

HOSPITALITY PROPERTIES TRUST
Form 8-K
January 23, 2019

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported): **January 17, 2019**

HOSPITALITY PROPERTIES TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

1-11527

(Commission File Number)

04-3262075

(IRS Employer Identification No.)

**Two Newton Place
255 Washington Street, Suite 300,
Newton, Massachusetts**

(Address of Principal Executive Offices)

02458-1634

(Zip Code)

617-964-8389

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(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- Emerging growth company

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

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In this Current Report on Form 8-K, we, us, and our refer to Hospitality Properties Trust and certain of its subsidiaries, and TA refers to TravelCenters of America LLC and certain of its subsidiaries, unless otherwise noted.

Item 8.01. Other Events.

As previously reported in our Current Report on Form 8-K, dated January 16, 2019, or the January 16 Form 8-K, on January 16, 2019, we entered into three Transaction Agreements with our largest tenant, TA. Pursuant to these agreements, among other things, we agreed to sell 20 travel centers to TA for an aggregate price of approximately \$308.2 million and that we and TA would amend our existing five leases pursuant to which TA then leased 199 travel centers from us. The January 16 Form 8-K is incorporated herein by reference.

On January 17, 2019, we completed the first of the transactions contemplated by the Transaction Agreements as follows:

- We sold nine travel centers to TA for an aggregate price of \$140.5 million.

- We and TA entered into a Second Amendment to Amended and Restated Lease Agreement No. 1, a Seventh Amendment to Amended and Restated Lease Agreement No. 2 and a Third Amendment to Amended and Restated Lease Agreement No. 3 to remove the nine sold travel centers from those leases and reduce the aggregate minimum annual rent payable to us by TA thereunder by \$19.7 million.

- We and TA amended our five existing leases to, among other things:
 - extend the term of each lease by three years;

 - amend TA's obligations to pay deferred rent to us so that, commencing on April 1, 2019, TA will pay to us 16 quarterly installments of approximately \$4.4 million (an aggregate of \$70.5 million) each to fully satisfy and discharge TA's \$150.0 million deferred rent obligation to us that otherwise would have become due in five installments between 2024 and 2030;

 - amend TA's obligations to pay percentage rent to us so that, commencing with the year ending December 31, 2020, TA will be obligated to pay to us an additional amount of percentage rent equal to one-half percent (0.5%) of the excess of its annual nonfuel revenues at leased sites over the nonfuel revenues for each respective site for the year ending December 31, 2019; and

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- reallocate among the five existing leases certain properties TA continues to lease from us.

On January 23, 2019, we completed the second of the transactions contemplated by the Transaction Agreements as follows:

- We sold eight travel centers to TA for an aggregate price of \$137.8 million.
- We and TA entered into a Third Amendment to Amended and Restated Lease Agreement No. 1, a Fourth Amendment to Amended and Restated Lease Agreement No. 3, a Tenth Amendment to Amended and Restated Lease Agreement No. 4 and an Amendment to Lease Agreement (No. 5) to remove the eight sold travel centers and reduce the aggregate minimum annual rent payable by TA to us thereunder by \$19.3 million.

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The foregoing descriptions of the Transaction Agreements and the amendments to our leases with TA do not purport to be complete and are qualified in their entirety by reference to the full texts of such agreements and amendments, copies of which are filed as exhibits to the January 16 Form 8-K and as Exhibits 10.1 through Exhibit 10.9 to this Current Report on Form 8-K, respectively, each of which are incorporated herein by reference.

Information Regarding Certain Relationships and Related Person Transactions

TA is our largest tenant and property operator. We are also TA's largest shareholder; as of December 31, 2018, we owned 3,420,000 common shares of TA, representing approximately 8.5% of TA's outstanding common shares. Adam D. Portnoy, one of our Managing Trustees, also serves as a managing director of TA.

The RMR Group LLC, or RMR LLC, provides management services to both us and TA. As of December 31, 2018, RMR LLC owned approximately 3.7% of TA's outstanding common shares. Adam Portnoy is the controlling shareholder of The RMR Group Inc., or RMR Inc., and serves as President, Chief Executive Officer and a managing director of RMR Inc. and he is an officer and employee of RMR LLC. Our other Managing Trustee, John G. Murray, who also serves as our President and Chief Executive Officer, and Brian E. Donley, our Chief Financial Officer and Treasurer, are officers and employees of RMR LLC. In addition, our Senior Vice President, Ethan S. Bornstein, is a Senior Vice President of RMR LLC. Some of TA's executive officers are officers and employees of RMR LLC.

For further information about these and other such relationships and related person transactions, please see our Annual Report on Form 10-K for the year ended December 31, 2017, as amended, or the Annual Report, our definitive Proxy Statement for our 2018 Annual Meeting of Shareholders, or the Proxy Statement, our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, or the Quarterly Report, the January 16 Form 8-K and our other filings with the Securities and Exchange Commission, or the SEC, including Notes 6, 7 and 10 to the Consolidated Financial Statements included in the Annual Report, the sections captioned "Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Related Person Transactions" and "Warning Concerning Forward Looking Statements" of the Annual Report, the section captioned "Related Person Transactions" and the information regarding our Trustees and executive officers in the Proxy Statement, Notes 8, 9 and 10 to the Condensed Consolidated Financial Statements included in the Quarterly Report and the sections captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Related Person Transactions" and "Warning Concerning Forward Looking Statements" of the Quarterly Report. In addition, please see the section captioned "Risk Factors" of the Annual Report for a description of risks that may arise from these transactions and relationships. Our filings with the SEC, including the Annual Report, the Proxy Statement, the Quarterly Report and the January 16 Form 8-K, are available at the SEC's website at www.sec.gov. Copies of certain of our agreements with these related parties are publicly available as exhibits to our public filings with the SEC and accessible at the SEC's website.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS CURRENT REPORT ON FORM 8-K CONTAINS STATEMENTS THAT CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER SECURITIES LAWS. ALSO, WHENEVER WE USE WORDS SUCH AS BELIEVE, EXPECT, ANTICIPATE, INTEND, PLAN, ESTIMATE, WILL, MAY AND NEGATIVES OR DERIVATIVES OF THESE OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD

LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. FOR EXAMPLE:

- **WE HAVE COMPLETED THE SALE OF 17 OF THE 20 TRAVEL CENTERS THAT WE AND TA AGREED WE WOULD SELL TO TA. THE SALE OF THE REMAINING THREE TRAVEL CENTERS IS SUBJECT TO VARIOUS TERMS AND CONDITIONS TYPICAL OF LARGE, COMPLEX REAL ESTATE TRANSACTIONS. SOME OF THESE TERMS AND CONDITIONS MAY NOT BE SATISFIED AND, AS A RESULT, SOME OF THESE SALES MAY BE DELAYED, MAY NOT OCCUR OR THE TERMS MAY CHANGE.**

- **WE WILL RECEIVE AN AGGREGATE OF \$70.5 MILLION OF PREVIOUSLY DEFERRED RENTS IN 16 EQUAL QUARTERLY INSTALLMENTS BEGINNING ON APRIL 1, 2019. OUR RECEIPT OF THESE DEFERRED RENT AMOUNTS WILL DEPEND ON TA'S ABILITY TO PAY. TA HAS REALIZED OPERATING LOSSES IN PAST PERIODS AND ITS DEFERRED RENT WAS AGREED TO PREVIOUSLY BECAUSE OF TA'S THEN FINANCIAL CONDITION. AS A RESULT, WE CANNOT BE SURE THAT WE WILL RECEIVE THE DEFERRED RENT AMOUNTS IN ACCORDANCE WITH OUR CURRENTLY EXPECTED TIMING OR AT ALL.**

- **THE TRANSACTION AGREEMENTS REQUIRE TA TO PAY US AN AGGREGATE OF \$70.5 MILLION TO FULLY SATISFY AND DISCHARGE TA'S \$150.0 MILLION DEFERRED RENT OBLIGATION TO US. THIS MAY IMPLY THAT WE WILL REALIZE A CORRESPONDING BENEFIT IN OUR OPERATING RESULTS AS THE PAYMENTS ARE MADE. UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, WE ARE REQUIRED TO RECORD RENTAL INCOME FROM OUR OPERATING LEASES ON A STRAIGHT-LINE BASIS OVER THE TERMS OF THE AGREEMENTS, WHICH EXTEND BEYOND WHEN THE PAYMENTS ARE DUE. FURTHER, WE HAD PREVIOUSLY RECORDED AS RENTAL INCOME ON A STRAIGHT-LINE BASIS SOME OF THE PREVIOUS \$150.0 MILLION DEFERRED RENT OBLIGATION. THOSE AMOUNTS THAT WE ALREADY RECOGNIZED AS RENTAL INCOME WILL REDUCE FUTURE RENTAL INCOME AMOUNTS WE RECORD FOR THESE RENT OBLIGATION PAYMENTS.**

- **BEGINNING IN 2020, WE WILL BEGIN TO RECEIVE ADDITIONAL PERCENTAGE RENTS. THE PERCENTAGE RENT PAYABLE TO US BY TA IS BASED UPON INCREASES IN CERTAIN REVENUES OVER CERTAIN THRESHOLD AMOUNTS AT THE SITES LEASED BY TA FROM US. THERE IS NO GUARANTEE THAT TA'S REVENUES WILL INCREASE OR THAT THE PERCENTAGE RENT PAYABLE BY TA TO US WILL INCREASE AS A RESULT OR AT ALL.**

THE INFORMATION CONTAINED IN OUR FILINGS WITH THE SEC, INCLUDING UNDER THE CAPTION RISK FACTORS IN OUR PERIODIC REPORTS, OR

INCORPORATED THEREIN, IDENTIFIES OTHER IMPORTANT FACTORS THAT COULD CAUSE DIFFERENCES FROM OUR FORWARD LOOKING STATEMENTS. OUR FILINGS WITH THE SEC ARE AVAILABLE ON THE SEC'S WEBSITE AT WWW.SEC.GOV.

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON OUR FORWARD LOOKING STATEMENTS.

EXCEPT AS REQUIRED BY LAW, WE DO NOT INTEND TO UPDATE OR CHANGE ANY FORWARD LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits.*

- 10.1 Second Amendment to Amended and Restated Lease Agreement No. 1, dated as of January 17, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.2 Third Amendment to Amended and Restated Lease Agreement No. 1, dated as of January 23, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.3 Seventh Amendment to Amended and Restated Lease Agreement No. 2, dated as of January 17, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.4 Third Amendment to Amended and Restated Lease Agreement No. 3, dated as of January 17, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.5 Fourth Amendment to Amended and Restated Lease Agreement No. 3, dated as of January 23, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.6 Ninth Amendment to Amended and Restated Lease Agreement No. 4, dated as of January 17, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.7 Tenth Amendment to Amended and Restated Lease Agreement No. 4, dated as of January 23, 2019, among HPT TA Properties Trust, HPT TA Properties LLC and TA Operating LLC.
- 10.8 Amendment to Lease Agreement, dated as of January 17, 2019, among HPT PSC Properties Trust, HPT PSC Properties LLC and TA Operating LLC.
- 10.9 Amendment to Lease Agreement, dated as of January 23, 2019, among HPT PSC Properties Trust, HPT PSC Properties LLC and TA Operating LLC.

SIGNATURES

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

HOSPITALITY PROPERTIES TRUST

By:	/s/ Brian E. Donley
Name:	Brian E. Donley
Title:	Chief Financial Officer and Treasurer

Date: January 23, 2019
