We lease one Marriott® branded hotel in Kauai, HI to a subsidiary of Marriott under a lease that expires in 2019 (Marriott has four renewal options for 15 years each). This lease is guaranteed by Marriott and provides for increases in the annual minimum rent payable to us based on changes in the consumer price index.

(7) We lease 90 InterContinental branded hotels (19 Staybridge Suites®, 61 Candlewood Suites®, two InterContinental®, six Crowne Plaza® and two Holiday Inn® hotels) in 30 states in the U.S. and Ontario, Canada to one of our TRSs. These 90 hotels are managed by subsidiaries of InterContinental under a combination management agreement. One InterContinental® branded hotel in Puerto Rico is leased to a subsidiary of InterContinental. The management agreement and the lease expire in 2036 (InterContinental has two renewal options for 15 years each for all, but not less than all, of the hotels).

We originally held a security deposit of \$73,872 under this agreement. As of December 31, 2012, we have applied \$47,406 of the security deposit to cover shortfalls in the payments of our minimum return and rent. As of December 31, 2012, the balance of this security deposit was \$26,466. This security deposit may be replenished and increased up to \$100,000 from future cash flows from these hotels in excess of our minimum return and rent and certain management fees.

In addition to our minimum return, this management agreement provides for an annual additional return payment to us of \$14,423 to the extent of available cash flow after payment of hotel operating expenses, funding of the required FF&E reserve, if any, payment of our minimum return, payment of certain management fees and replenishment and expansion of the security deposit. In addition, the agreement provides for payment to us of 50% of the available cash flow after payment to us of the annual additional return amount. These additional return amounts are not guaranteed or secured by the security deposit.

(8) We lease 20 of our Sonesta branded hotels (three Royal Sonesta®, two Sonesta® and 15 Sonesta ES Suites® hotels) in 12 states to one of our TRSs. The hotels are managed by subsidiaries of Sonesta under a combination management agreement which expires in 2037 (Sonesta has two renewal options for 15 years each for all, but not less than all, of the hotels).

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We have no security deposit or guaranty from Sonesta. Accordingly, payment by Sonesta of the minimum return due to us under this management agreement is subject to available hotel cash flow after the payment of operating expenses, including certain management fees.

In addition to our minimum return, this management agreement provides for payment to us of 80% of available cash flow after payment of hotel operating expenses, management fees to Sonesta, our minimum return and reimbursement of operating loss or working capital advances, if any.

(9) One of our TRSs leases the Royal Sonesta® New Orleans hotel from a third party under a lease that expires in 2024. The hotel is managed by a subsidiary of Sonesta under a management agreement that expires in 2024.

We have no security deposit or guaranty from Sonesta. Accordingly, payment by Sonesta of our minimum return under this management agreement is subject to available hotel cash flow after the payment of operating expenses,

including a 3% base management fee and rent under the lease. Annual rent payable by us under the lease is calculated as 75% of the sum of the net profit of the hotel (hotel revenues less hotel operating expenses, including the 3% base management fee), less capital expenditures made during the lease year.

(10) We lease our 22 Hyatt Place® branded hotels in 14 states to one of our TRSs. The hotels are managed by a subsidiary of Hyatt under a combination management agreement that expires in 2030 (Hyatt has two renewal options for 15 years each for all, but not less than all, of the hotels).

We originally held a guaranty of \$50,000 under this agreement for payment shortfalls of our minimum return. As of December 31, 2012, the available Hyatt guaranty was \$17,143. The guaranty does not expire and may be replenished from future cash flows from the hotels in excess of our minimum return.

In addition to our minimum return, this management agreement provides for payment to us of 50% of available cash flow after payment of operating expenses, funding the FF&E reserve, payment of our minimum return and reimbursement to Hyatt of working capital and guaranty advances, if any. This additional return is not guaranteed.

(11) We lease our 21 Wyndham branded hotels (five Wyndham Hotels and Resorts® and 16 Hawthorn Suites® hotels) in 13 states to one of our TRSs. The hotels are managed by a subsidiary of Wyndham under a combination management agreement which expires in 2037 (Wyndham has two renewal options for 15 years each for all, but not less than all, of the hotels). We also lease 48 vacation units in one of the hotels to Wyndham Vacation Resorts, Inc. under a lease that expires in 2037 (Wyndham Vacation Resorts, Inc. has two renewal options for 15 years each for all, but not less than all, of the vacation units). The lease is guaranteed by Wyndham and provides for rent increases of 3% per annum.

We originally held a guaranty of \$29,000 under this agreement for payment shortfalls of minimum return, subject to an annual payment limit of \$14,500. As of December 31, 2012, the available Wyndham guaranty was \$21,550. This guaranty expires in 2019.

In addition to our minimum return, this management agreement provides for payment to us of 50% of available cash flow after payment of hotel operating expenses, payment of our minimum return, funding of the FF&E reserve, payment of certain management fees and reimbursement of any Wyndham guaranty advances. This additional return amount is not guaranteed. Amounts reimbursed to Wyndham for guaranty advances replenish the amount of Wyndham's guaranty available to us.

(12) We lease our 11 Carlson branded hotels (five Radisson® Hotels & Resorts, one Park Plaza® Hotels & Resorts and five Country Inns & Suites® hotels) in seven states to one of our TRSs. The hotels are managed by a subsidiary of Carlson under a combination management agreement that expires in 2030 (Carlson has two renewal options for 15 years each for all, but not less than all, of the hotels).

We originally held a limited guaranty of \$40,000 under this agreement for payment shortfalls of our minimum return. As of December 31, 2012, the available Carlson guaranty was \$22,544. The guaranty does not expire and may be replenished from future cash flows from the hotels in excess of our minimum return.



In addition to our minimum return, this management agreement provides for payment to us of 50% of available cash flow after payment of operating expenses, funding the FF&E reserve, payment of our minimum return and reimbursement to Carlson of working capital and guaranty advances, if any. This additional return is not guaranteed.

(13) On December 19, 2012, we acquired the Clift Hotel, a full service hotel in San Francisco, CA. This hotel is leased to a subsidiary of Morgans under a lease agreement that expires in 2103. The lease provides for annual initial rent to us of \$5,956. On October 14, 2014, the rent due to us will be increased based on changes in the consumer price index with a minimum increase of 20% of the current rent amount and a maximum increase of 40% as prescribed in the lease. On each fifth anniversary thereafter during the lease term, the rent due to us will be increased further based on changes in the consumer price index with minimum increases of 10% and maximum increases of 20%. Although the lease would qualify as a direct financing lease under GAAP, we account for this lease as an operating lease due to uncertainty regarding the collection of future rent and recognize rental income on a cash basis in accordance with GAAP.

(14) We lease our 145 TA® branded travel centers in 39 states to a subsidiary of TA under a lease that expires in 2022 (TA has no renewal options). In addition to the payment of our minimum rent this lease agreement provides for payment to us of percentage rent based on increases in total sales over base year levels (3% of non-fuel revenues and 0.3% of fuel revenues above 2011 revenues). The annual minimum rent amount presented for our TA No. 1 lease includes approximately \$5,126 of ground rent paid by TA for properties we lease and sublease to TA. This lease is guaranteed by TA.

(15) We lease our 40 Petro® branded travel centers in 25 states to a subsidiary of TA under a lease that expires in 2024 (TA has two renewal options for 15 years each for all, but not less than all, of the travel centers). In addition to the payment of our minimum rent this lease agreement provides for payment to us of percentage rent based on increases in total sales over base year levels (3% of non-fuel revenues and 0.3% of fuel revenues above 2012 revenues). We have agreed to waive payment of the first \$2,500 of percentage rent that may become due under the TA No. 2 lease. This lease is guaranteed by TA.

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The following tables summarize the operating statistics, including occupancy, ADR and RevPAR reported to us by our hotel managers or tenants by management agreement or lease for the periods indicated. All operating data presented are based upon the operating results provided by our managers and tenants for the indicated periods. We have not independently verified our managers' or tenants' operating data.

	No. of Hotels	No. of Rooms / Suites	Fourth Quarter(1)			Year to Date(1)		
			2012	2011	Change	2012	2011	Change
<b>ADR</b>								
Marriott (no. 1)	53	7,610	\$112.74	\$108.52	3.9%	\$112.84	\$108.10	4.4%
Marriott (no. 234)	68	9,145	107.77	101.89	5.8%	106.83	101.71	5.0%
Marriott (no. 5)	1	356	210.66	223.07	-5.6%	214.81	216.88	-1.0%
Marriott Total	122	17,111	111.85	107.15	4.4%	112.15	107.42	4.4%
InterContinental	91	13,517	92.74	83.72	10.8%	91.27	83.77	9.0%
Sonesta (no. 1)	20	3,701	115.86	116.29	-0.4%	120.81	117.02	3.2%
Sonesta (no. 2)	1	483	206.71	192.11	7.6%	204.84	180.57	13.4%
Sonesta Total	21	4,184	129.73	125.84	3.1%	131.91	124.71	5.8%
Hyatt	22	2,724	91.15	85.15	7.0%	92.73	87.59	5.9%
Wyndham	21	3,400	76.47	73.23	4.4%	76.44	71.24	7.3%
Carlson	11	2,096	85.58	84.68	1.1%	89.96	87.11	3.3%
Morgans	1	372	240.85	230.96	4.3%	239.82	219.96	9.0%
All hotels	289	43,404	\$104.10	\$98.43	5.8%	\$103.68	\$97.39	6.5%
<b>OCCUPANCY</b>								
Marriott (no. 1)	53	7,610	65.5%	62.2%	3.3 pts	67.3%	65.1%	2.2 pts
Marriott (no. 234)	68	9,145	68.2%	68.7%	-0.5 pts	68.8%	70.6%	-1.8 pts
Marriott (no. 5)	1	356	72.5%	78.3%	-5.8 pts	81.5%	85.6%	-4.1 pts
Marriott Total	122	17,111	67.1%	66.0%	1.1 pts	68.4%	68.4%	0.0 pts
InterContinental	91	13,517	67.8%	70.3%	-2.5 pts	69.5%	76.8%	-7.3 pts
Sonesta (no. 1)	20	3,701	57.5%	68.2%	-10.7 pts	67.3%	72.9%	-5.6 pts
Sonesta (no. 2)	1	483	79.4%	76.3%	3.1 pts	78.6%	77.0%	1.6 pts
Sonesta Total	21	4,184	60.0%	69.2%	-9.2 pts	68.6%	73.4%	-4.8 pts
Hyatt	22	2,724	73.4%	71.6%	1.8 pts	75.1%	76.9%	-1.8 pts
Wyndham	21	3,400	59.4%	64.9%	-5.5 pts	65.6%	69.3%	-3.7 pts
Carlson	11	2,096	64.4%	57.9%	6.5 pts	67.3%	64.2%	3.1 pts
Morgans	1	372	75.9%	77.6%	-1.7 pts	77.7%	79.5%	-1.8 pts
All hotels	289	43,404	66.4%	67.5%	-1.1 pts	69.0%	72.0%	-3.0 pts
<b>RevPAR</b>								
Marriott (no. 1)	53	7,610	\$73.84	\$67.50	9.4%	\$75.94	\$70.37	7.9%
Marriott (no. 234)	68	9,145	73.50	70.00	5.0%	73.50	71.81	2.4%
Marriott (no. 5)	1	356	152.73	174.66	-12.6%	175.07	185.65	-5.7%
Marriott Total	122	17,111	75.05	70.72	6.1%	76.71	73.48	4.4%
InterContinental	91	13,517	62.88	58.86	6.8%	63.43	64.34	-1.4%
Sonesta (no. 1)	20	3,701	66.62	79.31	-16.0%	81.31	85.31	-4.7%
Sonesta (no. 2)	1	483	164.13	146.58	12.0%	161.00	139.04	15.8%
Sonesta Total	21	4,184	77.84	87.08	-10.6%	90.49	91.54	-1.1%
Hyatt	22	2,724	66.90	60.97	9.7%	69.64	67.36	3.4%
Wyndham	21	3,400	45.42	47.53	-4.4%	50.14	49.37	1.6%
Carlson	11	2,096	55.11	49.03	12.4%	60.54	55.92	8.3%
Morgans	1	372	182.81	179.22	2.0%	186.34	174.87	6.6%
All hotels	289	43,404	\$69.12	\$66.44	4.0%	\$71.54	\$70.12	2.0%

(1) Includes data for the calendar periods indicated, except for our Marriott branded hotels, which include data for comparable fiscal periods. Operating data for our Sonesta No. 1, Sonesta No. 2, Wyndham and Morgans agreements include data for periods prior to our ownership of certain hotels and amounts for our Sonesta No. 1 and Wyndham agreements include data for periods certain rebranded hotels were not operated by the current manager. Operating data for our Marriott No. 234 and InterContinental agreements exclude data for hotels removed from the agreement during 2012.

**Impact of Inflation**

Inflation in the past several years in the United States has been modest. Future inflation might have either positive or negative impacts on our business. Inflation might cause the value of our real estate to increase. In an inflationary environment, the percentage returns and rents which we receive based upon a percentage of gross revenues should increase. Offsetting these benefits, inflation might cause our costs of equity and debt capital and operating costs to increase. An increase in our capital costs or in our operating costs may result in decreased earnings unless it is offset by increased

revenues. In periods of rapid inflation, our managers' or tenants' operating costs may increase faster than revenues, which may have an adverse impact upon us if the operating income from our properties becomes insufficient to pay our returns or rents and the security features, such as security deposits or guarantees of our returns or rents are exhausted. To mitigate the adverse impact of any increased cost of debt capital in the event of material inflation, we may enter into interest rate hedge arrangements in the future. The decision to enter into these agreements will be based on various factors, including the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the costs of and our expected benefit from these agreements and upon requirements of our borrowing arrangements.

### **Impact of Climate Change**

The current political debate about climate change has resulted in various treaties, laws and regulations which are intended to limit carbon emissions. We believe these laws being enacted or proposed may cause energy costs at our properties to increase in the future. Regardless, we do not expect the direct impact of any energy increases to be material to our results of operations, because the increased costs either would be the responsibility of our tenants or managers directly or in the longer term, passed through and paid by customers of our properties, although increased cost incurred by our managers may affect their ability to pay us our minimum rents or returns and may prevent or reduce any additional returns we may receive. Although we do not believe it is likely in the foreseeable future, laws enacted to mitigate climate change may make some of our buildings obsolete or cause us to make material investments in our properties which could materially and adversely affect our financial condition or the financial condition of our tenants or managers and their ability to pay rent or returns to us. There have recently been severe weather activities in different parts of the country that some observers believe evidence global climate change, including the recent Hurricane Sandy that impacted portions of the eastern United States in October 2012. Such severe weather that may result from climate change may have an adverse effect on individual properties we own. We mitigate these risks by owning a diversified portfolio of properties and by procuring insurance coverage we believe adequate to protect us from material damages and losses from such activities. However, there can be no assurance that our mitigation efforts will be sufficient or that storms that may occur due to future climate change or otherwise could not have a material adverse effect on our business.

### **Non-GAAP Measures**

We provide below calculations of our FFO and Normalized Funds from Operations, or Normalized FFO, for the years ended December 31, 2012, 2011 and 2010. We believe that this data may facilitate an understanding of our consolidated historical operating results. These measures should be considered in conjunction with net income, net income available for common shareholders, operating income and cash flow from operating activities as presented in our Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Cash Flows. These measures do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, net income available to common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. Other REITs and real estate companies may calculate FFO and Normalized FFO differently than we do.

#### *Funds From Operations and Normalized Funds From Operations*

We calculate FFO and Normalized FFO as shown below. FFO is calculated on the basis defined by the National Association of Real Estate Investment Trusts, or NAREIT, which is net income, calculated in accordance with GAAP, excluding any gain or loss on sale of properties and loss on impairment of real estate assets, plus real estate depreciation and amortization, as well as other adjustments currently not applicable to us. Our calculation of Normalized FFO differs from NAREIT's definition of FFO because we include estimated percentage rent in the period to which we estimate that it relates rather than when it is recognized as income in accordance with GAAP and exclude excess of liquidation preference over carrying value of preferred shares redeemed, acquisition related costs, loss on extinguishment of debt and loss on impairment of intangible assets. We consider FFO and Normalized FFO to be appropriate measures of operating performance for a REIT, along with net

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income, net income available for common shareholders, operating income and cash flow from operating activities. We believe that FFO and Normalized FFO provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation expense, FFO and Normalized FFO may facilitate a comparison of our operating performance between periods. FFO and Normalized FFO are among the factors considered by our Board of Trustees when determining the amount of distributions to our shareholders. Other factors include, but are not limited to, requirements to maintain our status as a REIT, limitations in our revolving credit facility and term loan agreements and public debt covenants, the availability of debt and equity capital to us, our expectation of our future capital requirements and operating performance, and our expected needs and availability of cash to pay our obligations.

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Our calculations of FFO and Normalized FFO for the years ended December 31, 2012, 2011 and 2010 and reconciliations of FFO and Normalized FFO to net income available for common shareholders, the most directly comparable financial measure under GAAP reported in our consolidated financial statements, appear in the following table.

		<b>Year Ended December 31,</b>		
		<b>2012</b>	<b>2011</b>	<b>2010</b>
Net income (loss) available for common shareholders		\$103,794	\$160,560	\$(8,529)
Add:	Depreciation and amortization	260,831	228,342	238,089
	Loss on real estate impairment	889	16,384	163,681
Less:	Gain on sale of real estate	(10,602)		
FFO		354,912	405,286	393,241
Add:	Acquisition related costs	4,173	2,185	
	Loss on goodwill impairment	7,658		
	Loss on extinguishment of debt			6,720
	Excess of liquidation preference over carrying value of preferred shares redeemed	7,984		
Normalized FFO		\$374,727	\$407,471	\$399,961
Weighted average shares outstanding		123,574	123,470	123,403
Net income (loss) available for common shareholders per share		\$0.84	\$1.30	\$(0.07)
FFO per share		\$2.87	\$3.28	\$3.19
Normalized FFO per share		\$3.03	\$3.30	\$3.24
Distributions declared per share		\$1.82	\$1.80	\$1.80

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a) Index to Financial Statements and Financial Statement Schedules**

The following audited consolidated financial statements and schedule of Hospitality Properties Trust are included on the pages indicated:

	<b>Page</b>
<u>Reports of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Income and Comprehensive Income for each of the three years ended December 31, 2012</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for each of the three years ended December 31, 2012</u>	F-5
<u>Consolidated Statements of Cash Flows for each of the three years ended December 31, 2012</u>	F-6
<u>Notes to Financial Statements</u>	F-7
<u>Schedule III Real Estate and Accumulated Depreciation as of December 31, 2012</u>	F-34
<u>Notes to Schedule III</u>	F-36

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable, and therefore have been omitted.



(b) Exhibits

Exhibit Number	Description
3.1	Composite Copy of Amended and Restated Declaration of Trust dated as of August 21, 1995, as amended to date. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 13, 2012.)
3.2	Articles Supplementary dated as of June 2, 1997. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.)
3.3	Articles Supplementary dated as of February 15, 2007. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 15, 2007.)
3.4	Articles Supplementary dated as of March 5, 2007. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 2, 2007.)
3.5	Articles Supplementary dated as of January 13, 2012. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 13, 2012.)
3.6	Amended and Restated Bylaws of the Company adopted August 6, 2012. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
4.1	Form of Common Share Certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
4.2	Form of 7% Series C Cumulative Redeemable Preferred Share Certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
4.3	Form of 7.125% Series D Cumulative Redeemable Preferred Share Certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
4.4	Indenture, dated as of February 25, 1998, between the Company and State Street Bank and Trust Company. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.)
4.5	Supplemental Indenture No. 8, dated as of February 15, 2005, between the Company and U.S. Bank National Association, relating to the Company's 51/8% Senior Notes due 2015, including form thereof. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 10, 2005.)
4.6	Supplemental Indenture No. 9, dated as of June 15, 2006, between the Company and U.S. Bank National Association, relating to the Company's 6.30% Senior Notes due 2016, including form thereof. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
4.7	Supplemental Indenture No. 10, dated as of March 7, 2007, between the Company and U.S. Bank National Association, relating to the Company's 3.80% Convertible Senior Notes due 2027, including form thereof. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 2, 2007.)
4.8	Supplemental Indenture No. 11, dated as of March 12, 2007, between the Company and U.S. Bank National Association, relating to the Company's 5.625% Senior Notes due 2017, including form thereof. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 7, 2007.)
4.9	Supplemental Indenture No. 12, dated as of September 28, 2007, between the Company and U.S. Bank National Association, relating to the Company's 6.70% Senior Notes due 2018, including form thereof. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.)
4.10	Supplemental Indenture No. 13, dated as of August 12, 2009, between the Company and U.S. Bank National Association, relating to the Company's 7.875% Senior Notes due 2014, including form thereof. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.)
4.11	Supplemental Indenture No. 14, dated as of August 16, 2012, between the Company and U.S. Bank National Association, relating to the Company's 5.000% Senior Notes due 2022, including form thereof. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
4.12	Renewed Rights Agreement, dated as of May 15, 2007, between the Company and Wells Fargo Bank, National Association. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 15, 2007.)
8.1	Opinion of Sullivan & Worcester LLP as to certain tax matters. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
10.1	Amended and Restated Business Management Agreement, dated as of December 10, 2012, by and between the Company, Reit Management & Research LLC and, solely with respect to Section 16 thereof, Barry M. Portnoy, Gerard M. Martin and Adam D. Portnoy. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated December 10, 2012.)
10.2	Amended and Restated Property Management Agreement, dated as of January 13, 2010, between Reit Management & Research LLC and the Company. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated January 13, 2010.)
10.3	

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First Amendment to Amended and Restated Property Management Agreement, dated as of December 16, 2010, between Reit Management & Research LLC and the Company. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.)

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- 10.4 Second Amendment to Amended and Restated Property Management Agreement, dated as of December 10, 2012, among Reit Management & Research LLC and the Company, on behalf of itself and certain of its subsidiaries. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated December 10, 2012.)
- 10.5 Summary of Trustee Compensation. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated May 9, 2012.)
- 10.6 The Company's 1995 Incentive Share Award Plan. (+) (Incorporated by reference to the Company's Registration Statement on Form S-11/A (Pre-effective Amendment No. 2), File No. 33-92330.)
- 10.7 Amendment to the Company's 1995 Incentive Share Award Plan effective as of May 30, 2003. (+) (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
- 10.8 The Company's 2003 Incentive Share Award Plan effective as of May 30, 2003. (+) (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
- 10.9 Form of Restricted Share Agreement. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated September 21, 2010.)
- 10.10 2012 Equity Compensation Plan. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated May 9, 2012.)
- 10.11 Form of Restricted Share Agreement. (+) (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
- 10.12 Form of Indemnification Agreement. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated May 9, 2012.)
- 10.13 Credit Agreement, dated as of September 8, 2011, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and each of the other financial institutions initially a signatory thereto. (Incorporated by reference to the Company's Current Report on Form 8-K dated September 8, 2011.)
- 10.14 Term Loan Agreement, dated as of March 12, 2012, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and each of the other financial institutions initially a signatory thereto. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 12, 2012.)
- 10.15 Purchase Agreement, dated November 2, 2011, among Property Acquisition Corp. (subsequently known as Sonesta Acquisition Corp., now known as Sonesta International Hotels Corporation), PAC Merger Corp., and the Company. (Incorporated by reference to the Company's Current Report on Form 8-K dated November 2, 2011.)
- 10.16 Representative Form of Management Agreement between Sonesta International Hotels Corporation and Cambridge TRS, Inc. (full service). (Incorporated by reference to the Company's Current Report on Form 8-K dated April 23, 2012.) (Schedule of applicable agreements incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.17 Representative Form of Management Agreement between Sonesta International Hotels Corporation and Cambridge TRS, Inc. (limited service). (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.18 Pooling Agreement, dated April 23, 2012, as updated through August 6, 2012, between Sonesta International Hotels Corporation and Cambridge TRS, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.19 Management Agreement, dated as of January 31, 2012, between Sonesta Acquisition Corp. (now known as Sonesta International Hotels Corporation) and Cambridge TRS, Inc. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 31, 2012.)
- 10.20 Management Agreement, dated as of January 31, 2012, between Sonesta International Hotels Corporation and Royal Sonesta, Inc. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 31, 2012.)
- 10.21 First Amendment to Management Agreements, dated August 6, 2012, among Royal Sonesta Inc., Cambridge TRS, Inc. and Sonesta International Hotels Corporation. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.22 Transaction Agreement, dated as of January 29, 2007, among the Company, TravelCenters of America LLC, HPT TA Properties Trust, HPT TA Properties LLC, HPT TA Merger Sub Inc. and Reit Management & Research LLC. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)
- 10.23 Lease Agreement, dated as of January 31, 2007, among HPT TA Properties Trust, HPT TA Properties LLC and TA Leasing LLC. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)

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- 10.24 Guaranty Agreement, dated as of January 31, 2007, by TravelCenters of America LLC and certain of its subsidiaries, for the benefit of HPT TA Properties Trust and HPT TA Properties LLC. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 9, 2007.)
- 10.25 First Amendment to Lease Agreement, dated as of May 12, 2008, among HPT TA Properties Trust, HPT TA Properties LLC and TA Leasing LLC. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 12, 2008.)
- 10.26 Lease Agreement, dated as of May 30, 2007, among HPT PSC Properties Trust and HPT PSC Properties LLC, as Landlord, and Petro Stopping Centers, L.P., as Tenant. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)
- 10.27 Guaranty Agreement, dated as of May 30, 2007, made by TravelCenters of America LLC, as Guarantor, for the benefit of HPT PSC Properties Trust and HPT PSC Properties LLC. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 29, 2007.)
- 10.28 First Amendment to Lease Agreement, dated as of March 17, 2008, among HPT PSC Properties Trust, HPT PSC Properties LLC and Petro Stopping Centers, L.P. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)
- 10.29 Deferral Agreement, dated as of August 11, 2008, among the Company, HPT TA Properties Trust, HPT TA Properties LLC, HPT PSC Properties Trust, HPT PSC Properties LLC, TravelCenters of America LLC, TA Leasing LLC and Petro Stopping Centers, L.P. (Incorporated by reference to the Company's Current Report on Form 8-K dated August 11, 2008.)
- 10.30 Amendment Agreement, dated as of January 31, 2011, among the Company, HPT TA Properties Trust, HPT TA Properties LLC, HPT PSC Properties Trust, HPT PSC Properties LLC, TravelCenters of America LLC, TA Leasing LLC and TA Operating LLC. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 31, 2011.)
- 10.31 Amended and Restated Shareholders Agreement, dated May 21, 2012, by and among Affiliates Insurance Company, Five Star Quality Care, Inc., the Company, Commonwealth REIT, Senior Housing Properties Trust, TravelCenters of America LLC, Reit Management & Research LLC, Government Properties Income Trust and Select Income REIT. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.32 Form of Amended and Restated Management Agreement among certain subsidiaries of the Company and certain subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Current Report on Form 8-K dated June 14, 2011.)
- 10.33 Pooling Agreement, dated as of June 14, 2011 but effective as of January 1, 2011, among HPT TRS MRP, Inc., Marriott International, Inc. and certain subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 10.34 Letter Agreement, dated May 30, 2012, among Marriott International Inc., HPTMI Properties Trust and other parties referencing T-234 Initial Exit Hotels. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 30, 2012.)
- 10.35 Letter Agreement, dated May 30, 2012, among Marriott International Inc., HPT TRS MRP, Inc. and other parties referencing T-234 FF&E Reserve Contributions. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 30, 2012.)
- 10.36 Management Agreement, dated as of July 1, 2011, among HPT TRS IHG-1, Inc., HPT TRS IHG-2, Inc., HPT TRS IHG-3, Inc., InterContinental Hotels Group Resources, Inc., IHG Management (Maryland) LLC, and InterContinental Hotels Group (Canada), Inc. (Incorporated by reference to the Company's Current Report on Form 8-K dated July 25, 2011.)
- 10.37 Purchase and Sale Agreement, dated as of August 6, 2012, among HPT IHG-2 Properties Trust, HPT TRS IHG-2, Inc. and an assignee of Schaumberg Suites LLC. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 10.38 Purchase and Sale Agreement, dated as of August 6, 2012, among HPT IHG-2 Properties Trust, HPT TRS IHG-2, Inc. and an assignee of Auburn Hills Suites LLC. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 2, for the quarter ended June 30, 2012.)
- 12.1 Computation of Ratio of Earnings to Fixed Charges. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Distributions. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 21.1 Subsidiaries of the Company. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 23.1 Consent of Ernst & Young LLP. (Filed herewith.)
- 23.2 Consent of Sullivan & Worcester LLP. (Contained in Exhibit 8.1.)
- 31.1 Rule 13a-14(a) Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 31.2 Rule 13a-14(a) Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 31.3 Rule 13a-14(a) Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
- 31.4 Rule 13a-14(a) Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)

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- 31.5 Rule 13a-14(a) Certification with respect to Amendment No. 1 to Annual Report on Form 10-K/A. (Filed herewith.)
- 31.6 Rule 13a-14(a) Certification with respect to Amendment No. 1 to Annual Report on Form 10-K/A. (Filed herewith.)
- 31.7 Rule 13a-14(a) Certification with respect to Amendment No. 1 to Annual Report on Form 10-K/A. (Filed herewith.)
- 31.8 Rule 13a-14(a) Certification with respect to Amendment No. 1 to Annual Report on Form 10-K/A. (Filed herewith.)

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- 32.1 Section 1350 Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.) (Furnished therewith.)
- 32.2 Section 1350 Certification with respect to Amendment No. 1 to Annual Report on Form 10-K/A. (Furnished herewith.)
- 101.1 The following materials from Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these financial statements, tagged as blocks of text and in detail. (Filed herewith.)

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(+) Management contract or compensatory plan or arrangement.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Trustees and Shareholders of Hospitality Properties Trust:**

We have audited the accompanying consolidated balance sheets of Hospitality Properties Trust as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hospitality Properties Trust at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hospitality Properties Trust's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
March 1, 2013, except for Note 9, as to which the date is  
March 18, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Trustees and Shareholders of Hospitality Properties Trust:**

We have audited Hospitality Properties Trust's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hospitality Properties Trust's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Item 9A of Hospitality Properties Trust's Annual Report on Form 10-K under the heading Management Report on Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Hospitality Properties Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2012 consolidated financial statements of Hospitality Properties Trust and our report dated March 1, 2013 (except for Note 9, as to which the date is March 18, 2013) expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP



Boston, Massachusetts  
March 1, 2013

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**HOSPITALITY PROPERTIES TRUST****CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)

	As of December 31,	
	2012	2011
<b><u>ASSETS</u></b>		
Real estate properties, at cost:		
Land	\$1,453,399	\$1,360,773
Buildings, improvements and equipment	5,445,710	4,879,908
	6,899,109	6,240,681
Accumulated depreciation	(1,551,160)	(1,367,868)
	5,347,949	4,872,813
Properties held for sale		18,440
Cash and cash equivalents	20,049	8,303
Restricted cash (FF&E reserve escrow)	40,744	50,196
Other assets, net	226,383	183,821
	\$5,635,125	\$5,133,573
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Unsecured revolving credit facility	\$320,000	\$149,000
Unsecured term loan	400,000	
Senior notes, net of discounts	1,993,880	1,887,891
Convertible senior notes, net of discount	8,478	78,823
Security deposits	26,577	106,422
Accounts payable and other liabilities	132,032	103,668
Due to related persons	13,696	3,713
Dividends payable	6,664	4,754
Total liabilities	2,901,327	2,334,271
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest, no par value, 100,000,000 shares authorized:		
Series B preferred shares; 87/8% cumulative redeemable; zero and 3,450,000 shares issued and outstanding, aggregate liquidation preference zero and \$86,250, respectively		83,306
Series C preferred shares; 7% cumulative redeemable; 6,700,000 and 12,700,000 shares issued and outstanding, aggregate liquidation preference \$167,500 and \$317,500, respectively	161,873	306,833
Series D preferred shares; 71/8% cumulative redeemable; 11,600,000 and zero shares issued and outstanding, respectively aggregate liquidation preference \$290,000 and zero, respectively	280,107	
Common shares of beneficial interest, \$.01 par value; 200,000,000 shares authorized; 123,637,424 and 123,521,535 issued and outstanding, respectively	1,236	1,235
Additional paid in capital	3,458,144	3,463,534
Cumulative net income	2,384,876	2,232,953
Cumulative other comprehensive income	2,770	1,605
Cumulative preferred distributions	(253,426)	(213,281)
Cumulative common distributions	(3,301,782)	(3,076,883)
Total shareholders' equity	2,733,798	2,799,302
	\$5,635,125	\$5,133,573

The accompanying notes are an integral part of these financial statements.



## HOSPITALITY PROPERTIES TRUST

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Hotel operating revenues	\$980,732	\$889,120	\$736,363
Rental income:			
Minimum rent	296,016	302,703	325,321
Percentage rent	4,338	1,879	1,450
	300,354	304,582	326,771
FF&E reserve income	15,896	16,631	22,354
Total revenues	1,296,982	1,210,333	1,085,488
Expenses:			
Hotel operating expenses	700,939	596,616	477,595
Depreciation and amortization	260,831	228,342	238,089
General and administrative	44,032	40,963	38,961
Acquisition related costs	4,173	2,185	
Loss on asset impairment	8,547	16,384	163,681
Total expenses	1,018,522	884,490	918,326
Operating income	278,460	325,843	167,162
Interest income	268	70	260
Interest expense (including amortization of deferred financing costs and debt discounts of \$6,179, \$6,305 and \$7,123, respectively)	(136,111)	(134,110)	(138,712)
Gain on sale of real estate	10,602		
Gain on extinguishment of debt			(6,720)
Equity in earnings (losses) of an investee	316	139	(1)
Income before income taxes	153,535	191,942	21,989
Income tax expense	(1,612)	(1,502)	(638)
Net income	151,923	190,440	21,351
Excess of liquidation preference over carrying value of of preferred shares redeemed	(7,984)		
Preferred distributions	(40,145)	(29,880)	(29,880)
Net income (loss) available for common shareholders	\$103,794	\$160,560	\$(8,529)
Net income	151,923	190,440	21,351
Other comprehensive income (loss):			
Unrealized gain (loss) on TravelCenters of America common shares	1,143	(701)	(1,001)
Equity interest in investee's unrealized gains	22	75	2
Other comprehensive income (loss)	1,165	(626)	(999)
Comprehensive income	153,088	189,814	20,352
Weighted average common shares outstanding	123,574	123,470	123,403
Basic and diluted net income (loss) available for common shareholders per common share	\$0.84	\$1.30	\$(0.07)

The accompanying notes are an integral part of these financial statements.



## HOSPITALITY PROPERTIES TRUST

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands, except share data)

	Series B		Preferred Shares Series C		Series D		Common Shares					Additional Paid in Capital	Cumula Net Inco
	Number of Shares	Preferred Shares	Number of Shares	Preferred Shares	Number of Shares	Preferred Shares	Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions			
Balance at December 31, 2009	3,450,000	\$83,306	12,700,000	\$306,833			\$ (153,521)	123,380,335	\$1,234	\$(2,632,522)	\$3,462,209	\$2,021,	
Net income												21,	
Unrealized loss on investment													
Common share grants								63,900				1,018	
Repurchase of convertible senior notes												(1,058)	
Distributions							(29,880)			(222,122)			
Balance at December 31, 2010	3,450,000	83,306	12,700,000	306,833			(183,401)	123,444,235	1,234	(2,854,644)	3,462,169	2,042,	
Net income												190,	
Unrealized loss on investments													
Common share grants								77,300	1			1,365	
Distributions							(29,880)			(222,239)			
Balance at December 31, 2011	3,450,000	83,306	12,700,000	306,833			(213,281)	123,521,535	1,235	(3,076,883)	3,463,534	2,232,	
Net income												151,	
Unrealized gain on investments													
Issuance of shares, net					11,600,000	280,107							
Redemption of shares, net	(3,450,000)	(83,306)	(6,000,000)	(144,960)									
Common share grants								115,889	1			2,594	
Excess of liquidation preference over carrying value of preferred shares redeemed												(7,984)	
Distributions							(40,145)			(224,899)			
Balance at December 31, 2012		\$ 6,700,000	\$161,873	11,600,000	\$280,107	\$(253,426)	123,637,424	\$1,236	\$(3,301,782)	\$3,458,144	\$2,384,		

The accompanying notes are an integral part of these financial statements.



## HOSPITALITY PROPERTIES TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$151,923	\$190,440	\$21,351
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	260,831	228,342	238,089
Amortization of deferred financing costs and debt discounts as interest	6,179	6,305	7,123
Straight line rental income	(252)	(4,807)	
Security deposits applied to payment shortfalls	(29,354)	(36,444)	(28,508)
FF&E reserve income and deposits	(21,672)	(47,485)	(58,944)
Loss on extinguishment of debt			6,720
Loss on asset impairment	8,547	16,384	163,681
Equity in (earnings) losses of an investee	(316)	(139)	1
Gain on sale of real estate	(10,602)		
Other non-cash (income) expense, net	(1,455)	(1,340)	(2,587)
Changes in assets and liabilities:			
Increase in other assets	(23,356)	(2,890)	(1,111)
Increase (decrease) in accounts payable and other liabilities	17,918	6,696	(4,424)
Increase in due to related persons	5,517	40	53
Cash provided by operating activities	363,908	355,102	341,444
Cash flows from investing activities:			
Real estate acquisitions	(355,500)		
Real estate improvements	(275,440)	(69,345)	(7,091)
FF&E reserve fundings	(81,644)	(63,177)	(97,816)
Net proceeds from sale of real estate	34,204	6,905	
Investment in TravelCenters of America common shares		(5,690)	
Investment in Affiliates Insurance Company			(76)
Increase (decrease) in security deposits	(50,540)	37,000	(17,220)
Cash used in investing activities	(728,920)	(94,307)	(122,203)
Cash flows from financing activities:			
Proceeds from issuance of preferred shares, net	280,107		
Proceeds from unsecured term loan	400,000		
Proceeds from issuance of senior notes, net of discount	491,975		
Redemption of preferred shares	(236,250)		
Repurchase of convertible senior notes	(70,576)		(185,626)
Repayment of senior notes	(387,829)		(50,000)
Repayment of mortgage note		(3,383)	
Borrowings under unsecured revolving credit facility	698,000	276,000	298,000
Repayments of unsecured revolving credit facility	(527,000)	(271,000)	(154,000)
Deferred financing costs	(6,625)	(6,872)	(1,130)
Distributions to preferred shareholders	(40,145)	(29,880)	(29,880)
Distributions to common shareholders	(224,899)	(222,239)	(222,122)
Cash provided by (used in) financing activities	376,758	(257,374)	(344,758)
Increase (decrease) in cash and cash equivalents	11,746	3,421	(125,517)
Cash and cash equivalents at beginning of year	8,303	4,882	130,399
Cash and cash equivalents at end of year	\$20,049	\$8,303	\$4,882
Supplemental cash flow information:			
Cash paid for interest	\$131,249	\$127,131	\$135,929
Cash paid for income taxes	1,535	1,354	1,553
Non-cash investing activities:			
Property managers' deposits in FF&E reserve	\$23,364	\$50,834	\$60,631



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Property managers' purchases with FF&E reserve	(119,460)	(144,436)	(102,909)
Non-cash financing activities:			
Issuance of common shares	\$2,595	\$1,366	\$1,018

The accompanying notes are an integral part of these financial statements.

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**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

(dollars in thousands, except per share data)

**1. Organization**

Hospitality Properties Trust, or HPT, we, our or us, is a real estate investment trust, or REIT, organized on February 7, 1995, under the laws of the State of Maryland, which invests in real estate used in hospitality industries. At December 31, 2012, HPT, directly and through subsidiaries, owned or leased 289 hotels and 185 travel centers.

At December 31, 2012, our properties were leased or managed by subsidiaries of the following companies: Host Hotels and Resorts, Inc., or Host, Marriott International, Inc., or Marriott, InterContinental Hotels Group PLC, or InterContinental, Hyatt Hotels Corporation, or Hyatt, Carlson Hotels Worldwide, or Carlson, Sonesta International Hotels Corporation, or Sonesta, Wyndham Hotel Group, or Wyndham, Morgans Hotel Group, or Morgans, and TravelCenters of America LLC, or TA. Hereinafter these companies are sometimes referred to as managers and/or tenants.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation.** These consolidated financial statements include the accounts of HPT and its subsidiaries, all of which are 100% owned directly or indirectly by HPT. All intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. Certain hotels previously classified as properties held for sale at December 31, 2011 have been reclassified to real estate properties, at cost in our consolidated balance sheets due to a change from held for sale status. See Note 12 for further information regarding these hotels.

We have determined that each of our taxable REIT subsidiaries, or TRSs, is a variable interest entity, or VIE, as defined under the Consolidation Topic of the Financial Accounting Standards Board, or FASB, *Accounting Standards Codification*<sup>TM</sup>, or the Codification. We have concluded that we must consolidate each of our TRSs because we are the entity with the power to direct the activities that most significantly impact such VIEs' performance and we have the obligation to absorb the majority of the potential variability in gains and losses of each VIE, with the primary focus on losses, and are therefore, the primary beneficiary of each VIE.

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We account for our investment in Affiliates Insurance Company, or AIC, using the equity method of accounting. Significant influence is present through common representation on the boards of trustees or directors of us and AIC. Our Managing Trustees are also owners of Reit Management & Research LLC, or RMR, which is the manager of us and AIC, and each of our Trustees is a director of AIC. See Note 8 for a further discussion of our investment in AIC.

**Real Estate Properties.** We record real estate properties at cost less impairments, if any. We record the cost of real estate acquired at the fair value of building, land, furniture, fixtures and equipment, and, if applicable, acquired in place leases, above or below market leases and customer relationships. We allocate the excess, if any, of the consideration over the fair value of the assets acquired to goodwill. We depreciate real estate properties on a straight line basis over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property and we amortize finite lived intangible assets over the shorter of their useful lives or the term of the associated lease.

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of our real estate properties. If there is an indication that the carrying value of a property is not recoverable, we estimate the projected undiscounted cash flows of the asset to determine if an impairment loss should be recognized. We determine the amount of an impairment loss by comparing the historical carrying value of the property to its estimated fair value. We estimate fair value by evaluating recent financial performance and projecting discounted cash flows of properties using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our real estate properties. If we change estimated lives, we depreciate or amortize the carrying values of affected assets over the revised remaining lives. In connection with our decision to remove certain hotels from held for sale status in the first quarter of 2012, we recorded an \$889 loss on asset impairment. See Note 12 for further information regarding these hotels.

**Goodwill.** Goodwill is the excess of the allocated acquisition cost over the estimated fair value of assets we acquired and liabilities we assumed at the time of acquisition. We recorded in purchase accounting \$7,658 of goodwill in

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

(dollars in thousands, except per share data)

connection with our January 31, 2012 acquisition of the entities which own the Royal Sonesta Hotel Boston in Cambridge, MA, or the Cambridge Hotel, and lease the Royal Sonesta Hotel New Orleans in New Orleans, LA, or the New Orleans Hotel. See Notes 4 and 8 for further information regarding these transactions. We review goodwill for impairment annually or more frequently if events or changes in circumstances exist. If our review indicates that the carrying value of goodwill exceeds its estimated fair value, we reduce the carrying value of goodwill to its estimated fair value. We evaluate goodwill for impairment at the reporting unit level, which we determined to be the portfolio of 20 hotels included in the agreement we refer to as Sonesta No. 1, by comparing the estimated fair value of the reporting unit as determined by its projected discounted cash flows and standard industry valuation techniques, with its carrying value. Our annual impairment review of goodwill as of December 31, 2012 indicated the carrying value of goodwill exceeded its estimated fair value and we recorded a \$7,658 loss on asset impairment to write off its carrying value.

**Intangible Assets and Liabilities.** Intangible assets consist primarily of acquired trademarks and tradenames, the acquired leasehold interest in the New Orleans Hotel and acquired below market ground leases. Intangible liabilities consist of acquired above market ground leases. We include intangible assets in other assets, net, and intangible liabilities in accounts payable and other liabilities in our consolidated balance sheets.

At December 31, 2012 and 2011, our intangible assets and liabilities were as follows:

	As of December 31,	
	2012	2011
Assets:		
Tradenames and trademarks	\$89,375	\$89,375
Below market ground leases, net of accumulated amortization of \$23,369 and \$21,198, respectively	25,708	27,879
New Orleans hotel leasehold interest, net of accumulated amortization of \$1,723 and zero, respectively	19,858	
Other, net of accumulated amortization of \$901 and zero, respectively	3,212	
	\$138,153	\$117,254
Liabilities:		
Above market ground leases, net of accumulated amortization of \$6,164 and \$5,511, respectively	\$8,514	\$5,139

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We amortize above and below market ground leases and the New Orleans Hotel leasehold interest on a straight line basis over the term of the associated lease (20 and 14 years on a weighted average basis for intangible assets and liabilities, respectively). For the years ended December 31, 2012, 2011 and 2010, amortization relating to intangible assets was \$4,796, \$2,171 and \$2,172, respectively, and amortization relating to intangible liabilities was \$653, \$695 and \$726, respectively. As of December 31, 2012, we estimate future amortization relating to intangible assets and liabilities as follows:

	<b>Below Market Ground Leases &amp; Other</b>	<b>New Orleans Hotel Leasehold Interest</b>	<b>Above Market Ground Leases</b>
2013	\$2,589	\$1,798	\$(2,892)
2014	2,488	1,798	(2,484)
2015	2,297	1,798	(653)
2016	2,268	1,798	(653)
2017	2,268	1,798	(653)
Thereafter	17,010	10,868	(1,179)
	<b>\$28,920</b>	<b>\$19,858</b>	<b>\$(8,514)</b>

We do not amortize our indefinite lived trademarks and tradenames, but we review the assets at least annually for impairment and reassess their classification as indefinite lived assets. In addition, we regularly evaluate whether events or

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

(dollars in thousands, except per share data)

changes in circumstances have occurred that could indicate impairment in value. We determine the amount of an impairment loss, if any, by comparing the carrying value of the intangible asset to its estimated fair value.

**Cash and Cash Equivalents.** We consider highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents.

**Restricted Cash.** Restricted cash, or FF&E reserve escrows, consists of amounts escrowed pursuant to the terms of our management agreements and leases to fund periodic renovations and improvements at our hotels.

**Deferred Financing Costs.** We capitalize costs incurred to borrow and we amortize those costs as interest expense over the term of the related borrowing. Deferred financing costs were \$15,062 and \$12,542 at December 31, 2012 and 2011, respectively, net of accumulated amortization of \$29,397 and \$30,364, respectively, and are included in other assets, net, in our consolidated balance sheets. We estimate that future amortization of deferred financing fees with respect to our loans as of December 31, 2012 will be approximately \$4,081 in 2013, \$3,892 in 2014, \$2,838 in 2015, \$1,526 in 2016, \$812 in 2017 and \$1,913 thereafter.

**Revenue Recognition.** We report hotel operating revenues for managed hotels in our consolidated statements of income and comprehensive income. We generally recognize hotel operating revenues, consisting primarily of room and food and beverage sales, when services are provided. Our share of the net operating results of our managed hotels in excess of the minimum returns due to us, or additional returns, are generally determined annually. We recognize additional returns due to us under our management agreements at year end when all contingencies are met and the income is earned. We earned no additional returns in 2012, 2011 and 2010.

We recognize rental income from operating leases on a straight line basis over the term of the lease agreements except for one lease in which there is uncertainty regarding the collection of future rent increases. See Note 5 for further information regarding this lease. Rental income includes \$252, \$4,807, and \$0 of adjustments necessary to record rent on a straight line basis in 2012, 2011 and 2010, respectively.

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We determine percentage rent due to us under our leases annually and recognize it at year end when all contingencies are met and the rent is earned. We earned percentage rental income of \$4,338, \$1,879 and \$1,450 in 2012, 2011 and 2010, respectively.

We own all the FF&E reserve escrows for our hotels. We report deposits by our third party tenants into the escrow accounts as FF&E reserve income. We do not report the amounts which are escrowed as FF&E reserves for our managed hotels as FF&E reserve income.

**Per Common Share Amounts.** We compute per common share amounts using the weighted average number of common shares outstanding during the period. We had no dilutive common share equivalents during the periods presented.

**Use of Estimates.** The preparation of financial statements in conformity with United States generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates. Significant estimates in our consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, useful lives of real estate and impairment.

**Segment Information.** As of December 31, 2012, we have two reportable business segments: hotel and travel center real estate investments.

**Income Taxes.** We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, and, as such, are generally not subject to federal and most state income taxation on our operating income provided we distribute our taxable income to our shareholders and meet certain organization and operating requirements. We are subject to income tax in Canada, Puerto Rico and certain states despite our REIT status. Further, we lease our managed hotels to our wholly owned TRSs that, unlike most of our subsidiaries, file a separate consolidated tax return and are subject to federal, state and foreign income taxes. Our consolidated income tax provision (or benefit) includes

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

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(dollars in thousands, except per share data)

the income tax provision (or benefit) related to the operations of our TRSs and certain state and foreign income taxes incurred by us despite our REIT status.

The Income Taxes Topic of the Codification prescribes how we should recognize, measure and present in our consolidated financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Deferred tax benefits are recognized to the extent that it is more likely than not that a particular tax position will be sustained upon examination or audit. To the extent the more likely than not standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that has a greater than 50% likelihood of being realized upon settlement. Our tax returns filed for the 2009 through 2012 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our consolidated statements of income and comprehensive income as a component of general and administrative expense.

**New Accounting Pronouncements.** In January 2012, we adopted FASB Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. This update clarified the application of existing fair value measurement requirements. This update also required reporting entities to disclose additional information regarding fair value measurements categorized within Level 3 of the fair value hierarchy. This update was effective for interim and annual reporting periods beginning after December 15, 2011. The implementation of this update did not cause any material changes to the disclosures in, or presentation of, our consolidated financial statements.

In January 2012, we adopted FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*. This update eliminates the prior option to report other comprehensive income and its components in the statement of shareholders' equity. This update is intended to enhance comparability between entities that report under GAAP and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. The update was effective for interim and annual reporting periods beginning after December 15, 2011. The implementation of this update did not cause any changes to our condensed consolidated financial statements other than the presentation of the consolidated statements of comprehensive income.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. This update gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. The update is effective for interim and annual reporting periods beginning after September 15, 2012 with early adoption permitted. The implementation of this update is not expected to cause any changes to our consolidated financial statements.



### 3. Shareholders Equity

#### *Common Share Issuances*

As further described in Note 8, under the terms of our business management agreement with RMR, on March 29, 2012 we issued 33,132 of our common shares of beneficial interest, \$.01 par value per share, or our common shares, to RMR in payment of an incentive fee of approximately \$741 for services rendered to us by RMR during 2011.

#### *Share Awards*

We reserved an aggregate of 3,000,000 and 3,128,791 shares of our common shares to be issued under the terms of our 2012 Equity Compensation Plan and our 1995 Share Award Plan and 2003 Share Award Plan, respectively, collectively referred to as the Award Plans. During the years ended December 31, 2012, 2011 and 2010, we awarded 74,017 common shares with an aggregate market value of \$1,852, 67,300 common shares with an aggregate market value of \$1,628 and 53,900 common shares with an aggregate market value of \$1,186, respectively, to our officers and certain employees of our manager, RMR, pursuant to the Award Plans. See Note 8 for a further discussion of the grants we made to our officers and certain employees of RMR. In addition, we awarded each of our Trustees 2,000 common shares in each of 2012, 2011 and 2010 with an aggregate market value of \$256 (\$51 per trustee), \$243 (\$49 per trustee) and \$260 (\$52 per trustee), respectively, as part of their annual compensation. The shares awarded to our Trustees vest immediately. The shares awarded

## HOSPITALITY PROPERTIES TRUST

## NOTES TO FINANCIAL STATEMENTS

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(dollars in thousands, except per share data)

to our officers and certain employees of RMR vest in five annual installments beginning on the date of grant. Share awards are expensed over their vesting period and are included in general and administrative expense in our consolidated statements of income and comprehensive income. At December 31, 2012, 2,915,983 of our common shares remain reserved for issuance under our 2012 Equity Compensation Plan.

A summary of shares granted and vested under the terms the Award Plans for the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012		2011		2010	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares, beginning of year	114,110	\$22.70	93,432	\$22.31	74,062	\$23.20
Shares granted	84,017	25.09	77,300	24.20	63,900	22.89
Shares vested	(70,473)	24.38	(56,622)	23.76	(44,530)	22.63
Unvested shares, end of year	127,654	24.88	114,110	22.70	93,432	22.31

The 127,654 unvested shares as of December 31, 2012 are scheduled to vest as follows: 47,763 shares in 2013, 37,863 shares in 2014, 27,524 shares in 2015 and 14,504 shares in 2016. As of December 31, 2012, the estimated future compensation expense for the unvested shares was \$2,987 based on the closing price on December 31, 2012 of our common shares of \$23.42. The weighted average period over which the compensation expense will be recorded is approximately 22 months. During the years ended December 31, 2012, 2011 and 2010, we recorded \$1,888, \$1,405 and \$1,340, respectively, of compensation expense related to the Award Plans.

*Preferred Shares*

In January 2012, we sold 11,600,000 7.125% Series D cumulative redeemable preferred shares at a price of \$25.00 per share in a public offering for net proceeds of \$280,108 (after underwriting and other offering expenses). Each of our Series D cumulative redeemable preferred shares has a distribution rate of \$1.78125 per annum, payable in equal quarterly amounts, and a liquidation preference of \$25.00 per share (\$290,000 in aggregate). The Series D cumulative redeemable preferred shares are redeemable for \$25.00 per share each plus accrued and unpaid distributions

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at our option at any time on or after January 15, 2017, or at the option of the holders of the Series D cumulative redeemable preferred shares if a change of control occurs which results in our common shares (or the common securities of an acquiring or surviving entity) not being listed or quoted on the New York Stock Exchange, or NYSE, or certain other exchanges or quotation systems. Also, upon the occurrence of such a change of control, holders of our Series D cumulative redeemable preferred shares that are not redeemed may at their option convert those Series D cumulative redeemable preferred shares into our common shares (or certain alternative consideration) at a conversion rate generally based on their \$25.00 liquidation preference and the market price of our common shares at the time of conversion, subject to a cap.

In February 2012, we redeemed our 3,450,000 outstanding 8.875% Series B cumulative redeemable preferred shares at the stated liquidation preference price of \$25.00 per share plus accrued and unpaid distributions to the date of redemption. We reduced net income available for common shareholders by \$2,944, which represented the amount by which the liquidation preference for our Series B cumulative redeemable preferred shares that we redeemed exceeded our carrying amount for those preferred shares as of the date of redemption.

In September 2012, we redeemed 6,000,000 of our 12,700,000 outstanding 7.00% Series C cumulative redeemable preferred shares at the stated liquidation preference of \$25.00 per share plus accrued and unpaid distributions to the date of redemption. We reduced net income available for common shareholders by \$5,040, which represented the amount by which the liquidation preference for our Series C cumulative redeemable preferred shares that we redeemed exceeded our carrying amount for those preferred shares as of the date of redemption.

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

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(dollars in thousands, except per share data)

Each of our remaining 6,700,000 Series C cumulative redeemable preferred shares has a distribution rate of \$1.75 per annum, payable in equal quarterly amounts, and a liquidation preference of \$25.00 (\$167,500 in aggregate). Our Series C preferred shares are redeemable at our option for \$25.00 each plus accrued and unpaid distributions at any time on or after February 15, 2012.

*Common Share Distributions*

Cash distributions paid or payable by us to our common shareholders for the years ended December 31, 2012, 2011 and 2010 were \$1.82 per share, \$1.80 per share, and \$1.80 per share, respectively. The characterization of our distributions paid in 2012, 2011 and 2010 was 100.0% ordinary income.

On January 10, 2013, we declared a distribution of \$0.47 per common share which we paid on February 22, 2013, to shareholders of record on January 31, 2013 using existing cash balances and borrowings under our revolving credit facility.

*Cumulative Other Comprehensive Income*

Cumulative other comprehensive income represents the unrealized gain on TA common shares we own and our share of the comprehensive income of AIC. See Note 8 for further information regarding these investments.

**4. Real Estate Properties**

Our real estate properties, at cost after impairments, consisted of land of \$1,453,399, buildings and improvements of \$4,899,498 and furniture, fixtures and equipment of \$546,212, as of December 31, 2012; and land of \$1,360,773, buildings and improvements of \$4,343,991 and furniture,

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fixtures and equipment of \$431,332 as of December 31, 2011.

During 2012, 2011 and 2010, we funded \$357,084, \$132,522 and \$97,816, respectively, of improvements to certain of our properties which pursuant to the terms of our management agreements and leases with our hotel managers and tenants resulted in increases in our contractual annual minimum returns and rents of \$27,813, \$11,346 and \$9,782 in 2012, 2011 and 2010, respectively.

At December 31, 2012, 14 of our hotels were on leased land. In each case, the remaining term of the ground lease (including renewal options) is in excess of 25 years, and the ground lessors are unrelated to us. Ground rent payable under nine of the ground leases is generally calculated as a percentage of hotel revenues. Twelve (12) of the 14 ground leases require minimum annual rents averaging \$239 per year; future rents under two ground leases have been pre-paid. Twenty (20) of our travel centers are on land leased partially or in its entirety. The remaining terms on the leases range from six to 38 years with rents averaging \$447 per year. Generally payments of ground lease obligations are made by our managers or tenants. However, if a manager or tenant did not perform obligations under a ground lease or did not renew any ground lease, we might have to perform obligations under the ground lease or renew the ground lease in order to protect our investment in the affected property. Any pledge of our interests in a ground lease may require the consent of the applicable ground lessor and its lenders.

On January 31, 2012, we completed an acquisition of the entities which own the Cambridge Hotel (400 rooms) and lease the New Orleans Hotel (483 rooms) for total cash consideration of \$150,500, excluding related acquisition costs of \$3,264. The following table summarizes our allocation of the acquisition cost to estimated fair value of the assets we acquired and the liabilities we assumed:

Land	\$32,436
Building	78,764
Furniture, fixtures and equipment	19,536
Intangible assets (including the leasehold value of the New Orleans Hotel)	22,326
Goodwill	7,658
Other, net	(2,562)

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO FINANCIAL STATEMENTS**

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(dollars in thousands, except per share data)

Deferred tax liability	(7,658)
Total	\$150,500

Simultaneous with this acquisition, we entered into management agreements with Sonesta. See Notes 5 and 8 for further information about these transactions.

On November 1, 2012, we acquired a full service hotel in Chicago, IL for \$85,000, excluding related acquisition costs of \$840. The following table summarizes our allocation of the acquisition cost to estimated fair value of the assets we acquired:

Land	\$12,766
Building	62,596
Furniture, fixtures and equipment	6,589
Intangible assets	3,049
Total	\$85,000

See Note 5 for further information about this transaction.

On December 19, 2012, we acquired a 372 room full service hotel located in San Francisco, CA for \$120,000, excluding related acquisition costs of \$1,709. The following table summarizes our preliminary allocation of the acquisition cost to estimated fair value of the assets we acquired:

Land	\$28,266
Building	80,170
Furniture, fixtures and equipment	15,592
Intangible liabilities	(4,028)
Total	\$120,000

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See Note 5 for further information about this transaction.

We have included the results of our 2012 hotel acquisitions in our consolidated financial statements from the date of acquisition. The pro forma impact of including the results of operations of the hotels from the beginning of the period is not material to our consolidated financial statements.

In January 2013, we entered an agreement to acquire a 426 room full service Marriott branded hotel located in Duluth, GA for a contract purchase price of \$31,000, excluding closing costs. We plan to convert this hotel to a Sonesta branded hotel and add it to our Sonesta No. 1 agreement. We currently expect to acquire this property during the first quarter of 2013; however, this acquisition is subject to customary closing conditions and we can provide no assurance that we will acquire this property in that time period or at all.

On July 12, 2012, we sold our Marriott branded hotel in St. Louis, MO for net proceeds of \$28,850. We recorded a gain on sale of \$10,210 in the third quarter of 2012.

On August 24, 2012, we sold our Staybridge Suites branded hotel in Schaumburg, IL for net proceeds of \$1,872. We recorded a gain on sale of \$329 in the third quarter of 2012.

On August 29, 2012, we sold our Staybridge Suites branded hotel in Auburn Hills, MI for net proceeds of \$3,482. We recorded a gain on sale of \$63 in the third quarter of 2012.

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**5. Management Agreements and Leases**

As of December 31, 2012, we owned or leased 289 hotels and 185 travel centers which are included in one of 12 operating agreements. We do not operate any of our properties.

Our lease with Host for 53 hotels which we have historically referred to as our Marriott No. 1 agreement expired on December 31, 2012. As required upon the expiration of the agreement, we returned the \$50,540 security deposit we held to Host. As of January 1, 2013, we leased these hotels to one of our TRSs and continued the previously existing hotel brand and management agreements with Marriott. This management agreement with Marriott expires in 2024. Because we no longer hold a security deposit for this agreement, the future minimum returns we receive from this agreement will depend exclusively upon the performance of the hotels.

As of January 1, 2013, 285 of our hotels are leased to our TRSs and managed by an independent hotel operating company, one hotel is leased by one of our TRSs from a third party and managed by a hotel operating company and three hotels are leased to third parties. As of January 1, 2013, our hotel properties are managed by or leased to separate subsidiaries of InterContinental, Marriott, Hyatt, Carlson, Sonesta, Wyndham and Morgans under 10 agreements. Such hotel agreements have initial terms expiring between 2019 and 2103. Each of these agreements is for between one and 91 of our hotels. In general, the agreements contain renewal options for all, but not less than all, of the affected properties, and the renewal terms total range between 20 to 60 years. Most of these agreements generally require the third party manager or tenant to: (1) make payments to us of minimum returns or minimum rents; (2) deposit a percentage of total hotel sales into reserves established for the regular refurbishment of our hotels, or FF&E reserves; and (3) for our managed hotels, make payments to our TRSs of additional returns to the extent of available cash flow after payment of operating expenses, funding of the FF&E reserve, payment of our minimum return, payment of certain management fees and replenishment of security deposits or guarantees. Some of the third party managers or tenants or their affiliates have provided deposits or guarantees to secure their obligation to pay us.

As of February 26, 2013, all payments due to us under our hotel leases and hotel management contracts were current except for certain payments from Marriott and InterContinental.



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*Marriott No. 234 agreement.* During the year ended December 31, 2012, the payments we received under our Marriott No. 234 agreement, which requires annual minimum returns to us of \$101,837, were \$10,114 less than the minimum amounts contractually required. Pursuant to our Marriott No. 234 agreement, Marriott provided us with a limited guarantee for shortfalls up to 90% of our minimum returns. During the year ended December 31, 2012, Marriott provided \$4,895 of guaranty payments to us. Also, during the period from December 31, 2012 to February 26, 2013, the payments we received for these hotels were \$849 less than the contractual minimum returns due to us and Marriott provided \$2,162 of guaranty payments to cover up to 90% of the minimum returns due to us. The balance of this guaranty was \$ 23,815 as of February 26, 2013.

We and Marriott previously identified 21 Marriott hotels included in our Marriott No. 234 agreement for potential sale. In May 2012, we announced we had entered agreements with Marriott to retain ownership of and renovate 18 of the 21 hotels. As discussed in Note 4, in July 2012 we sold one of these 21 hotels, a full service Marriott hotel in St. Louis, MO. We received net proceeds of \$28,850 from the sale and our annual minimum returns under the Marriott No. 234 agreement were decreased by \$2,597 when this hotel was sold. In August 2012, we removed the remaining two of the 21 hotels from the Marriott No. 234 agreement and converted them to the Sonesta ES Suites brand and Sonesta management. Our annual minimum returns under the Marriott No. 234 agreement were reduced by \$990 when these two hotels were removed from the Marriott No. 234 agreement.

The May 2012 agreements with Marriott provide that the FF&E reserve funding requirements for all hotels included in the Marriott No. 234 agreement are eliminated during 2012 (effective May 29, 2012 and retroactive to January 1, 2012), reduced in 2013 and 2014, and then increased in 2015 through the remaining agreement term of 2025. The May 2012 agreements with Marriott also provide that Marriott's limited guarantee of the minimum return amounts due to us under the Marriott No. 234 agreement will be extended through 2019.

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We currently expect to provide an aggregate of \$123,000 of funding for renovations of certain of the hotels included in our Marriott No. 234 agreement. As of December 31, 2012, we have funded \$78,000 and we currently expect to fund the remaining \$45,000 during 2013. As we fund these improvements, the minimum return payable to us increases by 9% of the amount funded.

*InterContinental agreement.* During the year ended December 31, 2012, the payments we received under our agreement with InterContinental covering 91 hotels and requiring minimum returns to us of \$135,159 were \$29,354 less than the minimum amounts contractually required. We applied the available security deposit to cover these shortfalls. Also, during the period from December 31, 2012 to February 26, 2013, the minimum return payments we received under our InterContinental agreement were \$8,978 less than the minimum amounts due to us. We applied the available security deposit to cover these shortfalls. The remaining balance of the security deposit was \$17,487 as of February 26, 2013.

When we reduce the amounts of the security deposits we hold for these agreements or any other operating agreements for payment deficiencies, we record income equal to the amounts by which these deposits are reduced up to the minimum return or minimum rent due to us. However, reducing the security deposits does not result in additional cash flow to us of the deficiency amounts, but reducing amounts of security deposits may reduce the refunds due to the respective lessees or managers who have provided us with these deposits upon expiration of the respective lease or management agreement. The security deposits are non-interest bearing and are not held in escrow. Under all of our hotel contracts that include a security deposit, any amount of the security deposits which are applied to payment deficits may be replenished from future cash flows from the applicable hotel operations pursuant to the terms of the respective contracts.

Under the InterContinental agreement, we had the option to sell or rebrand up to 42 hotels included in the agreement. In April 2012, we and InterContinental agreed to retain three of the 42 hotels in the InterContinental agreement. We provided notices to InterContinental during the period from February 2012 to June 2012 that we planned to remove the remaining 39 of the 42 hotels from the InterContinental agreement. We entered into management agreements with Sonesta for 17 of these hotels, which were converted to Sonesta brands and management during the second and third quarters of 2012. As described below, in May 2012, we entered into an agreement with Wyndham a member of the Wyndham Worldwide Corporation for management of 20 of these 39 hotels. We converted these 20 hotels to Wyndham brands and management on August 1, 2012. In August 2012, we sold the remaining two of the 39 hotels for combined net proceeds of \$5,354. Our annual minimum returns due under the InterContinental agreement were reduced by an aggregate of \$34,990 when these 39 hotels were removed.

We currently expect to provide an aggregate of \$290,000 of funding for renovations of certain of the hotels included in our InterContinental agreement. As of December 31, 2012, we have funded \$212,718 and we currently expect to fund the remaining \$77,232 during 2013. As we

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fund these improvements, the minimum return payable to us increases by 8% of the amount funded.

*Sonesta agreements.* As described in Note 8, on January 31, 2012, we entered into two management agreements with Sonesta to manage our Cambridge Hotel and our New Orleans Hotel. The management agreement for our Cambridge Hotel, which is included in our Sonesta No. 1 agreement, provides that we are paid a fixed minimum return equal to 8% of our invested capital, as defined in the management agreement for our Cambridge Hotel, if gross revenues of the hotels, after payment of hotel operating expenses and base fees to Sonesta, are sufficient to do so. Under the terms of this agreement, we may earn additional returns of 80% of cash flow after payment of our minimum returns and reimbursement of operating losses or working capital advances, if any. We are required to fund operating losses or working capital shortfalls, but may recover these amounts from future cash flows, if any. As described above, during the second and third quarters of 2012, we removed 17 hotels from our InterContinental agreement and two hotels from our Marriott No. 234 agreement and converted them to Sonesta brands and management. We entered into hotel management agreements with Sonesta for these hotels and added them to our Sonesta No. 1 agreement. The terms of these management agreements are substantially the same as our Cambridge Hotel management agreement, except that in the case of limited service hotels the base management fee payable to Sonesta is 5% of gross revenues and our working capital required advance per room is less. In addition, in April 2012, we entered into a pooling agreement with Sonesta as further described in Note 8. Under the terms of the pooling agreement, results from the hotels included in our Sonesta No. 1 agreement are combined for purposes of calculating gross revenues, payment of hotel operating expenses, payment of fees and distributions and the calculation of minimum returns due to us.

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Our annual minimum returns as of December 31, 2012 for the 20 hotels included in the Sonesta No. 1 agreement were \$37,081.

In addition to recurring capital expenditures, we currently expect to provide an aggregate of \$195,000 of funding for rebranding, renovations and other improvements to the 20 hotels included in our Sonesta No. 1 agreement. During the year ended December 31, 2012, we funded \$11,280 for capital expenditures under this agreement. We currently expect to fund approximately \$127,000 during 2013 and the remaining \$56,720 in 2014, using existing cash balances or borrowings under our revolving credit facility. The annual minimum returns due to us under the Sonesta No. 1 agreement will increase to the extent amounts funded for these improvements exceed threshold amounts, as defined.

We lease the New Orleans Hotel from a third party. The annual rent payable by us under the lease is calculated as 75% of the sum of the net profit of the hotel (hotel operating revenues less hotel operating expenses, including a 3% management fee to Sonesta), less capital expenditures made during the lease year. The management agreement for our New Orleans Hotel, which we refer to as our Sonesta No. 2 agreement, provides that we are paid all cash flow of the hotel after the payment of operating expenses, including a management fee to Sonesta and rent expense. We currently expect to fund approximately \$2,000 during 2013 from this hotel's net profits.

We do not have any security deposits or guarantees for our hotels managed by Sonesta. Sonesta's incentive management fees, but not its other fees, are only earned after we receive our minimum returns, and we may cancel these management agreements if approximately 75% of our minimum returns are not paid for certain periods. Accordingly, the returns we receive from hotels managed by Sonesta will depend exclusively upon the performance of those hotels.

*Wyndham agreement.* As described above, on May 21, 2012, we entered an agreement to rebrand 20 of our hotels which were managed by InterContinental to brands owned by Wyndham, which conversion occurred on August 1, 2012. All 20 hotels are being managed by Wyndham under a long term management contract with an initial term of 25 years and two renewal terms of 15 years each. Our initial annual minimum return under our Wyndham agreement for these 20 hotels was \$9,240, and such payment is partially guaranteed by Wyndham. We plan to convert the hotels to the Wyndham Hotels and Resorts (four hotels) and Hawthorn Suites by Wyndham (16 hotels) brands.

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On November 1, 2012, we acquired the Hotel 71, a full service hotel in Chicago, IL for \$85,000, excluding closing costs, and added it to our Wyndham agreement. We plan to convert this hotel to the Wyndham Grand Chicago Riverfront hotel. Upon completion of a planned renovation, the property will consist of 348 hotel rooms managed by Wyndham and 48 vacation club units leased to Wyndham Vacation Resorts, Inc., a subsidiary of Wyndham Worldwide Corporation, or Wyndham Vacation. Our annual minimum returns under the Wyndham agreement increased by \$5,800 and the limited guaranty provided by Wyndham increased by \$9,000 upon closing of this hotel acquisition (and increased the annual payment limit to \$14,500). The lease with Wyndham Vacation Resorts, Inc. provides for annual initial rent to us of \$1,000 increasing 3% per annum.

We currently expect to provide an aggregate of \$93,000 of funding for renovations of certain of the hotels included in our Wyndham agreement. As of December 31, 2012, we have funded \$8,985 and we currently expect to fund the remaining \$84,015 during 2013. As we fund these improvements, the minimum return payable to us increases by 8% of the amount funded.

*Morgans agreement.* On December 19, 2012, we acquired the Clift Hotel, a full service hotel in San Francisco, CA for \$120,000, excluding closing costs. This hotel is leased to a subsidiary of Morgans under a long term lease agreement that expires in 2103. The lease with Morgans provides for annual initial rent to us of \$5,956. On October 14, 2014, the annual rent due to us will be increased based on changes in the consumer price index, or CPI, with a minimum increase of 20% and a maximum increase of 40% of the current rent amount as prescribed in the lease. On each fifth anniversary thereafter during the lease term, the rent due to us will be increased further based on changes in the CPI with minimum increases of 10% and maximum increases of 20%. Although the lease would qualify as a direct financing lease under GAAP, we account for this lease as an operating lease due to uncertainty regarding the collection of future rent and recognize rental income on a cash basis.

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*TA agreements.* Our 185 travel centers are leased to and operated by separate subsidiaries of TA under two agreements. Our lease for 145 travel centers expires in 2022. Our lease for 40 travel centers expires in 2024 and has two 15 year renewal options. TA has guaranteed its subsidiary tenants' obligations under the leases. On January 31, 2011, we entered into an amendment agreement with TA which modified the terms of our two leases with TA. Our travel center leases with TA do not require FF&E escrow deposits. However, TA is required to maintain the leased travel centers, including structural and non-structural components. Under both our leases with TA, TA may request that we fund additional amounts for capital improvements to the leased facilities in return for minimum rent increases. However, TA is not obligated to request and we are not obligated to fund any such improvements. As we fund these improvements, the minimum rents payable to us increase. At December 31, 2012, we expect to fund approximately \$80,000 for capital improvements to our travel center properties during 2013. See Note 8 for further information regarding our leases with TA.

As of December 31, 2012, the average remaining current terms of our leases and management agreements, from parties other than our TRSs, weighted based on minimum returns or rents was approximately 16.3 years. As of December 31, 2012, our travel center and hotel leases provide for contractual minimum rents to be paid to us during the remaining current terms as follows:

2013	\$234,459
2014	234,589
2015	235,359
2016	235,442
2017	235,539
Thereafter	3,023,171
Total	\$4,198,559

We settled all our outstanding claims with Prime Hospitality Corp., or Prime, a former manager, arising from its July 2003 lease default by entering a management agreement for our 24 AmeriSuites® hotels effective on January 1, 2004. We are amortizing the \$44,281 balance of the retained deposits and the value of other property received from Prime pursuant to this settlement, into our income on a straight line basis over the initial 15 year term of the management contract for the affected hotels. The unamortized balance of \$17,712 at December 31, 2012 is included in accounts payable and other liabilities in the accompanying consolidated balance sheets. In October 2004, Prime was sold to the Blackstone Group, or Blackstone. In January 2005, Blackstone sold the AmeriSuites® brand and transferred operating responsibility for these hotels to Hyatt. We estimate that future amortization of the retained deposits and the value of other property as of December 31, 2012 will be approximately \$2,952 per year through 2018.

## 6. Indebtedness

We have a \$750,000 unsecured revolving credit facility that is available for general business purposes, including acquisitions. The maturity date of our revolving credit facility is September 7, 2015 and, subject to the payment of an extension fee and meeting certain other conditions, includes an option for us to extend the stated maturity date of our revolving credit facility by one year to September 7, 2016. In addition, our revolving credit facility includes a feature under which maximum borrowings may be increased to up to \$1,500,000 in certain circumstances. Borrowings under our revolving credit facility bear interest at a rate of LIBOR plus a premium of 130 basis points. We also pay a facility fee of 30 basis points per annum on the total amount of lending commitments under our revolving credit facility. Both the interest rate premium and the facility fee are subject to adjustment based upon changes to our credit ratings. As of December 31, 2012, the interest rate payable on borrowings under our revolving credit facility was 1.51%, and the weighted average annual interest rate for borrowings under our revolving credit facility was 1.56%, 1.59% and 0.9% for the years ended December 31, 2012, December 31 2011, and December 31, 2010, respectively. As of December 31, 2012 we had \$320,000 outstanding and \$430,000 available under our revolving credit facility.

On March 12, 2012, we entered into a five year \$400,000 unsecured term loan. Our term loan matures on March 13, 2017, and is prepayable without penalty at any time. In addition, our term loan includes a feature under which maximum

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borrowings may be increased to up to \$500,000 in certain circumstances. Our term loan bears interest at a rate of LIBOR plus a premium, which was 145 basis points as of December 31, 2012. The interest rate premium is subject to adjustment based upon changes to our credit ratings. As of December 31, 2012, the interest rate for the amount outstanding under our term loan was 1.67% and the weighted average interest rate for the amount outstanding under our term loan was 1.70% for the period from March 12, 2012 to December 31, 2012.

Our credit facility agreement and our term loan agreement provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including a change of control of us and the termination of our business management agreement with RMR.

Our revolving credit facility agreement and our term loan agreement contain a number of covenants that restrict our ability to incur debt in excess of calculated amounts, restrict our ability to make distributions under certain circumstances and generally require us to maintain certain financial ratios. We believe we were in compliance with the terms and conditions of our revolving credit facility agreement and our term loan agreement at December 31, 2012.

On March 20, 2012, we repurchased at par plus accrued and unpaid interest \$70,576 of our 3.8% convertible senior notes due 2027 which were tendered by the holders of these notes for repurchase by us.

On April 11, 2012, we redeemed at par all of our outstanding 6.85% senior notes due 2012 for \$100,829 plus accrued and unpaid interest.

On August 16, 2012, we issued \$500,000 of 5.00% senior notes due 2022 in a public offering for net proceeds of \$487,946 (after underwriting and other offering expenses).

On September 10, 2012, we redeemed at par all of our outstanding 6.75% senior notes due 2013 for \$287,000 plus accrued and unpaid interest.



As of December 31, 2012, \$8,478 of our 3.8% convertible senior notes due 2027 remains outstanding. The convertible senior notes are convertible if certain conditions are met (including certain changes in control) into cash equal to the principal amount of the notes and, to the extent the market price of our common shares exceeds the initial exchange price of \$50.50 per share, subject to adjustment, either cash or our common shares at our option with a value based on such excess amount. Holders of our convertible senior notes may require us to repurchase all or a portion of the notes on March 15, 2017, and March 15, 2022, or upon the occurrence of certain change in control events.

We separately account for the liability (debt) and equity (conversion option) components of our 3.8% convertible senior notes due 2027 to reflect the fair value of the liability component based on our non-convertible borrowing cost at the issuance date. We measured the fair value of the debt components of the notes at issuance based on an estimated effective interest rate of 6.06% and are amortizing the resulting discount as an increase to interest expense over the expected life of the debt (assuming holders of the notes exercised in full their option to require us to repurchase the notes on March 20, 2012).

- The net carrying amount of our 3.8% convertible senior notes due 2027 was \$8,478 and \$78,823 as of December 31, 2012 and December 31, 2011, respectively.
- The unamortized discount on the notes was zero and \$231 as of December 31, 2012 and December 31, 2011, respectively. We amortized the discount through March 20, 2012, the first date on which the holders of our 3.8% convertible senior notes could require that we redeem them.
- Interest expense for the years ended December 31, 2012, 2011 and 2010 includes non-cash amortization of \$270, \$1,605 and \$2,602, respectively.
- The amount allocated as the equity component of the convertible senior notes was \$37,710 as of December 31, 2012 and is included in additional paid in capital in our consolidated balance sheets.

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At December 31, 2012 and 2011, our indebtedness was as follows:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Senior Notes, due 2012 at 6.85%	\$	\$100,829
Senior Notes, due 2013 at 6.75%		287,000
Senior Notes, due 2014 at 7.875%	300,000	300,000
Senior Notes, due 2015 at 5.125%	280,000	280,000
Senior Notes, due 2016 at 6.3%	275,000	275,000
Senior Notes, due 2017 at 5.625%	300,000	300,000
Senior Notes, due 2018 at 6.7%	350,000	350,000
Senior Notes, due 2022 at 5.0%	500,000	
Convertible Senior Notes, due 2027 at 3.8%	8,478	79,054
Unamortized discounts	(11,120)	(5,169)
Total unsecured senior notes	2,002,358	1,966,714
Unsecured revolving credit facility	320,000	149,000
Unsecured term loan	400,000	
	<b>\$2,722,358</b>	<b>\$2,115,714</b>

All of our senior notes are prepayable at any time prior to their maturity date at par plus accrued interest plus a premium equal to a make whole amount, as defined, generally designed to preserve a stated yield to the noteholder. Interest on all of our senior notes is payable semi-annually in arrears.

The required principal payments due during the next five years and thereafter under all our outstanding debt at December 31, 2012, are as follows:

2013	\$
2014	300,000
2015	600,000(1)
2016	275,000

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2017	700,000(2)
Thereafter	858,478(3)
	\$2,733,478

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- (1) Includes the \$320,000 outstanding on our \$750,000 revolving credit facility at December 31, 2012.
- (2) Includes our \$400,000 unsecured term loan.
- (3) Includes our \$8,478 convertible senior notes due 2027. Holders of our convertible senior notes may require us to repurchase all or a portion of the notes on March 15, 2017 and March 15, 2022, or upon the occurrence of certain change in control events.

**7. Income Taxes**

Our provision (benefit) for income taxes consists of the following:

	<b>For the Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current Federal	\$1,274	\$180	\$
State	1,488	1,383	928
Foreign	(134)	144	(106)

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	2,628	1,707	822
Deferred Federal	(535)		
State	(80)		
Foreign	(401)	(205)	(184)
	(1,016)	(205)	(184)
	\$1,612	\$1,502	\$638

A reconciliation of our effective tax rate and the U.S. Federal statutory income tax rate is as follows:

	<b>For the Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Taxes at statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Nontaxable income of HPT	(35.0)%	(35.0)%	(35.0)%
State and local income taxes, net of federal tax benefit	1.0%	4.3%	0.2%
Alternative minimum tax	0.0%	0.1%	0.0%
Foreign taxes	(0.3)%	(0.3)%	(0.2)%
Change in valuation allowance	7.1%	(3.1)%	(6.1)%
Other differences, net	(6.8)%	(0.3)%	(5.7)%
Effective tax rate	1.0%	0.7%	0.4%

Deferred income tax balances reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our consolidated balance sheets and the amounts used for income tax purposes and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Significant components of our deferred tax assets and liabilities are as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Deferred tax assets:		
Tax credits	\$12,091	\$12,014
Tax loss carryforwards	96,505	77,104
Other	7,550	11,473

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	116,146	100,591
Valuation allowance	(112,286)	(100,180)
	3,860	411
Deferred tax liabilities:		
Hotel basis difference	(19,276)	(9,185)
	(19,276)	(9,185)
Net deferred tax liabilities	\$(15,416)	\$(8,774)

Deferred tax liabilities are included in accounts payable and other liabilities in the accompanying consolidated balance sheets.

On January 31, 2007, we succeeded to certain tax attributes in connection with our acquisition of TravelCenters of America, Inc., including net operating loss carryforwards and tax credit carryforwards. At December 31, 2012 and 2011, we had a net deferred tax asset, prior to any valuation allowance, of \$64,760 and \$66,062, respectively, related to these carryover tax attributes. Because of the uncertainty surrounding our ability to realize the future benefit of these assets we have provided a 100% valuation allowance as of December 31, 2012 and 2011. As of December 31, 2012 these carryover tax attributes consist of: (i) net operating loss carryforwards for federal income tax purposes of approximately \$136,420 which begin to expire in 2026 if unused, (ii) alternative minimum tax credit carryforwards of \$4,430 which do not expire, and (iii) general

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business tax credits of \$6,600 which began to expire in 2009. The utilization of these tax loss carryforwards and tax credits is subject to limitations under Section 382 of the Internal Revenue Code.

At December 31, 2012 and 2011, our consolidated TRS had a net deferred tax asset, prior to any valuation allowance, of \$42,292 and \$30,806, respectively, which consists primarily of the tax benefit of net operating loss carryforwards and tax credits. Because of the uncertainty surrounding our ability to realize the future benefit of these assets, we have provided a 100% valuation allowance as of December 31, 2012 and 2011. As of December 31, 2012, our consolidated TRS had net operating loss carryforwards for federal income tax purposes of approximately \$109,278 which begin to expire in 2023 if unused.

**8. Related Person Transactions**

We have adopted written Governance Guidelines that address the consideration and approval of any related person transactions. Under these Governance Guidelines, we may not enter into any transaction in which any Trustee or executive officer, any member of the immediate family of any Trustee or executive officer or any other related person, has or will have a direct or indirect material interest unless that transaction has been disclosed or made known to our Board of Trustees and our Board of Trustees reviews and approves or ratifies the transaction by the affirmative vote of a majority of the disinterested Trustees, even if the disinterested Trustees constitute less than a quorum. If there are no disinterested Trustees, the transaction must be reviewed and approved or ratified by both (1) the affirmative vote of a majority of our entire Board of Trustees and (2) the affirmative vote of a majority of our Independent Trustees. The Governance Guidelines further provide that, in determining whether to approve or ratify a transaction, our Board of Trustees, or disinterested Trustees or Independent Trustees, as the case may be, shall act in accordance with any applicable provisions of our declaration of trust, consider all of the relevant facts and circumstances and approve only those transactions that are fair and reasonable to us. All related person transactions described below were reviewed and approved or ratified by a majority of the disinterested Trustees or otherwise in accordance with our policies described above. In the case of transactions with us by RMR employees (other than our Trustees and executive officers) subject to our Code of Business Conduct and Ethics, the employee must seek approval from an executive officer who has no interest in the matter for which approval is being requested.

We have no employees. Personnel and various services we require to operate our business are provided to us by RMR. We have two agreements with RMR to provide management and administrative services to us: (1) a business management agreement, which relates to our business generally, and (2) a property management agreement, which relates to the property level operations of the office building component of only one property in Baltimore, MD, which also includes a Royal Sonesta hotel.

RMR has approximately 820 employees. One of our Managing Trustees, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Our other Managing Trustee, Mr. Adam Portnoy, is the son of Mr. Barry Portnoy, and an owner, President, Chief Executive Officer and a director of RMR. Each of our executive officers is also an officer of RMR, including Mr. Ethan Bornstein, who is the son-in-law of Mr. Barry Portnoy and the brother-in-law of Mr. Adam Portnoy. Certain of TA's and Sonesta's executive officers are officers of RMR. Our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR provides management services. Mr. Barry Portnoy serves as a managing director or managing trustee of those companies, including TA, and Mr. Adam Portnoy serves as a managing trustee of a majority of those companies, but not TA. In addition, officers of RMR serve as officers of those companies. We understand that further information regarding those relationships is provided in the applicable periodic reports and proxy statements filed by those other companies with the Securities and Exchange Commission, or SEC.

Our Board of Trustees has given our Compensation Committee, which is comprised exclusively of our Independent Trustees, authority to act on our behalf with respect to our management agreements with RMR. The charter of our Compensation Committee requires the Committee annually to review the terms of these agreements, evaluate RMR's performance under the agreements and renew, amend, terminate or allow to expire the management agreements.

Our business management agreement with RMR provides for payment to RMR of a business management fee at an annual rate equal to 0.7% of the historical cost of our real estate investments, as described in the business management agreement, up to the first \$250,000 of such investments, and 0.5% thereafter. In addition, RMR receives an incentive fee

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equal to 15% of the amount, if any, by which our Cash Available for Distribution, as defined in the business management agreement, for a particular fiscal year exceeds Cash Available for Distribution for the immediately preceding fiscal year. The incentive fee is paid in our common shares and in any year shall not exceed \$0.02 multiplied by the weighted average number of our common shares outstanding during such fiscal year. Our common shares for these purposes are valued at the average closing prices of our common shares as reported on the NYSE during the month of December of the fiscal year to which the incentive fee pertains.

At present, our property management agreement with RMR provides for management fees equal to 3.0% of gross collected rents and construction supervision fees equal to 5.0% of construction costs with respect to the one office property that is subject to that agreement.

The aggregate business management and property management fees we paid to RMR for 2012, 2011 and 2010 were \$35,657, \$34,493 and \$33,229, respectively. These amounts are included in general and administrative expenses in our consolidated financial statements. In March 2012, we issued 33,132 of our common shares to RMR for the incentive fee for 2011. No incentive fees were payable to RMR for 2012 or 2010.

RMR also provides internal audit services to us in return for our share of the total internal audit costs incurred by RMR for us and other publicly owned companies managed by RMR and its affiliates, which amounts are subject to approval by our Compensation Committee. Our Audit Committee appoints our Director of Internal Audit. Our share of RMR's costs of providing this internal audit function was approximately \$193, \$240 and \$213 for 2012, 2011 and 2010, respectively, which amounts are included in general and administrative expenses in our consolidated financial statements. These allocated costs are in addition to the business and property management fees we paid to RMR.

We are generally responsible for all of our operating expenses, including certain expenses incurred by RMR on our behalf. We are not responsible for payment of RMR's employment, office or administration expenses incurred to provide management services to us, except for the employment and related expenses of RMR employees who provide on-site property management services and our pro rata share of the staff employed by RMR who perform our internal audit function. Pursuant to our business management agreement, RMR may from time to time negotiate on our behalf with certain third party vendors and suppliers for the procurement of services to us. As part of this arrangement, we may enter agreements with RMR and other companies to which RMR provides management services for the purpose of obtaining more favorable terms from such vendors and suppliers.



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Both our business management agreement with RMR and our property management agreement with RMR automatically renew for successive one year terms unless we or RMR give notice of non-renewal before the end of an applicable term. We or RMR may terminate either agreement upon 60 days prior written notice, and RMR may also terminate the property management agreement upon five business days notice if we undergo a change of control, as defined in the property management agreement. On December 10, 2012, we entered amendments to these agreements, which extended the term of the business management agreement until December 31, 2013, clarified certain currently existing policies in the business management agreement, including providing that investments made by us from furniture, fixtures and equipment escrows or reserves (or implied reserves) that do not result in increases in the minimum returns or minimum rents for us would not be included in the determination of fees payable by us to RMR under the business management agreement, and changed certain procedures for the arbitration of disputes pursuant to these agreements.

Under our business management agreement with RMR, we acknowledge that RMR also provides services to other companies, including TA and Sonesta, and will not be required to present us with opportunities to invest in properties that are primarily of a type that are within the investment focus of another business now or in the future managed by RMR and that, in the event of conflict between us and any such other company, RMR shall in its discretion determine on which party's behalf it shall act.

Under the Award Plans, we typically grant restricted shares to certain employees of RMR, some of whom are our executive officers. As disclosed in Note 3, in 2012, 2011 and 2010, we granted a total of 74,017 restricted shares with an aggregate value of \$1,852, 67,300 restricted shares with an aggregate value of \$1,628 and 53,900 restricted shares with an aggregate value of \$1,186, respectively, to such persons, based upon the closing price of our common shares on the NYSE on

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the dates of grants. One fifth of those restricted shares vested on the grant dates and one fifth vests on each of the next four anniversaries of the grant dates. These share grants to RMR employees are in addition to the fees we pay to RMR. On occasion, we have entered into arrangements with former employees of RMR in connection with the termination of their employment with RMR, providing for the acceleration of vesting of restricted shares previously granted to them under the Award Plans.

TA is our former 100% owned subsidiary and our largest tenant, and we are TA's largest shareholder. TA was created as a separate public company in 2007 as a result of its spin off from us. As of December 31, 2012, we owned 2,540,000 common shares (which includes the 1,000,000 TA common shares we purchased from the underwriters as part of a public offering by TA in May 2011 for \$5,690), representing approximately 8.6% of TA's outstanding common shares. Mr. Barry Portnoy, one of our Managing Trustees, is a managing director of TA. Mr. Thomas O'Brien, an officer of RMR and a former officer of us prior to the TA spin off, is President and Chief Executive Officer and the other managing director of TA. Mr. Arthur Koumantzelis, who was one of our Independent Trustees prior to the TA spin off, serves as an independent director of TA.

TA has two leases with us, the TA No. 1 lease and the TA No. 2 lease, pursuant to which TA leases 185 travel centers from us. The TA No. 1 lease is for 145 travel centers that TA operates under the TravelCenters of America or TA brand names. The TA No. 1 lease became effective on January 31, 2007. The TA No. 2 lease is for 40 travel centers that TA operates under the Petro brand name. The TA No. 2 lease became effective on May 30, 2007. The TA No. 1 lease expires on December 31, 2022. The TA No. 2 lease expires on June 30, 2024, and may be extended by TA for up to two additional periods of 15 years each.

Both the TA No. 1 and TA No. 2 leases are triple net leases that require TA to pay all costs incurred in the operation of the leased travel centers, including personnel, utility, inventory, customer service and insurance expenses, real estate and personal property taxes, environmental related expenses, underground storage tank removal costs and ground lease payments at those travel centers at which we lease the property and sublease it to TA. TA also is required to generally indemnify us for certain environmental matters and for liabilities which arise during the terms of the leases from ownership or operation of the leased travel centers. The TA No. 1 lease and the TA No. 2 lease also include arbitration provisions for the resolution of disputes.

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As amended by the Amendment Agreement that we entered into with TA on January 31, 2011, which is further described below, the TA No. 1 lease requires TA to pay minimum rent to us in an amount of \$135,139 per year for the period from January 1, 2011 through January 31, 2012, and \$140,139 per year for the period from February 1, 2012 through December 31, 2022. The minimum rent payable by TA to us under the TA No. 1 lease also increases as we fund or reimburse the cost for certain improvements to the leased TA travel centers. As amended by the Amendment Agreement that we entered with TA on January 31, 2011, which is further described below, the TA No. 2 lease requires TA to pay minimum rent to us in an amount of \$54,160 per year through June 30, 2024, and increases if we fund or reimburse the cost for certain improvements to the leased Petro travel centers. Effective January 2012, TA began to incur percentage rent payable to us under the TA No. 1 lease. The TA No. 2 lease requires TA to incur percentage rent payable to us effective January 1, 2013. In each case, the percentage rent equals 3% of increases in nonfuel gross revenues plus 0.3% of increases in gross fuel revenues at the leased travel centers over base amounts. The increases in percentage rents attributable to fuel revenues are subject to a maximum each year calculated by reference to changes in the consumer price index. Also, as discussed below, we have agreed to waive payment of the first \$2,500 of percentage rent that may become due under the TA No. 2 lease. The total amount of percentage rent from TA that we recognized during the year ended December 31, 2012 was \$1,465. Under our TA No. 1 and No. 2 leases, TA is obligated to pay us at lease expiration an amount equal to an estimate of the cost of removing underground storage tanks on our leased sites.

We previously agreed to provide up to \$25,000 of funding annually for the first five years of the TA No. 1 lease for certain improvements to the leased properties without an increase in rent. This funding was cumulative, meaning if some of the \$25,000 was not funded in one year it might have been drawn by TA from us in subsequent years. All improvements funded under the tenant improvements allowance are owned by us. On May 12, 2008, we and TA amended the TA No. 1 lease to permit TA to sell to us, without an increase of its rent, certain capital improvements to properties leased from us earlier than previously permitted. As TA elected to sell these capital improvements before the time contractually required by

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the original lease terms, our funding commitment amount was discounted to reflect the accelerated receipt of funds by TA according to a present value formula established in the amended lease. During 2010, TA sold \$7,015 of qualified improvements to us pursuant to this funding commitment. Portions of this amount were discounted pursuant to the terms of the lease because TA elected to receive those funds on an accelerated basis. We recorded the capital improvements at cost as we made this funding. As of September 30, 2010, none of the \$125,000 total amount of the leasehold improvements saleable to us with no increase in TA's rent remained available.

Under the TA No. 1 and No. 2 leases, TA may request that we fund approved amounts for renovations, improvements and equipment at the leased travel centers in return for increases in TA's minimum annual rent according to the following formula: the minimum rent per year will be increased by an amount equal to the amount funded by us multiplied by the greater of (i) 8.5% or (ii) a benchmark U.S. Treasury interest rate plus 3.5%. We are not required to fund these improvements and TA is not required to sell them to us. In 2012 and 2011, we funded \$76,754 and \$69,122, respectively, for capital improvements to TA under this lease provision; and, as a result, TA's minimum annual rent payable to us increased by approximately \$6,524 and \$5,875, respectively (\$4,656 and 4,184 respectively, for the TA No. 1 lease and \$1,868 and \$1,691, respectively, for the TA No. 2 lease). TA made no request for funds under this provision in 2010.

At the time of TA's spin off from us, our acquisitions and transactions with TA in connection with the TA No. 2 lease and an equity offering completed by TA in June 2007, we and TA believed that TA was adequately capitalized to meet all of its obligations, including those owed to us. Thereafter, however, there were material changes in the market conditions in which TA operates. Specifically, the increase during the first half of 2008 in the price of diesel fuel that TA buys and sells at its travel centers and the slowing of the U.S. economy during 2008 both adversely affected the volume of TA's business and increased its working capital requirements. Although TA undertook a restructuring of its business to adjust to these changed market conditions, TA's balance sheet flexibility and liquidity remained a concern to us because of the impact the then weakening economy and fuel price volatility might have on TA's working capital requirements. Accordingly, on August 11, 2008, we and TA entered a rent deferral agreement. Under the terms of this rent deferral agreement, TA had the option to defer its monthly rent payments to us by up to \$5,000 per month for periods beginning July 1, 2008 until December 31, 2010, and TA was not obligated to pay cash interest on the deferred rent through December 31, 2009. Also pursuant to the deferral agreement, TA issued 1,540,000 of its common shares to us (approximately 9.6% of TA's shares then outstanding immediately after this new issuance). Under the terms of this agreement, interest began to accrue on January 1, 2010 on all unpaid deferred rent at a rate of 1% per month and was payable monthly in arrears by TA to us. During 2010, we received and recorded \$14,100 of income for interest on the deferred rent amounts, which was recorded as rental income in our consolidated statements of income in accordance with GAAP. No additional rent deferrals were permitted for rent periods after December 31, 2010. Any deferred rent (and interest thereon) not previously paid was contractually due to us on July 1, 2011. This deferral agreement also included a prohibition on share repurchases and dividends by TA while any deferred rent remains unpaid and provided that all deferred rent and interest thereon would become immediately due and payable by TA to us if certain events provided in that agreement occurred, including a change of control of TA (as defined in the agreement) while deferred rent was unpaid. Also, in connection with this deferral agreement, we entered into a registration rights agreement with TA, which provides us with certain rights to require TA to conduct a registered public offering with respect to its common shares issued to us pursuant to the deferral agreement, which rights continue through the date that is twelve months following the

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latest of the expiration of the terms of the TA No. 1 lease and the TA No. 2 lease. TA accrued \$60,000 of deferred rent in 2010 under the rent deferral agreement with us dated August 11, 2008. We have not recognized any of the deferred rent as rental income or as rents receivable due to uncertainties regarding future payments of these amounts by TA. As of December 31, 2010, TA had accrued an aggregate of \$150,000 of deferred rent payable to us.

On January 31, 2011, we and TA entered the Amendment Agreement that amended the TA No. 1 lease, the TA No. 2 lease and TA's rent deferral agreement with us. The Amendment Agreement provided for the following:

- The minimum annual rent payable by TA to us under the TA No. 1 lease was reduced effective January 1, 2011, by approximately \$29,983, so that the rent was reduced to \$135,139 per year until February 1, 2012, when it increased to \$140,139 per year through the end of the lease term in December 2022.
- The \$5,000 increase in annual minimum rent payable by TA to us under the TA No. 1 lease that was scheduled to begin on February 1, 2011, was eliminated.

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- The minimum annual rent payable by TA to us under the TA No. 2 lease was reduced effective January 1, 2011, by approximately \$12,017, so that the annual rent is reduced to \$54,160 through the end of the lease term in June 2024.
- The due date for the \$150,000 of rent TA had deferred as of December 31, 2010, pursuant to TA's rent deferral agreement with us was extended from July 1, 2011, so that \$107,085 will be due and payable on December 31, 2022, and the remaining \$42,915 will be due and payable on June 30, 2024, and interest ceased to accrue on deferred rent owed to us by TA beginning on January 1, 2011; provided, however, that the deferred rent amounts shall be accelerated and interest shall begin to accrue thereon if certain events provided in the Amendment Agreement occur, including a change of control of TA.
- We will waive payment of the first \$2,500 of percentage rent that may become due under the TA No. 2 lease, which percentage rent obligation is described above.

During 2012, 2011 and 2010, we recognized rental income of \$208,560, \$201,505 and \$190,244, respectively, under our leases with TA. Rental income for the twelve months ended December 31, 2012 and 2011 includes \$149 and \$4,789, respectively, of adjustments necessary to record the scheduled rent increase on our TA No. 1 lease and the estimated future payment to us by TA for the cost of removing underground storage tanks on a straight line basis. As of December 31, 2012, 2011 and 2010, we had accruals for unpaid amounts of \$17,103, \$16,115 and \$15,725, respectively, owed to us by TA, excluding any deferred rents, which accrued amounts are included in other assets on our consolidated balance sheets.

RMR provides management services to both us and TA and, as noted above, there are other current and historical relationships between us and TA. Accordingly, the terms of the 2008 rent deferral agreement and the 2011 Amendment Agreement were negotiated and approved by special committees of our Independent Trustees and TA's independent directors, none of whom are trustees or directors of the other company, and each special committee was represented by separate counsel.

At the time TA became a separate publicly owned company as a result of the distribution of its shares to our shareholders, TA entered a management and shared services agreement with RMR. In addition, in connection with TA's spin off, TA entered a transaction agreement with us and RMR, pursuant to which TA granted us a right of first refusal to purchase, lease, mortgage or otherwise finance any interest TA owns in a travel center before it sells, leases, mortgages or otherwise finances that travel center to or with another party, and TA also granted us and any

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other company managed by RMR a right of first refusal to acquire or finance any real estate of the types in which we or they invest before TA does. TA also agreed that for so long as TA is a tenant of ours it will not permit: the acquisition by any person or group of beneficial ownership of 9.8% or more of the voting shares or the power to direct the management and policies of TA or any of its subsidiary tenants or guarantors under its leases with us; the sale of a material part of the assets of TA or any such tenant or guarantor; or the cessation of certain continuing directors constituting a majority of the board of directors of TA or any such tenant or guarantor. Also, TA agreed not to take any action that might reasonably be expected to have a material adverse impact on our ability to qualify as a REIT and to indemnify us for any liabilities we may incur relating to TA's assets and business. The transaction agreement includes arbitration provisions for the resolution of disputes.

On November 2, 2011, we entered into a purchase agreement, or the Purchase Agreement, with Sonesta and its wholly owned subsidiary, PAC Merger Corp., or Merger Sub, and together with Sonesta, the Sellers, to purchase from Sonesta the entities, or the Hotel Entities, that own the Cambridge Hotel and lease the New Orleans Hotel. At that time, the Cambridge Hotel and the New Orleans Hotel were owned or leased and operated by subsidiaries of what was then known as Sonesta International Hotels Corporation, or SNSTA. The Purchase Agreement was a component part of a transaction that involved the acquisition by merger, or the Merger, of all of SNSTA's shares by Sonesta pursuant to an agreement and plan of merger, or the Merger Agreement, which was entered into between Sonesta, Merger Sub and SNSTA on November 2, 2011.

Pursuant to the Merger Agreement, on January 31, 2012, Merger Sub merged with and into SNSTA. Pursuant to the Purchase Agreement, we advanced the approximately \$150,500 aggregate purchase price for the Hotel Entities to the Sellers for the purpose of the Sellers consummating the Merger under the Merger Agreement. The purchase price was reduced by the outstanding principal and accrued interest owed under a variable rate mortgage loan due in 2015 secured by the Cambridge

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Hotel, or the Cambridge Loan. We prepaid the Cambridge Loan, which had an outstanding principal balance of approximately \$31,035 and unwound a related interest rate hedge agreement for \$2,525 on January 31, 2012. The terms of the Purchase Agreement required that, at the effective time of the Merger, Sonesta was capitalized with \$25,000, at least half of which was represented by cash consideration for shares of Sonesta common stock; and Sonesta's stockholders provided this \$25,000 capitalization, including equity funding of \$12,500 to facilitate the Merger.

Pursuant to the Purchase Agreement, following the consummation of the Merger, Sonesta initiated a restructuring of SNSTA, which resulted in SNSTA owning equity interests of the Hotel Entities and certain related assets and the Hotel Entities owning the real estate comprising the Cambridge Hotel and the leasehold for the New Orleans Hotel and related furniture, fixtures and equipment and certain other assets and in Sonesta or its subsidiaries (other than SNSTA and its subsidiary Hotel Entities) owning the other assets of SNSTA, including its management businesses and brands and assuming all liabilities of SNSTA, other than the liabilities associated with the Cambridge Loan, income taxes, taxes related to retained assets and certain payables and other liabilities. Pursuant to the Purchase Agreement, after giving effect to that restructuring, Sonesta then transferred to us all of the then issued and outstanding capital stock of SNSTA (which then owned the Hotel Entities, which in turn own or lease the Cambridge Hotel and the New Orleans Hotel), free and clear of any liens, encumbrances or other restrictions (other than the Cambridge Loan and certain other matters).

Simultaneously with the consummation of the Purchase Agreement on January 31, 2012, we entered hotel management agreements with Sonesta that provide for Sonesta to manage for us each of the Cambridge Hotel and the New Orleans Hotel. The management agreement for the Cambridge Hotel provides that we are paid a fixed minimum return equal to 8% of our invested capital, as defined in the management agreement for the Cambridge Hotel, if gross revenues of the hotel, after payment of hotel operating expenses and management and related fees to Sonesta (other than the incentive fee described below, if applicable), are sufficient to do so. We are to be paid an additional amount based upon the hotel's operating profit, as defined in the management agreement for the Cambridge Hotel, after payment of Sonesta's incentive fee, if applicable. After payment of specified hotel operating expenses from the hotel's gross revenues, Sonesta is entitled to receive a base management fee equal to 3% of gross revenues. Additionally, under the management agreement for the Cambridge Hotel, Sonesta is entitled to a reservation fee equal to 1.5% of gross room revenues, as defined in the management agreement for the Cambridge Hotel, a system fee for centralized services of 1.5% of gross revenues, a procurement and construction supervision fee in connection with renovations equal to 3% of third party costs and an incentive fee equal to 20% of the hotel's operating profit after reimbursement to us and to Sonesta of certain advances, and payment to us of our minimum returns. The annual rent payable by us under the lease for the New Orleans Hotel is calculated as 75% of the sum of the net profit of the hotel (hotel operating revenues less hotel operating expenses, including a 3% management fee to Sonesta), less capital expenditures made during the lease year. The management agreement for the New Orleans Hotel, which we refer to as our Sonesta No. 2 agreement, provides that we are paid all cash flow of the hotel after the payment of operating expenses, including a management fee to Sonesta and rent expense.

The management agreement for the Cambridge Hotel has an initial term of 25 years, and will be extended automatically for up to two successive 15 year renewal terms unless Sonesta elects not to renew the management agreement. The management agreement for the New Orleans Hotel



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will expire on January 31, 2024. We have the right to terminate the management agreements after three years without cause upon payment of a termination fee. We also have the right to terminate the management agreements without a termination fee if our minimum return is less than 6% of our invested capital during any three of four consecutive years. Both we and Sonesta have the right to terminate the management agreements upon a change of control, as defined in the management agreements, of the other party, and under certain other circumstances which, in the case of termination by Sonesta, may require our payment of a termination fee. Under each management agreement, the termination fee is an amount equal to the present value of the payments that would have been made to Sonesta between the date of termination and the scheduled expiration date of the agreement's current term as a base fee, (and for the Cambridge Hotel management agreement, a reservation fee, a system fee and an incentive fee), each as defined in the management agreement, if the agreement had not been terminated, calculated based upon the average of each of such fees earned in each of the three years ended prior to the date of termination and discounted at an annual rate equal to 8%.

In April 2012, we entered into a pooling agreement with Sonesta that combines our management agreements with Sonesta for hotels that we own for purposes of calculating gross revenues, payment of hotel operating expenses, payment of fees and distributions and the calculation of minimum returns due to us. We refer to this agreement and combination of hotels

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and management agreements as our Sonesta No. 1 agreement. The management agreement for the Cambridge Hotel is included in the Sonesta No. 1 agreement but the management agreement for the New Orleans Hotel is not included in the Sonesta No. 1 Agreement.

During the period from April 2012 through August 2012, we entered into 17 hotel management agreements with Sonesta for 17 hotels historically owned by us and managed by InterContinental which hotels have been rebranded with Sonesta brands. Thirteen of these agreements relate to the former Staybridge Suites branded, limited service hotels located in Burlington, MA, Orlando, FL, Andover, MA, Parsippany, NJ, Malvern, PA, Somerset, NJ, Princeton, NJ, Houston, TX, Columbia, MD, Charlotte, NC, Atlanta, GA, St. Louis, MO, and Myrtle Beach, SC, two agreements relate to the former InterContinental branded, full service hotels located in Baltimore, MD and Houston, TX and two agreements relate to the former Crowne Plaza branded, full service hotels located in Hilton Head, SC and Philadelphia, PA. The thirteen former Staybridge Suites hotels have been rebranded as Sonesta ES Suites hotels, the former InterContinental hotels have been rebranded as Royal Sonesta hotels and the former Crowne Plaza hotels have been rebranded as Sonesta hotels. In August 2012, we entered into hotel management agreements with Sonesta for two additional hotels historically owned by us and managed by Marriott. These two agreements relate to the former Residence Inn branded, limited service hotels located in Flagstaff, AZ and Dublin, OH. Both of those hotels have been rebranded as Sonesta ES Suites hotels. All of the management agreements for these hotels were added to the Sonesta No. 1 agreement. The terms of these management agreements are substantially the same as the management agreement for the Cambridge Hotel, except that in the case of limited service hotels the base management fee payable to Sonesta is 5% of gross revenues and our working capital required advance per room is less.

Pursuant to our management agreements with Sonesta, we incurred management, system and reservation fees payable to Sonesta of \$5,673 for 2012. These amounts are included in hotel operating expenses in our consolidated financial statements. In addition, we also incurred procurement and construction supervision fees payable to Sonesta in connection with capital expenditures at our hotels managed by Sonesta of \$455 for 2012. These amounts have been capitalized in our consolidated financial statements. Under our hotel management agreements with Sonesta, routine property maintenance, which is expensed, is an operating expense of the hotels and repairs and periodic renovations, which are capitalized, are funded by us, except in the case of the New Orleans Hotel where capital expenditures are borne in large part by the lessor. At December 31, 2012, we owed Sonesta \$10,487 for capital expenditure reimbursements, overpayment of minimum returns advanced during 2012 and working capital settlements for properties rebranded during the year, which amounts are included in due to related persons on our consolidated balance sheets.

On February 27, 2013, we announced that we had entered a letter of intent with NH Hoteles, under which we would loan NH Hoteles 170,000 secured by four hotels and acquire five hotels and form a joint venture with NH Hoteles to acquire a hotel in New York City with an aggregate investment for the acquisitions and joint venture interest of approximately \$150,000. The letter of intent provides for an exclusive negotiating period. For the joint venture interest, we would fund \$80,000 to retire the ownership of NH Hoteles's current partner and fund a major renovation of the hotel that would be owned by the joint venture and the hotel would be branded jointly by NH Hoteles and Sonesta. If this transaction occurs, we expect that our approval of any branding and management agreement with Sonesta which affects this hotel will be subject to the approval of our Independent Trustees. The consummation of this transaction is subject to numerous conditions and contingencies which may not

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be satisfied and, as a result of these conditions or contingencies, this transaction may be changed, the amount of our investment may change or this transaction may not occur. For further information regarding this and other possible transactions related to this possible joint venture, please see Note 13.

The stockholders of Sonesta are Mr. Barry Portnoy and Mr. Adam Portnoy, who are our Managing Trustees, and they also serve as directors of Sonesta. Our agreements with Sonesta include arbitration provisions for the resolution of disputes. In addition, RMR also provides certain services to Sonesta.

In August 2012, we sold two hotels that were managed by InterContinental that we previously had agreed with InterContinental to sell. One of those hotels was the Staybridge Suites branded, limited service hotel located in Schaumburg, IL, and the other hotel was the Staybridge Suites branded, limited service hotel located in Auburn Hills, MI. We sold these hotels for a combined cash purchase price of \$5,570 and we recognized a gain on these sales totaling \$392. The purchaser assigned the purchase agreements to an entity owned by Mr. Barry Portnoy, one of our Managing Trustees. Our

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InterContinental management agreements for these two hotels were terminated, these hotels were rebranded as Sonesta ES Suites hotels and they are now managed by Sonesta. The purchase price paid for these two hotels was equal to prices agreed between us and InterContinental and the sale was approved by our Independent Trustees after their consideration of appraisal reports.

We, RMR, TA and five other companies to which RMR provides management services each currently own 12.5% of AIC, an Indiana insurance company. All of our Trustees, all of the trustees and directors of the other publicly held AIC shareholders and nearly all of the directors of RMR currently serve on the board of directors of AIC. RMR provides management and administrative services to AIC pursuant to a management and administrative services agreement with AIC. Our Governance Guidelines provide that any material transaction between us and AIC shall be reviewed, authorized and approved or ratified by the affirmative votes of both a majority of our entire Board of Trustees and a majority of our Independent Trustees. The shareholders agreement among us, the other shareholders of AIC and AIC includes arbitration provisions for the resolution of disputes.

As of December 31, 2012, we have invested \$5,209 in AIC since its formation in November 2008. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Trustees are also directors of AIC. Our investment in AIC had a carrying value of \$5,629 and \$5,291 as of December 31, 2012 and 2011, respectively, which amounts are included in other assets on our consolidated balance sheets. For 2012, 2011 and 2010, we recognized income of \$316 and \$139 and a loss of \$1, respectively, related to our investment in AIC. We and the other shareholders of AIC have purchased property insurance providing \$500,000 of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. This program was modified and extended in June 2012 for a one year term, and we paid a premium, including taxes and fees, of \$5,256 in connection with that renewal, which amount may be adjusted from time to time as we acquire or dispose of properties that are included in this program. Our annual premiums for this property insurance in 2011 and 2010 were \$5,773 and \$4,816, respectively. We are also currently investigating the possibilities to expand our insurance relationships with AIC to include other types of insurance. We may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we are not obligated to do so. By participating in this insurance business with RMR and the other companies to which RMR provides management services, we expect that we may benefit financially by possibly reducing our insurance expenses or by realizing our pro rata share of any profits of this insurance business.

In connection with a shareholder derivative litigation on behalf of TA against members of TA's board of directors, us and RMR that TA settled in 2011, TA paid \$119 to us and \$51 to RMR in 2011 pursuant to TA's indemnity obligations under its limited liability company agreement and its agreements with us and RMR.

**9. Concentration**

*Geographic Concentration*

At December 31, 2012, our 474 properties were located in 44 states in the United States, Ontario, Canada and Puerto Rico. Between 5% and 13% of our properties, by investment, were located in each of California, Texas and Georgia. Our two hotels in Ontario, Canada and our hotel in Puerto Rico represent 1% and 2% of our hotels, by investment, respectively.

*Credit Concentration*

All of our managers and tenants are subsidiaries of other companies. The percentage of our minimum return payments and minimum rents, for each management or lease agreement is shown below, as of December 31, 2012.

<b>Agreement Reference Name</b>	<b>Number of Properties</b>	<b>Minimum Return/ Minimum Rent</b>	<b>% of Total</b>	<b>Investment(1)</b>	<b>% of Total</b>
Marriott (No. 1)	53	\$67,656	11%	\$677,948	10%
Marriott (No. 234)	68	101,837	15%	951,489	13%
Marriott (No. 5)	1	9,749	2%	90,078	1%

## HOSPITALITY PROPERTIES TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(dollars in thousands, except per share data)

InterContinental	91	135,159	22%	1,362,904	19%
Sonesta No. 1	20	37,081	6%	491,638	7%
Sonesta No. 2	1	2,564	0%	31,424	0%
Hyatt	22	22,037	4%	301,942	4%
Wyndham	21	16,728	3%	235,442	3%
Carlson	11	12,920	2%	209,895	3%
Morgans	1	5,956	1%	120,000	2%
TA (No. 1)(2)	145	154,105	25%	1,951,806	27%
TA (No. 2)	40	57,720	9%	746,805	11%
Total	474	\$623,512	100%	\$7,171,371	100%

(1) Represents historical cost of properties plus capital improvements funded by us less impairment writedowns, if any, and excludes capital improvements made from FF&E reserves funded from hotel operations.

(2) The minimum rent amount for the TA No. 1 lease includes approximately \$5,126 of ground rent due to us from TA in 2013.

Minimum return and minimum rent payments due to us under some of our hotel management agreements and leases are supported by guarantees. The guarantee provided by Marriott, with respect to the 68 hotels (Marriott No. 234) managed by Marriott is limited to \$40,000 (\$25,977 remaining at December 31, 2012) and expires on December 31, 2019. The guarantee provided by Hyatt, with respect to the 22 hotels managed by Hyatt is limited to \$50,000 (\$17,143 remaining at December 31, 2012). The guarantee provided by Carlson, with respect to the 11 hotels managed by Carlson is limited to \$40,000 (\$22,544 remaining at December 31, 2012). The guarantee provided by Wyndham with respect to the 21 hotels managed by Wyndham is limited to \$29,000 (\$21,550 remaining at December 31, 2012). These guarantees may be replenished by future cash flows from the hotels in excess of our minimum returns. The guarantee provided by Wyndham for the lease with Wyndham Vacation is unlimited. The guarantee provided by Marriott with respect to the one hotel leased by Marriott (Marriott No. 5) is unlimited and does not expire.

Security deposits support minimum return and minimum rent payments that may be due to us under some of our management agreements and leases. As of December 31, 2012, we hold security deposits for our 91 hotels managed or leased by InterContinental (\$26,466). The security deposit we held for our Marriott No. 234 agreement has been exhausted, but may be replenished in the future from available cash flow.

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Certain of our managed hotel portfolios had net operating results that were, in the aggregate, \$76,978 and \$60,265 less than the minimum returns due to us for the years ended December 31, 2012 and 2011, respectively. When the shortfalls are funded by the managers of these hotels under the terms of our operating agreements, we reflect such fundings (including security deposit applications) in our Consolidated Statements of Income and Comprehensive Income as a reduction of hotel operating expenses. The reduction to hotel operating expenses was \$46,386 and \$58,772 in the years ended December 31, 2012 and 2011, respectively. We had \$30,592 and \$1,493 of shortfalls not funded by managers during the years ended December 31, 2012 and 2011, respectively, which represents the unguaranteed portion of our minimum returns from Marriott and Sonesta.

### *Significant Tenant*

TA is the lessee of 38% of our investments, at cost, as of December 31, 2012. See Note 8 for further information regarding our leases with TA. The following table presents summary audited financial information for TA for the years ended December 31, 2012, 2011 and 2010, as reported by TA in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

## HOSPITALITY PROPERTIES TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(dollars in thousands, except per share data)

<u>Operations</u>	For the Year Ended December 31,		
	2012	2011	2010
Total revenues	\$ 7,995,724	\$ 7,888,857	\$ 5,962,481
Total cost of goods sold	6,909,724	6,850,039	5,019,630
Net income (loss)	32,198	23,574	(66,690)
<u>Cash Flows</u>			
Net cash provided by operating activities	83,072	30,141	30,893
Net cash used in investing activities	(172,474)	(86,798)	59,544
Net cash provided by (used in) financing activities	6,322	49,547	(1,628)
Net decrease in cash	(83,066)	(7,141)	(30,236)
Cash and cash equivalents at the beginning of the period	118,255	125,396	155,632
Cash and cash equivalents at the end of the period	35,189	118,255	125,396
<u>Financial Position</u>			
	2012	As of December 31, 2011	2010
Current assets	\$ 393,488	\$ 484,250	\$ 407,426
Noncurrent assets	624,793	532,281	483,666
Current liabilities	283,127	289,566	239,055
Noncurrent liabilities	381,720	408,364	412,521
Total shareholders' equity	353,434	318,601	239,516

The summary financial information of TA is presented to comply with applicable accounting regulations of the SEC. References in our financial statements to TA's Annual Report are included to show the source of the information only, and the other information in TA's Annual Report is not incorporated by reference into these financial statements.

## 10. Selected Quarterly Financial Data (Unaudited)

	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$301,420	\$343,183	\$330,068	\$322,311
Net income	42,948	37,686	44,658	26,631
Net income available for common shareholders	28,816	26,964	29,480	18,534
Net income available for common shareholders per share	0.23	0.22	0.24	0.15
Distributions per common share(1)	0.45	0.45	0.45	0.47



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	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$281,984	\$313,809	\$318,689	\$295,851
Net income	53,048	51,643	47,531	38,218
Net income available for common shareholders(1)	45,578	44,173	40,061	30,748
Net income available for common shareholders per share	0.37	0.36	0.32	0.25
Distributions per common share(2)	0.45	0.45	0.45	0.45

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(1) The sum of per common share amounts for the four quarters differs from annual per share amounts due to the required method of computing weighted average number of shares in interim periods and rounding.

(2) Amounts represent distributions paid in the periods shown.

**HOSPITALITY PROPERTIES TRUST**
**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2012**

(dollars in thousands, except per share data)

**11. Segment Information**

We have two reportable business segments: hotel investments and travel center investments.

	<b>For the Year Ended December 31, 2012</b>				<b>Consolidated</b>
	<b>Hotels</b>	<b>Travel Centers</b>	<b>Corporate</b>		
Hotel operating revenues	\$980,732	\$	\$		\$980,732
Rental income	87,456	208,560			296,016
Percentage rent	2,873	1,465			4,338
FF&E reserve income	15,896				15,896
Total revenues	1,086,957	210,025			1,296,982
Hotel operating expenses	700,939				700,939
Depreciation and amortization expense	173,308	87,523			260,831
General and administrative expense			44,032		44,032
Acquisition related costs	4,173				4,173
Loss on asset impairment	8,547				8,547
Total expenses	886,967	87,523	44,032		1,018,522
Operating income (loss)	199,990	122,502	(44,032)		278,460
Interest income			268		268
Interest expense			(136,111)		(136,111)
Gain on sale of real estate	10,602				10,602
Equity in earnings of an investee			316		316
Income (loss) before income taxes	210,592	122,502	(179,559)		153,535
Income tax expense			(1,612)		(1,612)
Net income (loss)	\$210,592	\$122,502	\$(181,171)		\$151,923
		<b>As of December 31, 2012</b>			
	<b>Hotels</b>	<b>Travel Centers</b>	<b>Corporate</b>		<b>Consolidated</b>
Total assets	\$3,384,221	\$2,209,970	\$40,934		\$5,635,125
		<b>For the Year Ended December 31, 2011</b>			
	<b>Hotels</b>	<b>Travel Centers</b>	<b>Corporate</b>		<b>Consolidated</b>
Hotel operating revenues	\$889,120	\$	\$		\$889,120

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Rental income	101,198	201,505		302,703
Percentage rent	1,879			1,879
FF&E reserve income	16,631			16,631
Total revenues	1,008,828	201,505		1,210,333
Hotel operating expenses	596,616			596,616
Depreciation and amortization expense	146,567	81,775		228,342
General and administrative expense			40,963	40,963
Acquisition related costs	2,185			2,185
Loss on asset impairment	16,384			16,384
Total expenses	761,752	81,775	40,963	884,490
Operating income (loss)	247,076	119,730	(40,963)	325,843
Interest income			70	70
Interest expense			(134,110)	(134,110)
Equity in earnings of an investee			139	139
Income (loss) before income taxes	247,076	119,730	(174,864)	191,942

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## HOSPITALITY PROPERTIES TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(dollars in thousands, except per share data)

Income tax expense			(1,502)	(1,502)
Net income (loss)	\$247,076	\$119,730	\$(176,366)	\$190,440

As of December 31, 2011

	Hotels	Travel Centers	Corporate	Consolidated
Total assets	\$2,905,065	\$2,202,199	\$26,309	\$5,133,573

For the Year Ended December 31, 2010

	Hotels	Travel Centers	Corporate	Consolidated
Hotel operating revenues	\$736,363	\$	\$	\$736,363
Rental income	135,077	190,244		325,321
Percentage rent	1,450			1,450
FF&E reserve income	22,354			22,354
Total revenues	895,244	190,244		1,085,488
Hotel operating expenses	477,595			477,595
Depreciation and amortization expense	157,497	80,592		238,089
General and administrative expense			38,961	38,961
Loss on asset impairment	163,681			163,681
Total expenses	798,773	80,592	38,961	918,326
Operating income (loss)	96,471	109,652	(38,961)	167,162
Interest income			260	260
Interest expense			(138,712)	(138,712)
Loss on extinguishment of debt			(6,720)	(6,720)
Equity in losses of an investee			(1)	(1)
Income (loss) before income taxes	96,471	109,652	(184,134)	21,989
Income tax expense			(638)	(638)
Net income (loss)	\$96,471	\$109,652	\$(184,772)	\$21,351

As of December 31, 2010

	Hotels	Travel Centers	Corporate	Consolidated
Total assets	\$2,967,467	\$2,205,379	\$19,440	\$5,192,286

**12. Fair Value of Assets and Liabilities**

The table below presents certain of our assets carried at fair value at December 31, 2012, categorized by the level of inputs, as defined in the fair value hierarchy under GAAP, used in the valuation of each asset.

Description	Year Ended December 31, 2012	Fair Value at Reporting Date Using		Total Gains (Losses), Net
		Quoted Prices in Active Markets for Identical Assets (Level 1)		
Properties held for sale(1)	\$		\$	\$(889)
Investment securities(2)	\$11,938		\$11,938	\$

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**HOSPITALITY PROPERTIES TRUST****NOTES TO FINANCIAL STATEMENTS****December 31, 2012**

(dollars in thousands, except per share data)

(1) We sold one Marriott hotel we held for sale at December 31, 2011 in July 2012. We removed 20 Marriott branded hotels with a carrying value of \$104,585 we held for sale at December 31, 2011 from held for sale status in March 2012. As described in Note 5, we have agreed to retain 18 of these hotels in our Marriott No. 234 agreement and retained and rebranded the remaining two hotels to Sonesta brands and management. We recorded an \$889 loss on asset impairment in the first quarter of 2012 in connection with our decision to remove these hotels from held for sale status.

(2) Our investment securities, consisting of our 2,540,000 shares of TA, which are included in our other assets, are reported at fair value which is based on quoted market prices (Level 1 inputs). Our historical cost basis for these securities is \$9,267. The unrealized gain for these securities as of December 31, 2012, is included in cumulative other comprehensive income in our Consolidated Balance Sheets.

In addition to the investment securities included in the table above, our financial instruments include our cash and cash equivalents, restricted cash, revolving credit facility, unsecured term loan, senior notes and security deposits. At December 31, 2012 and December 31, 2011, the fair values of these additional financial instruments were not materially different from their carrying values, except as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes, due 2012 at 6.85%	\$	\$	\$100,829	\$105,407
Senior Notes, due 2013 at 6.75%			287,000	301,871
Senior Notes, due 2014 at 7.875%	300,000	333,360	300,000	333,887
Senior Notes, due 2015 at 5.125%	280,000	298,926	280,000	290,052
Senior Notes, due 2016 at 6.3%	275,000	306,078	275,000	291,572
Senior Notes, due 2017 at 5.625%	300,000	335,173	300,000	313,106
Senior Notes, due 2018 at 6.7%	350,000	417,293	350,000	386,942
Senior Notes, due 2022 at 5.0%	500,000	531,343		
Convertible Senior Notes, due 2027 at 3.8%	8,478	9,092	79,054	80,087
Unamortized discounts	(11,120)		(5,169)	
Total financial liabilities	\$2,002,358	\$2,231,265	\$1,966,714	\$2,102,924

We estimate the fair value of our indebtedness using discounted cash flow analyses and currently prevailing market interest rates (Level 3 inputs).

**13. Subsequent Events**

On February 27, 2013, we announced that we had entered a letter of intent with NH Hoteles, SA, or NH Hoteles, under which we would loan NH Hoteles 170,000 secured by four hotels located in Spain (2 hotels), The Netherlands (1 hotel) and Belgium (1 hotel) and acquire five hotels located in Mexico (2 hotels), Colombia (1 hotel), Chile (1 hotel) and Uruguay (1 hotel) and form a joint venture with NH Hoteles to acquire a hotel in New York City with an aggregate investment for the acquisitions and joint venture interest of approximately \$150,000. The letter of intent provides for an exclusive negotiating period. We may renovate the New York City hotel, which will then be branded jointly by NH Hoteles and Sonesta. We have not yet begun our diligence for this transaction and the final documentation of this transaction has not yet been agreed. Accordingly, we can provide no assurance that this transaction or any part of it will occur.

## Hospitality Properties Trust

## SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2012

(dollars in millions)

	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition			Gross Amount at which Carried at Close of Period		Total(2)
	Land	Building & Improvements	Improvements	Impairment	Cost Basis Adjustment(1)	Land	Building & Improvements	
145 TravelCenters of America	\$586	\$885	\$237	\$	\$	\$599	\$1,109	\$1,708
71 Courtyards	127	643	150	(8)	(10)	125	777	902
40 Petro Stopping Centers	229	401	93			241	482	723
61 Candlewood Hotels	73	383	64	(14)	(7)	71	428	499
35 Residence Inns	67	326	88	(3)	(3)	68	407	475
19 Staybridge Suites	54	211	14			51	228	279
4 Royal Sonesta	48	175	22	(16)	(9)	51	169	220
22 Hyatt Place	24	185	33			24	218	242
6 Crowne Plaza	36	141	36			34	179	213
15 Sonesta ES Suites	33	130	33	(35)	(29)	36	96	132
5 Wyndham	30	132	4	(26)	(8)	30	102	132
1 Clift Hotel	28	80				28	80	108
3 InterContinental	17	100	77			14	180	194
12 TownePlace Suites	17	78	7	(15)	(18)	17	52	69
5 Radisson	7	88	12			8	99	107
16 Hawthorn Suites	14	77	1	(33)	(18)	14	27	41
2 Marriott Full Service	10	69	46			10	115	125
2 Sonesta	18	55	9	(15)	(5)	18	44	62
5 Country Inn	6	58	6			6	64	70
2 SpringHill Suites	3	15	2			3	17	20
1 Park Plaza	1	9				1	9	10
2 Holiday Inn	3	2	17			5	17	22
	\$1,431	\$4,243	\$951	\$(165)	\$(107)	\$1,454	\$4,899	\$6,353

(1) Represents reclassifications between accumulated depreciation and building & improvements made to record certain properties at fair value in accordance with GAAP.

(2) Excludes \$546 of personal property classified on our consolidated balance sheet as furniture, fixtures and equipment.



## Hospitality Properties Trust

## SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

DECEMBER 31, 2012

(dollars in millions)

	Accumulated Depreciation(1)	Date of Construction	Date Acquired	Life on which Depreciation in Latest Income Statement is Computed
145 TravelCenters of America	\$(295)	1962 through 2005	2007	10 - 40 Years
71 Courtyards	(266)	1987 through 2000	1995 through 2003	10 - 40 Years
35 Residence Inns	(128)	1989 through 2002	1996 through 2005	10 - 40 Years
40 Petro Stopping Centers	(122)	1975 through 2005	2007	10 - 40 Years
61 Candlewood Hotels	(120)	1996 through 2000	1997 through 2003	10 - 40 Years
22 Hyatt Place	(81)	1992 through 2000	1997 through 2002	10 - 40 Years
19 Staybridge Suites	(65)	1989 through 2002	1996 through 2006	10 - 40 Years
3 InterContinental	(41)	1924 through 1989	2006	10 - 40 Years
5 Radisson	(41)	1987 through 1990	1996 through 1997	10 - 40 Years
6 Crowne Plaza	(35)	1971 through 1987	2006	10 - 40 Years
2 Marriott Full Service	(35)	1972 through 1995	1998 through 2001	10 - 40 Years
5 Country Inn	(28)	1987 through 1997	1996 and 2005	10 - 40 Years
15 Sonesta ES Suites	(19)	1996 through 2000	2012	10 - 40 Years
4 Royal Sonesta	(16)	1971 through 1987	2012	10 - 40 Years
12 TownePlace Suites	(10)	1997 through 2000	1998 through 2001	10 - 40 Years
2 Sonesta	(6)	1924 through 1989	2012	10 - 40 Years
2 SpringHill Suites	(5)	1997 through 2000	2000 through 2001	10 - 40 Years
2 Holiday Inn	(4)	1984 through 2001	2006	10 - 40 Years
1 Park Plaza	(4)	1987 through 1990	1996	10 - 40 Years
5 Wyndham Hotels and Resorts	(2)	1960 through 1987	2012	10 - 40 Years
16 Hawthorn Suites	(2)	1996 through 2000	2012	10 - 40 Years
1 Clift Hotel		1913	2012	10 - 40 Years
Total (489 properties)	\$(1,325)			

(1) Excludes accumulated depreciation of \$226 related to personal property classified on our consolidated balance sheet as furniture, fixtures and equipment.

**HOSPITALITY PROPERTIES TRUST**

**NOTES TO SCHEDULE III**

**DECEMBER 31, 2011**

(dollars in thousands)

(A) The change in total cost of properties for the period from January 1, 2010 to December 31, 2012, is as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$5,851,887	\$5,845,794	\$5,938,200
Additions: acquisitions and capital expenditures	563,793	145,948	81,786
Dispositions	(42,668)	(11,459)	(10,511)
Loss on asset impairment	(861)	(16,384)	(163,681)
Cost basis adjustment(1)	(19,863)	(112,012)	
Balance at close of year	\$6,352,288	\$5,851,887	\$5,845,794

(B) The change in accumulated depreciation for the period from January 1, 2010 to December 31, 2012, is as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$1,181,413	\$1,133,924	\$973,801
Additions: depreciation expense	182,782	164,706	170,634
Dispositions	(19,604)	(5,205)	(10,511)
Cost basis adjustment(1)	(19,863)	(112,012)	
Balance at close of year	\$1,324,728	\$1,181,413	\$1,133,924

(C) The net tax basis for federal income tax purposes of our real estate properties was \$3,875,275 on December 31, 2012.

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(1) Represents reclassifications between accumulated depreciation and building & improvements made to record certain properties at fair value in accordance with GAAP.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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.

**Hospitality Properties Trust**

By: /s/ John G. Murray  
John G. Murray  
President and Chief Operating Officer

Dated: March 18, 2013

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