

HOSPITALITY PROPERTIES TRUST
Form 10-K/A
March 19, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2011

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)

04-3262075
(IRS Employer Identification No.)

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

02458-1634
(Zip Code)

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

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

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

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Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting shares of the registrant held by non-affiliates was \$3.0 billion based on the \$24.25 closing price per common share on the New York Stock Exchange on June 30, 2011. For purposes of this calculation, an aggregate of 494,217 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 28, 2012: 123,521,535.

In this Amendment No. 1 to Annual Report on Form 10-K, and unless the context otherwise requires, the terms "HPT," "we," "our" and "us" 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 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 9, 2012, or our definitive Proxy Statement.

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, 2011, or the Annual Report, which was originally filed with the Securities and Exchange Commission, or the SEC, on February 29, 2012.

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, 2011. 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, 2011, 2010 and 2009, as reported by TA in its Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2011. 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 (dollar amounts in thousands, except per share amounts)

Overview

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.

Our hotel tenants and managers. 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 takes an extended period to recover from the severe declines experienced during the recent recession. If our tenants, managers or guarantors default in their payment obligations to us, our cash flows will decline and we may be unable to pay distributions to our shareholders.

During the twelve months ended December 31, 2011, all payments due to us under our hotel leases and hotel management contracts were paid when due except for certain payments from Marriott and InterContinental.

Marriott agreement. On June 14, 2011, we entered an agreement to re-align three of our contracts with Marriott. 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.

After giving effect to the January 1, 2011 effective date of the new agreement with Marriott, the payments we received were \$29,762 less than the minimum amounts contractually due during the twelve months ended December 31, 2011. We applied the remaining \$18,392 of available security deposit to partially cover these shortfalls and Marriott provided \$9,127 of guaranty payments to us.

InterContinental agreement. On July 25, 2011, we entered an agreement to re-align all four of our contracts with InterContinental. 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, 2011, the payments we received under our agreements with InterContinental were \$18,052 less than the minimum amounts contractually required. We applied the available security deposit to cover these shortfalls.

Other hotel management agreement and lease matters. As of February 28, 2012, all other payments due to us from our hotel managers and hotel tenants under our operating agreements were current. Additional details of our guarantees from Hyatt and Carlson are set forth in Note 9 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 does 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 operating agreements that include security deposits, any amounts of the security deposits which are applied to payment deficits may be replenished from future cash flows under the respective agreements. 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.

In November 2010, Host notified us that it will not exercise its renewal option at the end of the current lease term for 53 hotels which we have historically referred to as our Marriott No. 1 Contract. In the absence of any default by Host, upon expiration of the agreement on December 31, 2012, we expect to return the \$50,540 security deposit to Host, to lease these hotels to one of our TRSs and to continue the existing hotel brand and management agreements with

Marriott with respect to these hotels. In June 2011, Marriott notified us that it intends to exercise its option to renew these management agreements for an additional 12 years to 2024.

TA amendment agreement. On January 31, 2011, we entered into an amendment agreement with TA which modified the terms of our two leases with TA pursuant to which we lease 185 of our travel centers to, and which are operated by, subsidiaries of TA. Additional details of this agreement are set forth in Note 8 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K, which disclosure is incorporated herein by reference.

As of February 28, 2012, all payments due to us under our TA leases were current.

Royal Sonesta acquisition. On January 31, 2012, we completed our previously announced acquisition of the entities which own the Royal Sonesta Hotel in Cambridge, MA (400 rooms) and lease the Royal Sonesta Hotel in New Orleans, LA (483 rooms) for \$150,500, 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.

Management Agreements and Leases

At December 31, 2011, our 288 hotels were operated under six operating agreements, including 233 hotels leased to our wholly owned TRSs and managed by hotel management companies and 55 hotels leased to hotel operators. We lease our 185 travel centers to TA under two agreements. Our consolidated statements of income include operating revenues and expenses of our managed hotels and rental income for leased hotels and travel centers. Additional information regarding the terms of our management agreements and leases is included in the table on pages 18 and 19.

Results of Operations (dollar amounts in thousands, except per share amounts)**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

	For the Year Ended December 31,			
2011	2010	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 earnings (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

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 (formerly our Marriott No. 2 Contract) and 19 hotels (formerly our Marriott No. 4 Contract) from leased to managed properties effective January 1, 2011. Revenues at most of our managed hotels increased from 2010 due to higher occupancy rates and increases in average daily rate, or ADR. Additional operating statistics of our hotels are included in the table on page 20.

The decrease in rental income - hotels is a result of the conversion of the 37 hotels from leased portfolios to managed portfolios as described above, 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.

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

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(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).

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

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 37 hotels from leased to managed as described above, partially offset by increased levels of sales at certain of our leased hotels in 2011 versus 2010. 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 37 hotels from leased to managed as described above, 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.

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 in accordance with United States generally accepted accounting principles, or GAAP, 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 January 2012 acquisition of the entities that own or lease two Royal Sonesta Hotels as described above.

We recorded a \$163,681, or \$1.33 per share, loss on asset impairment in the twelve months ended December 31, 2010 to reduce the carrying value of 49 of our hotels to their estimated fair value. We recorded a \$16,384, or \$0.13 per share, loss on asset impairment in the twelve months ended December 31, 2011 to further reduce the carrying value of certain of these hotels.

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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.

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 face 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 are primarily a result of the changes discussed above, particularly the loss on asset impairment recorded in 2010.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

[REDACTED]					
Revenues:					
Hotel operating revenues	\$	736,363	\$	715,615	\$ 20,748 2.9%
Rental income:					
Minimum rents - hotels		135,077		128,984	6,093 4.7%
Minimum rents - travel centers		190,244		172,074	18,170 10.6%
		325,321		301,058	24,263 8.1%
Percentage rent - hotels		1,450		1,426	24 1.7%
Total rental income		326,771		302,484	24,287 8.0%
FF&E reserve income		22,354		18,934	3,420 18.1%
Expenses:					
Hotel operating expenses		477,595		460,869	16,726 3.6%
Depreciation and amortization - hotels		157,497		163,024	(5,527) (3.4)%
Depreciation and amortization - travel centers		80,592		82,844	(2,252) (2.7)%
Total depreciation and amortization		238,089		245,868	(7,779) (3.2)%
General and administrative		38,961		39,526	(565) (1.4)%
Loss on asset impairment		163,681			163,681 n/m
Operating income		167,162		290,770	(123,608) (42.5)%
Interest income		260		214	46 21.5%
Interest expense		(138,712)		(143,410)	(4,698) (3.3)%
Gain (loss) on extinguishment of debt		(6,720)		51,097	(57,817) n/m
Equity in losses of an investee		(1)		(134)	133 99.3%
Income before income taxes		21,989		198,537	(176,548) (88.9)%
Income tax expense		(638)		(5,196)	(4,558) (87.7)%
Net income		21,351		193,341	(171,990) (89.0)%
Net income (loss) available for common shareholders		(8,529)		163,461	(171,990) n/m
Weighted average shares outstanding		123,403		107,984	15,419 14.3%
Net income (loss) available for common shareholders per common share	\$	(0.07)	\$	1.51	\$ (1.58) n/m

The increase in hotel operating revenues in 2010 compared to 2009 was caused by the increase in revenues at our managed hotels. Revenues at most of our managed hotels increased from 2009 due to higher occupancy rates, partially offset by declines in ADR at certain of our hotels. Additional operating statistics of our hotels are included in the table on page 20.

The increase in minimum rents - hotels was a result of our funding of improvements at certain of our leased hotels in 2009 and 2010 that resulted in increases in the annual minimum rents due to us.

The increase in rental income - travel centers was a result of contractual rent increases in our lease agreement with TA for 145 travel centers and interest of \$14,100 earned on deferred rent amounts in 2010 pursuant to our rent deferral agreement with TA discussed in Note 8 to our consolidated financial statements included in Item 15 of this Annual Report on Form 10-K. Rental income for both periods excludes \$60,000 of

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rent deferred by TA under the rent deferral agreement.

The increase in percentage rent - hotels was the result of increased sales at certain of our leased hotels in 2010 versus 2009.

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The increase in FF&E reserve income was primarily due to increases in the percentage of sales contributed to our FF&E reserves by some of our tenants in 2010 and increased levels of hotel sales in 2010 versus 2009 at our leased hotels. We do not report the amounts 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 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 a security deposit to cover minimum return deficiencies. Certain of our managed hotel portfolios had net operating results that were, in the aggregate, \$85,592 and \$75,205 less than the minimum returns due to us in 2010 and 2009, respectively. These shortfalls were funded by the managers of these hotels under the terms of our operating agreements and we reflected these fundings (including security deposit applications) in our consolidated statements of income as a reduction to hotel operating expenses.

The decrease in depreciation and amortization - hotels was primarily due to certain of our depreciable assets becoming fully depreciated in 2010 and 2009, partially offset by the depreciation and amortization of assets acquired with funds from our FF&E reserve accounts or separately funded by us in 2009 and 2010.

The decrease in depreciation and amortization - travel centers was primarily due to certain of our depreciable assets becoming fully depreciated in 2010 and 2009, partially offset by the depreciation and amortization of improvements made to our travel centers during 2009 and 2010.

The decrease in general and administrative expense was due primarily to lower professional services fees in 2010 versus 2009.

We recorded \$163,681, or \$1.33 per share, loss on asset impairment in the twelve months ended December 31, 2010 to reduce the carrying value of 49 of our hotels to their estimated fair value.

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

The increase in interest income was due to higher average restricted cash balances during 2010 versus 2009.

The decrease in interest expense was primarily due to lower average borrowings, partially offset by higher weighted average interest rates during 2010 than in 2009.

In 2010, we recorded a \$6,720 loss on the extinguishment of debt relating to the purchase of \$185,696 face 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. The gain on extinguishment of debt in 2009 resulted from our purchase of \$367,421 face amount of our 3.8% convertible senior notes due 2027 and various issues of our senior notes for an aggregate purchase price of \$303,341, excluding accrued interest. The gain on extinguishment of debt is net of unamortized issuance costs and discounts of \$17,837 and includes a portion of the allocated equity component on the convertible notes of

\$4,854.

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

The decrease in income tax expense is primarily the result of lower state income taxes due to a decrease in taxable income for state income tax purposes as a result of our increased common share distributions in 2010 compared to 2009.

The decreases in net income, net income available for common shareholders and net income available for common shareholders per common share in 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, 2011, all 473 of our properties are operated under eight 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. These hotel managers and tenants derive their funding for property operating expenses, FF&E reserves, 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.

We define coverage for each of our hotel management agreements or leases as total property sales minus all property level expenses that are not subordinated to the minimum returns and minimum rents due to us and the required FF&E reserve contributions, divided by the minimum return or minimum rent payments due to us. More detail regarding coverage, guarantees and other security features of our operating agreements is presented in the tables on pages 18 and 19. During the twelve months ended December 31, 2011, all six of our hotel operating agreements, generated coverage of less than 1.0x (0.50x to 0.83x).

We define coverage for our travel center leases as property level sales minus all property level expenses divided by the minimum rent payments due to us. During the twelve months ended December 31, 2011, our two travel center leases, representing 185 properties, generated coverage of 1.69x and 1.63x, respectively. Because substantially all 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 these properties' contributions to their earnings before corporate level expenses.

Two hundred ninety (290) of our properties, representing 63% of our total historical investments at cost as of December 31, 2011, are operated under six 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 amounts due to us. 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. Guaranty 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 guaranty or supplemental payments 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 our properties operations and our managers and tenants do not sufficiently recover from the recent recession in a reasonable time period. 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

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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 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, debt service interest 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 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 in the twelve months ended December 31, 2011 compared to the same period in 2010 were as follows: (1) cash flow provided by operating activities increased from \$341,444 in 2010 to \$355,102 in 2011; (2) cash used in investing activities decreased from \$122,203 in 2010 to \$94,307 in 2011; and (3) cash used in financing activities decreased from \$344,758 in 2010 to \$257,374 in 2011.

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The increase in cash provided by operating activities between 2011 and 2010 is due primarily to the increase in rental income we received pursuant to our amended TA leases and increases in our minimum returns and rents under certain of our hotel operating agreements. The decrease in cash used in investing activities is primarily due to the supplemental security deposit we received from InterContinental in 2011 pursuant to the agreement to realign our operating agreements as described above compared to a \$17,220 refund of a security deposit for an expired lease in 2010, partially offset by an increase in the funding of improvements to certain of our hotels and travel centers in 2011. The decrease in cash used in financing activities between 2011 and 2010 is primarily a result of reduced net borrowings under our revolving credit facility in 2011 and our repurchase of \$185,626 of our convertible senior notes in 2010 compared to no repurchases in 2011.

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 IRC, among other things, allows a REIT to lease hotels to TRSs if the hotels are managed by a 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 Investment and Financing Liquidity and Capital Resources

Various percentages of total sales at certain of our hotels are escrowed by us as FF&E reserves to fund future capital improvements. During the twelve months ended December 31, 2011, our hotel managers and hotel tenants contributed \$50,834 to these accounts and \$144,436 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, 2011, there was \$50,196 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. 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 twelve months ended December 31, 2011, we funded \$63,177 for capital improvements in excess of FF&E reserve fundings available from hotel operations to our hotels, as follows:

- During the twelve months ended December 31, 2011, we funded \$17,138 for improvements to hotels included in our Marriott No. 1 Contract 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 2012.
- Pursuant to the June 2011 agreement we entered with Marriott for management of 71 hotels, we agreed to provide approximately \$102,000 of funding during the next two years for renovations of certain of these hotels and for other improvements. As we fund improvements pursuant to this agreement, the minimum returns payable to us increase. We funded \$7,402 of this commitment during the twelve months ended December 31, 2011 using existing cash balances and borrowings under our revolving credit facility. We expect to fund approximately \$75,000 of this commitment during 2012 using our existing cash balances or borrowings under our revolving credit facility. Also pursuant to this agreement, 21 hotels included in the agreement were identified for sale; however, subsequent to December 31, 2011, we entered discussions with Marriott about retaining certain of these hotels in the agreement. If we retain certain of these hotels in the agreement, we will be required to fund previously agreed amounts for renovations to the retained hotels which are in addition to the fundings described above.

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- Pursuant to the July 2011 agreement we entered with InterContinental for management of 130 hotels, we have committed to a renovation program for all of the hotels included in the new agreement pursuant to which we expect to invest approximately \$300,000 over the next two years. Pursuant to the agreement, we may rebrand or sell up to 42 hotels included in the agreement. The final amount we are required to fund for renovations will be adjusted based on the number of hotels which we determine to rebrand or sell and remove from the agreement; however, if we determine to rebrand certain properties, we expect to be required to fund amounts for rebranding costs and renovations to the rebranded hotels. As we fund improvements pursuant to this

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agreement, the minimum returns payable to us increase. We funded \$38,637 of this commitment during the twelve months ended December 31, 2011 using existing cash balances and borrowings under our revolving credit facility. We expect to fund approximately \$227,000 of this commitment during 2012 using our existing cash balances or borrowings under our revolving credit facility.

In November 2010, Host notified us that it will not exercise its renewal option at the end of the current lease term for 53 Courtyard hotels which we have historically referred to as our Marriott No. 1 Contract. Assuming that Host does not default in its contractual obligations to us, upon expiration of this agreement on December 31, 2012, we expect to return the \$50,540 security deposit to Host. We expect to fund the return of this security deposit using existing cash balances or borrowings under our revolving credit facility.

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. We funded \$69,122 for capital improvements to TA under this lease provision during the twelve months ended December 31, 2011 using existing cash balances and borrowings under our revolving credit facility. We currently expect to fund approximately \$75,000 for capital improvements to our travel center properties during 2012, using funds from our existing cash balances or borrowings under our revolving credit facility. However, TA is not obligated to request and we are not obligated to fund any such improvements.

On January 14, 2011, April 15, 2011, July 15, 2011 and October 17, 2011, we paid a \$0.5546875 per share distribution to our Series B preferred shareholders with respect to the periods ending January 14, 2011, April 14, 2011, July 14, 2011 and October 14, 2011, respectively. On December 1, 2011, we declared a \$0.5546875 per share distribution to our Series B preferred shareholders of record on December 30, 2011, with respect to the period ended January 14, 2012. We paid this amount on January 17, 2012. We funded these distributions using existing cash balances and borrowings under our revolving credit facility.

On February 15, 2011, May 16, 2011, August 15, 2011 and November 15, 2011, we paid a \$0.4375 per share distribution to our Series C preferred shareholders with respect to the periods ending February 14, 2011, May 14, 2011, August 14, 2011 and November 14, 2011, respectively. On January 6, 2012, we declared a \$0.4375 per share distribution to our Series C preferred shareholders of record on January 31, 2012, with respect to the period ending February 14, 2012. We paid this amount on February 15, 2012. We funded these distributions using existing cash balances and borrowings under our revolving credit facility.

On February 23, 2011, May 24, 2011, August 23, 2011 and November 23, 2011, we paid a \$0.45 per share distribution to our common shareholders. On January 11, 2012, we declared a \$0.45 per share distribution to our common shareholders of record on January 27, 2012. We paid this amount on February 23, 2012. We funded these distributions using existing cash balances and borrowings under our revolving credit facility.

On January 3, 2011, we repaid without penalty our 8.3% mortgage note payable, which had a principal balance of \$3,383, using existing cash balances.

In July 2011, we sold our Holiday Inn branded hotel in Memphis, Tennessee, for net proceeds of \$6,905. We used the net proceeds to reduce amounts outstanding under our revolving credit facility.

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In January 2012, we sold 11,600,000 Series D cumulative redeemable preferred shares, or our Series D Preferred Shares, at a price of \$25.00 per share in a public offering. The distribution rate on the preferred shares is 7.125% of the liquidation preference per year, or \$1.78125 per share per year. Net proceeds from this sale of \$280,365 (after underwriting and other offering expenses) were used to repay amounts outstanding under our revolving credit facility and to fund acquisitions.

On January 31, 2012, we acquired the entities which own the Royal Sonesta Hotel Boston in Cambridge, Massachusetts and lease the Royal Sonesta Hotel New Orleans in New Orleans, Louisiana for \$150,500, excluding acquisition costs. The purchase price was funded with proceeds from the offering of our Series D Preferred Shares described above.

On February 10, 2012, we entered an agreement to sell our Marriott branded hotel in St. Louis, Missouri with 601 rooms. The contract sales price is \$35,000, excluding closing costs. We expect to complete this sale in the second

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quarter of 2012. This pending transaction is subject to buyer's completion of due diligence and other customary closing conditions; accordingly, we can provide no assurances that we will sell this hotel.

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 per share 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.

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 make distributions or pay operating expenses, we maintain a revolving credit facility with a group of institutional lenders. On September 8, 2011, we entered a new \$750,000 unsecured revolving credit facility. The new facility replaced our previous \$750,000 unsecured revolving credit facility, which had a maturity date of October 24, 2011. The maturity date of the new 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 facility for one year to September 7, 2016. Interest paid under the new facility is set at LIBOR plus 130 basis points, subject to adjustments based on our senior unsecured debt ratings. The annual interest rate payable on our borrowings under the facility was 1.59% as of December 31, 2011. We may draw, repay and redraw funds until maturity, and no principal repayment is due until maturity. As of December 31, 2011 and February 28, 2012, we had \$149,000 and \$185,000, respectively, outstanding under our revolving credit facility.

Our term debt maturities (other than our revolving credit facility) are as follows: \$100,829 in 2012, \$287,000 in 2013, \$300,000 in 2014, \$280,000 in 2015, \$275,000 in 2016, \$300,000 in 2017, \$350,000 in 2018, and \$79,054 in 2027. Our \$79,054 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 20, 2012, 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.

At December 31, 2011, we had \$8,303 of cash (excluding restricted cash) and cash equivalents and \$601,000 available to borrow under our revolving credit facility. 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 and 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 we would explore alternatives for the repayment of amounts due. 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.

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As of December 31, 2011, 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)	\$ 2,120,883	\$ 179,883	\$ 587,000	\$ 704,000	\$ 650,000
Ground lease obligations(2)	140,706	12,906	24,642	20,925	82,233
Security deposits(3)	106,422	50,540			55,882
Capital improvements(4)	358,663	302,481	56,182		
Projected interest expense(5)	499,071	128,100	210,324	117,033	43,614
Purchase obligations(6)	150,500	150,500			
Total	\$ 3,376,245	\$ 824,410	\$ 878,148	\$ 841,958	\$ 831,729

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- (1) Holders of our convertible senior notes (\$79,054 due in 2027) may require us to repurchase all or a portion of the notes on March 20, 2012, March 15, 2017 and March 15, 2022, or upon the occurrence of certain change in control events prior to March 20, 2012. The amounts in the table reflect these notes in the Less than 1 year category as we expect to be required by their holders to repurchase them on March 20, 2012.
 - (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.
 - (3) Represents the security deposit balance as of December 31, 2011. 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, 2011.
 - (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.
 - (6) Represents the purchase price we paid to acquire two Royal Sonesta Hotels on January 31, 2012.

Off Balance Sheet Arrangements

As of December 31, 2011, we had no off balance sheet arrangements that have had or are reasonably likely to have a current or 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, 2011, consist of our revolving credit facility and \$1,971,883 of unsecured term debt and convertible notes. Our unsecured term debt and convertible notes are governed by an indenture. This indenture and related supplements and our revolving credit facility agreement 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, 2011, we believe we were in compliance with all of our covenants under our indenture and its supplements and our revolving credit facility agreement.

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Neither our indenture and its supplements nor our revolving credit facility agreement contains provisions for acceleration which could be triggered by our debt ratings. However, under our revolving credit facility agreement, our highest senior unsecured debt rating is used to determine the fees and interest rate 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 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 has 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 among us, our Trustees, our executive officers, RMR, TA, Sonesta and AIC and other companies to which RMR provides management services and others affiliated with or related to them. For example, we have no employees; personnel and various services we require to operate our business are provided to us by RMR

pursuant to management agreements. Also, as a further example, we have relationships with other companies to which RMR provides management services and with companies affiliated with RMR and which have trustees, directors and officers who are also Trustees, directors or officers of ours or RMR, including TA, which is our former subsidiary and our largest tenant, and we are its largest shareholder; Sonesta, which manages, and from which we purchased, certain of our properties; and AIC, an Indiana insurance company, of which we, RMR, CWH, SNH, GOV, TA and Five Star each currently own approximately 14.29% and with respect to which 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 and about the risks which may arise as a result of those and other related person transactions and relationships, please see Note 8 to the Notes to our Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference. In addition, for more information about these transactions and relationships, please see elsewhere in this report, including Warning Concerning Forward Looking Statements and the Risk Factors section for a description of risks which may arise from these transactions and relationships.

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.

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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.

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 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 Financial Accounting Standards Board, or FASB, *Accounting Standards Codification*TM, 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 2008 through 2011 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, 2011, we owned 288 hotels and 185 travel centers that are grouped into eight operating agreements. As of December 31, 2011, our hotels are managed by or leased to subsidiaries of hotel operating companies including InterContinental, Marriott, Host, Hyatt and Carlson under six agreements. Our 185 travel centers are leased to and operated by subsidiaries of TA under two agreements.

The tables on the following pages summarize significant terms of our leases and management agreements as of December 31, 2011. 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 revenue per available room, or 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 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.

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Property Brand:	Courtyard by Marriott®	Marriott® / Residence Inn by Marriott® / Courtyard by Marriott® / TownePlace Suites by Marriott® / SpringHill Suites by Marriott®	Marriott®	Staybridge Suites® / Candlewood Suites® / InterContinental® / Crowne Plaza® / Holiday Inn®
Agreement Reference Name:	Marriott (no. 1)	Marriott (no. 234) (1)	Marriott (no. 5)	InterContinental (2)
Number of Properties:	53	71 (3)	1	130 (4)
Number of Rooms / Suites:	7,610	9,954	356	19,892
Number of States:	24	24	1	31 plus Ontario and Puerto Rico
Tenant:	Subsidiary of Host.	Our TRS.	Subsidiary of Marriott.	Our TRS and a subsidiary of InterContinental.
Manager:	Subsidiary of Marriott.	Subsidiary of Marriott.	Subsidiary of Marriott.	Subsidiary of InterContinental.
Investment (000s) (5):	\$676,948	\$957,026	\$90,078	\$1,820,743
Security Deposit (000s):	\$50,540	\$ (6)		\$55,820 (7)
End of Current Term:	2012	2025	2019	2036
Renewal Options (8):	3 for 12 years each. (9)	2 for 10 years each.	4 for 15 years each.	2 for 15 years each.
Annual Minimum Return / Minimum Rent (000s) (10):	\$67,557	\$98,854	\$9,495	\$156,220
Additional Return:		62.5% of excess cash flow (11)		\$14,423; 50% of excess cash flow (12)
Percentage Rent (13):	5.0% of revenues above 1994/95 revenues.		CPI based calculation.	
Return / Rent Coverage (14):				
Twelve months ended 12/31/10:	0.75x	0.67x	0.17x	0.63x
Twelve months ended 12/31/11:	0.81x	0.73x	0.50x	0.83x
Other Security Features:	HPT controlled lockbox with minimum balance maintenance requirement; tenant minimum net worth requirement.	Limited guaranty provided by Marriott. (15)	Marriott guaranty.	

(1) In June 2011, we entered an agreement to re-align three of our contracts with Marriott. The three contracts, which we historically referred to as our Marriott Nos. 2, 3 and 4 Contracts concerning 71 hotels, have been combined under one agreement, which expires in 2025 and is referred to herein as the Marriott No. 234 Contract.

(2) In July 2011, we entered an agreement to re-align our four contracts with InterContinental. The four contracts concerning 130 hotels (one hotel was sold in July 2011), have been combined under one agreement, which expires in 2036.

(3) We are considering the sale of 21 hotels included in this agreement, consisting of nine TownePlace Suites hotels, six Residence Inn hotels, five Courtyard hotels and one Marriott hotel. On February 10, 2012, we entered an agreement to sell our Marriott branded hotel in St. Louis, Missouri. The information provided in this table includes these 21 hotels.

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- (4) In connection with the re-alignment described in Note 2, we may decide to pursue the sale or rebranding of up to 42 hotels included in this agreement. The information provided in this table includes these 42 hotels.
- (5) Represents historical cost of properties plus capital improvements funded by us and excludes impairment writedowns and capital improvements made from FF&E reserves funded from hotel operations.
- (6) The original amount of this security deposit was \$64,700. As of December 31, 2011 we have fully exhausted this security deposit covering shortfalls in payments of our minimum return.
- (7) The original amount of this security deposit was \$36,872. As part of the July 2011 agreement described in Note 2, InterContinental provided us with an additional \$37,000 to supplement the existing security deposit that secures InterContinental's obligations under the new agreement. As of December 31, 2011, we have applied \$18,052 of the security deposit to cover deficiencies in the minimum returns and rent paid by InterContinental for these agreements. We received \$13,933 less than the minimum amounts due in January and February 2012 and applied the available security deposit to cover these amounts. As of February 28, 2012, the balance of this security deposit is \$41,887.
- (8) Renewal options may be exercised by the manager or tenant for all, but not less than all, of the properties within each combination of properties.
- (9) In November 2010, Host notified us that it will not exercise its renewal option at the end of the current lease term. Assuming no default by Host, upon expiration of the agreement on December 31, 2012, we expect to return the \$50,540 security deposit to Host, to lease the hotels to one of our TRSs and to continue the existing hotel brand and management agreements with Marriott with respect to these hotels. In June 2011, Marriott provided notice to us that it intends to exercise its option to renew these management agreements for an additional 12 years to 2024. The renewal options presented are Marriott's options related to its management agreement.
- (10) Each management agreement or lease provides for payment to us of an annual minimum return or minimum rent, respectively. Management fees are generally subordinated to these minimum payment amounts and certain minimum payments are subject to full or limited guarantees.
- (11) This management agreement provides for payment to us of 62.5% of available cash flow after payment of operating costs, funding the FF&E reserve, payment of our minimum return, payment of certain management fees, replenishment of the security deposit, and reimbursement of guarantee payments.
- (12) This agreement provides for an annual additional return payment to us of the amount stated to the extent of available cash flow after payment of operating costs, funding of the FF&E reserve, 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 amounts are not guaranteed or secured by deposits.
- (13) Certain of our leases provide for payment to us of a percentage of increases in total sales over base year levels.
- (14) We define coverage as total property sales minus all property level expenses which are not subordinated to minimum payments to us and the required FF&E reserve contributions (which data is provided to us by our managers or tenants), divided by the minimum returns or minimum rent payments due to us. Coverage data for the Marriott No. 234 and InterContinental Contracts has been adjusted to reflect the terms of the new combined contracts. Effective July 1, 2011 through December 31, 2013, InterContinental is not required to make FF&E reserve contributions under the terms of the agreement entered in July 2011. The coverage amounts for InterContinental provided have been calculated without a deduction for FF&E reserve contributions for periods subsequent to June 30, 2011.
- (15) As of December 31, 2011, the available Marriott guaranty was \$30,873.

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Property Brand:	Hyatt Place®	Radisson® Hotels & Resorts/ Park Plaza® Hotels & Resorts/ Country Inns & Suites®	TravelCenters of America®	Petro Stopping Centers®	Total/ Range/ Average (all investments)
Agreement Reference Name:	Hyatt	Carlson	TA (no. 1)	TA (no. 2)	8
Number of Properties:	22	11	145	40	473
Number of Rooms / Suites:	2,724	2,096			42,632
Number of States:	14	7	39	25	44 plus Ontario and Puerto Rico
Tenant:	Our TRS.	Our TRS.	Subsidiary of TA.	Subsidiary of TA.	5 Tenants
Manager:	Subsidiary of Hyatt.	Subsidiary of Carlson.	TA.	TA.	5 Managers
Investment (000s)					
(1):	\$301,942	\$202,251	\$1,897,029	\$725,407	\$6,671,424
Security Deposit (000s):					\$106,360
End of Current Term:	2030	2030	2022	2024	2012-2036 (average 15 years)
Renewal Options (2):	2 for 15 years each.	2 for 15 years each.		2 for 15 years each.	
Annual Minimum Return / Minimum Rent (000s) (3):	\$22,037	\$12,920	\$144,391(4)	\$55,852(4)	\$567,326
Additional Return:	50% of cash flow in excess of minimum return. (5)	50% of cash flow in excess of minimum return. (5)			\$14,423
Percentage Rent (6):			3% of non-fuel revenues and .3% of fuel revenues above 2011 revenues.	3% of non-fuel revenues and .3% of fuel revenues above 2012 revenues. (7)	
Return / Rent Coverage (8)(9):					
Twelve months ended 12/31/10:	0.71x	0.59x	1.28x	1.15x	0.17x 1.28x
Twelve months ended 12/31/11:	0.81x	0.64x	1.69x	1.63x	0.50x 1.69x
Other Security Features:	Limited guaranty provided by Hyatt; parent minimum net worth requirement. (10)	Limited guaranty provided by Carlson; parent minimum net worth requirement. (11)	TA parent guaranty. (12)	TA parent guaranty. (12)	

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

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- (2) Renewal options may be exercised by the manager or tenant for all, but not less than all, of the properties within each combination of properties.
- (3) Each management agreement or lease provides for payment to us of an annual minimum return or minimum rent, respectively. Management fees are generally subordinated to these minimum payment amounts and certain minimum payments are subject to full or limited guarantees.
- (4) Effective January 1, 2011, we entered a lease amendment with TA and the rents presented above represent TA's contractual obligations under the amended lease. The amounts presented for the TA No. 1 lease include approximately \$5,069 of ground rent due to us from TA.
- (5) These agreements provide for payment to us of 50% of available cash flow after payment of operating costs, funding the FF&E reserve, payment of our minimum return and reimbursement to the managers of working capital and guaranty advances, if any.
- (6) Certain of our leases provide for payment to us of a percentage of increases in total sales over base year levels.
- (7) We have agreed to waive payment of the first \$2,500 of percentage rent which may become due under the TA No. 2 lease as part of the agreement described in note 4 above.
- (8) We define coverage as total property sales minus all property level expenses which are not subordinated to minimum payments to us and the required FF&E reserve contributions (which data is provided to us by our managers or tenants), divided by the minimum return or minimum rent payments due to us.
- (9) TA rent coverage ratios were calculated based upon the contractual rent amounts and do not reflect the effect of any rent deferral.
- (10) At December 31, 2011, the remaining unpaid amount of the Hyatt guaranty was \$21,020.
- (11) At December 31, 2011, the remaining unpaid amount of the Carlson guaranty was \$25,598.
- (12) The TA guaranty is unlimited.

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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. We have not independently verified this data.

Management/Lease Agreement	No. of Hotels	No. of Rooms /Suites	2011(1)		2010(1)	Change	
ADR							
InterContinental (2)(3)	130	19,892	\$	84.82	\$	81.99	3.5%
Marriott (no. 1)	53	7,610		108.10		104.87	3.1%
Marriott (no. 234) (4)	71	9,954		100.97		98.03	3.0%
Marriott (no. 5)	1	356		216.88		189.37	14.5%
Hyatt	22	2,724		87.59		83.35	5.1%
Carlson	11	2,096		87.11		83.55	4.3%
Total/Average	288	42,632	\$	93.84	\$	90.50	3.7%

OCCUPANCY

InterContinental (2)(3)	130	19,892	75.3%	72.8%	2.5 Pts
Marriott (no. 1)	53	7,610	65.1%	61.8%	3.3 Pts
Marriott (no. 234) (4)	71	9,954	69.9%	67.5%	2.4 Pts
Marriott (no. 5)	1	356	85.6%	82.5%	3.1 Pts
Hyatt	22	2,724	76.9%	77.0%	-0.1 Pts
Carlson	11	2,096	64.2%	60.2%	4.0 Pts
Total/Average	288	42,632	71.9%	69.3%	2.6 Pts

RevPAR

InterContinental (2)(3)	130	19,892	\$	63.87	\$	59.69	7.0%
Marriott (no. 1)	53	7,610		70.37		64.81	8.6%
Marriott (no. 234) (4)	71	9,954		70.58		66.17	6.7%
Marriott (no. 5)	1	356		185.65		156.23	18.8%
Hyatt	22	2,724		67.36		64.18	5.0%
Carlson	11	2,096		55.92		50.30	11.2%
Total/Average	288	42,632	\$	67.47	\$	62.72	7.6%

(1) Includes data for the calendar periods indicated, except for our Marriott branded hotels, which include data for comparable fiscal periods.

(2) On July 19, 2011, we sold our Holiday Inn branded hotel in Memphis, Tennessee. The information provided in this table excludes this hotel.

(3) In July 2011, we entered an agreement to re-align our four contracts with InterContinental. The four contracts, which we historically referred to as our InterContinental Nos. 1, 2, 3 and 4 Contracts concerning 130 hotels, have been combined under one agreement. In connection with this agreement, we may decide to pursue the sale or rebranding of up to 42 hotels included in this agreement. The information provided in this table includes these 42 hotels.

(4) In June 2011, we entered an agreement to re-align three of our contracts with Marriott. The three contracts, which we historically referred to as our Marriott Nos. 2, 3 and 4 Contracts concerning 71 hotels, have been combined under one agreement. In connection with this agreement, we are considering the sale of 21 hotels included in this agreement. On February 10, 2012, we entered an agreement to sell our Marriott branded hotel in St. Louis, Missouri. The information provided in this table includes these 21 hotels.

Seasonality

Our hotels and travel centers have historically experienced seasonal differences typical of their industries with higher revenues in the second and third quarters of calendar years compared with the first and fourth quarters. So long as guarantees and security deposits are available to supplement earnings shortfalls at our properties, this seasonality is not expected to cause material fluctuations in our income or cash flow because our contractual management agreements and leases require our managers and tenants to make the substantial portion of our return payments and rents to us in equal amounts throughout a year. If and as guarantees and security deposits which secure the minimum rents and returns due to us are exhausted our financial results may begin to reflect the seasonality of the industries in which our tenants and managers operate.

Impact of Inflation

Inflation might have both positive and negative impacts upon us. Inflation might cause the value of our real estate investments 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 other operating costs to increase. An increase in our capital costs or in our operating costs will 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 and this fact 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 increased costs 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 the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the requirements of our borrowing arrangements and the cost of such hedge arrangements.

Impact of Climate Change

The ongoing 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 hotel and travel center properties to increase. We do not expect the direct impact of these 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 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.

Non-GAAP Measures

We provide below calculations of our funds from operations, or FFO, and Normalized FFO for the twelve months ended December 31, 2011, 2010 and 2009. 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 and cash flow from operating activities as presented in our Consolidated Statements of Income and Consolidated Statements of Cash Flow. 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 or cash flow from operating activities determined in accordance with GAAP, 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 gain or loss on sale of properties, plus real estate depreciation and amortization and impairment of assets. Our calculation of Normalized FFO differs from NAREIT's definition of FFO because we include percentage rent in the period it is received rather than when it is recognized as income in accordance with GAAP and exclude gain (loss) on early extinguishment of debt and acquisition related costs. We consider FFO and Normalized FFO to be appropriate measures of performance for a REIT, along with net income and cash flow from operating, investing and financing activities. We believe that

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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 can facilitate a comparison of operating performances 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 public debt covenants, the availability of debt and equity capital to us and our expectation of our future capital requirements and operating performance.

Our calculations of FFO and Normalized FFO for the twelve months ended December 31, 2011, 2010 and 2009, and reconciliations of FFO and Normalized FFO to net income available for common shareholders, the most

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directly comparable financial measure under GAAP reported in our consolidated financial statements, appear in the following table.

	Year Ended December 31,		
	2011	2010	2009
Net income (loss) available for common shareholders	\$ 160,560	\$ (8,529)	\$ 163,461
Depreciation and amortization	228,342	238,089	245,868
Loss on asset impairment	16,384	163,681	
FFO	405,286	393,241	409,329
Acquisition related costs	2,185		
Loss (gain) on extinguishment of debt		6,720	(51,097)
Normalized FFO	\$ 407,471	\$ 399,961	\$ 358,232
Weighted average shares outstanding	123,470	123,403	107,984
Net income (loss) available for common shareholders per share	\$ 1.30	\$ (0.07)	\$ 1.51
FFO per share	\$ 3.28	\$ 3.19	\$ 3.79
Normalized FFO per share	\$ 3.30	\$ 3.24	\$ 3.32
Distributions declared per share	\$ 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:

	Page
<u>Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Income for each of the three years ended December 31, 2011</u>	F-4
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for each of the three years ended December 31, 2011</u>	F-5
<u>Consolidated Statements of Cash Flows for each of the three years ended December 31, 2011</u>	F-6
<u>Notes to Financial Statements</u>	F-7
<u>Schedule III - Real Estate and Accumulated Depreciation as of December 31, 2011</u>	F-37
<u>Notes to Schedule III</u>	F-39

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

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 18, 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 May 16, 2000. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

3.4 Articles Supplementary dated as of December 9, 2002. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.)

3.5 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.)

3.6 Articles Supplementary dated as of March 5, 2007. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 7, 2007.)

3.7 Articles Supplementary dated as of January 13, 2012. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 18, 2012.)

3.8 Amended and Restated Bylaws of the Company, as of January 13, 2010. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 20, 2010.)

4.1 Form of Common Share Certificate. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.)

4.2 Form of 8.875% Series B Cumulative Redeemable Preferred Share Certificate. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.)

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- 4.3 Form of 7% Series C Cumulative Redeemable Preferred Share Certificate. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.)
- 4.4 Form of 7.125% Series D Cumulative Redeemable Preferred Share Certificate. (Incorporated by reference to the Company's Current Report on Form 8-K dated January 18, 2012.)
- 4.5 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.)
- 4.6 Supplemental Indenture No. 6, dated as of July 8, 2002, between the Company and State Street Bank and Trust Company, relating to the Company's 6.85% Senior Notes due 2012, including form thereof. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)
- 4.7 Supplemental Indenture No. 7, dated as of January 24, 2003, between the Company and U.S. Bank National Association, relating to the Company's 6-3/4% Senior Notes due 2013, including form thereof. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.)
- 4.8 Supplemental Indenture No. 8, dated as of February 15, 2005, between the Company and U.S. Bank National Association, relating to the Company's 5-1/8% Senior Notes due 2015, including form thereof. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 14, 2005.)

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- 4.9 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.)
- 4.10 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 7, 2007.)
- 4.11 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 12, 2007.)
- 4.12 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.)
- 4.13 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.)
- 4.14 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 16, 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, 2011.)
- 10.1 Amended and Restated Business Management Agreement, dated as of November 2, 2011, among Reit Management & Research LLC, the Company, Barry M. Portnoy, Gerard M. Martin and Adam D. Portnoy.(+) (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.)
- 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 20, 2010.)

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10.3 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.)

10.4 Summary of Trustee Compensation.(+) (Incorporated by reference to the Company's Current Report on Form 8-K dated May 16, 2011.)

10.5 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.)

10.6 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.)

10.7 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.)

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- 10.8 Form of Restricted Share Agreement. (+) (Incorporated by reference to the Company's Current Report on Form 8-K dated September 21, 2010.)
- 10.9 Representative form of Indemnification Agreement. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2008.)
- 10.10 Credit Agreement, dated as of September 8, 2011, among Hospitality Properties Trust, 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 9, 2011.)
- 10.11 Master Lease Agreement, dated as of April 30, 1999, among the Company, HPTCY Properties Trust and HMH HPT Courtyard LLC. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.)
- 10.12 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.)
- 10.13 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.)
- 10.14 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.)
- 10.15 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 13, 2008.)
- 10.16 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.)
- 10.17 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 June 4, 2007.)

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10.18 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.)

10.19 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.)

10.20 Amendment Agreement, dated as of January 31, 2011, among Hospitality Properties Trust, 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.)

10.21 Amended and Restated Shareholders Agreement, dated as of December 16, 2009, among Affiliates Insurance Company, Five Star Quality Care, Inc., the Company, HRPT Properties Trust (now known as Commonwealth REIT), Senior Housing Properties Trust, TravelCenters of America LLC, Reit

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Management & Research LLC and Government Properties Income Trust. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.)

10.22 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 Current Report on Form 8-K dated June 14, 2011.)

10.23 Form of 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.)

10.24 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.)

10.25 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.)

10.26 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 February 1, 2012.)

10.27 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 February 1, 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, 2011.)

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, 2011.)

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, 2011.)

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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, 2011.)

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, 2011.)

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, 2011.)

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, 2011.)

31.5 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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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.)

32.1 Section 1350 Certification. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.) (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, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of 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. (Furnished herewith.)

(+) 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, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 29, 2012
except for Note 9, as to which the date is
March 19, 2012

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, 2011, 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, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2011 consolidated financial statements of Hospitality Properties Trust and our report dated February 29, 2012 (except for Note 9, as to which the date is March 19, 2012) expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 29, 2012

F-2

HOSPITALITY PROPERTIES TRUST

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	As of December 31,	
	2011	2010
ASSETS		
Real estate properties, at cost:		
Land	\$ 1,360,773	\$ 1,389,594
Buildings, improvements and equipment	4,775,323	4,909,488
	6,136,096	6,299,082
Accumulated depreciation	(1,367,868)	(1,370,592)
	4,768,228	4,928,490
Properties held for sale	123,025	7,125
Cash and cash equivalents	8,303	4,882
Restricted cash (FF&E reserve escrow)	50,196	80,621
Other assets, net	183,821	171,168
	\$ 5,133,573	\$ 5,192,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving credit facility	\$ 149,000	\$ 144,000
Senior notes, net of discounts	1,887,891	1,886,356
Convertible senior notes, net of discount	78,823	77,484
Mortgage payable		3,383
Security deposits	106,422	105,859
Accounts payable and other liabilities	103,668	107,297
Due to related persons	3,713	2,912
Dividends payable	4,754	4,754
Total liabilities	2,334,271	2,332,045
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest, no par value, 100,000,000 shares authorized:		
Series B preferred shares; 8 7/8% cumulative redeemable; 3,450,000 shares issued and outstanding, aggregate liquidation preference \$86,250	83,306	83,306
Series C preferred shares; 7% cumulative redeemable; 12,700,000 shares issued and outstanding, aggregate liquidation preference \$317,500	306,833	306,833
Common shares of beneficial interest, \$.01 par value; 150,000,000 shares authorized; 123,521,535 and 123,444,235 issued and outstanding, respectively	1,235	1,234
Additional paid in capital	3,463,534	3,462,169
Cumulative net income	2,232,953	2,042,513
Cumulative other comprehensive income	1,605	2,231
Cumulative preferred distributions	(213,281)	(183,401)
Cumulative common distributions	(3,076,883)	(2,854,644)
Total shareholders' equity	2,799,302	2,860,241
	\$ 5,133,573	\$ 5,192,286

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

HOSPITALITY PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Hotel operating revenues	\$ 889,120	\$ 736,363	\$ 715,615
Rental income:			
Minimum rent	302,703	325,321	301,058
Percentage rent	1,879	1,450	1,426
	304,582	326,771	302,484
FF&E reserve income	16,631	22,354	18,934
Total revenues	1,210,333	1,085,488	1,037,033
Expenses:			
Hotel operating expenses	596,616	477,595	460,869
Depreciation and amortization	228,342	238,089	245,868
General and administrative	40,963	38,961	39,526
Acquisition related costs	2,185		
Loss on asset impairment	16,384	163,681	
Total expenses	884,490	918,326	746,263
Operating income	325,843	167,162	290,770
Interest income	70	260	214
Interest expense (including amortization of deferred financing costs and debt discounts of \$6,305, \$7,123 and \$11,046, respectively)	(134,110)	(138,712)	(143,410)
Gain (loss) on extinguishment of debt		(6,720)	51,097
Equity in earnings (losses) of an investee	139	(1)	(134)
Income before income taxes	191,942	21,989	198,537
Income tax expense	(1,502)	(638)	(5,196)
Net income	190,440	21,351	193,341
Preferred distributions	(29,880)	(29,880)	(29,880)
Net income (loss) available for common shareholders	\$ 160,560	\$ (8,529)	\$ 163,461
Weighted average common shares outstanding	123,470	123,403	107,984
Basic and diluted earnings per common share:			
Net income (loss) available for common shareholders	\$ 1.30	\$ (0.07)	\$ 1.51

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

HOSPITALITY PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(in thousands, except share data)

	Series B		Preferred Shares Series C		Cumulative	Common Shares			Additional	Cumulative	Cumulative	Total
	Number of Shares	Preferred Shares	Number of Shares	Preferred Shares	Preferred Distributions	Number of Shares	Common Shares	Common Distributions	Paid in Capital	Net Income	Other Comprehensive Income (Loss)	
Balance at December 31, 2008	3,450,000	83,306	12,700,000	306,833	(123,641)	93,991,635	940	(2,560,148)	3,093,827	1,827,821	(511)	2,628,427
Comprehensive income:												
Net income										193,341		193,341
Unrealized gain on TA common stock											3,741	3,741
Total comprehensive income												\$ 197,082
Issuance of shares, net						29,325,000	293		372,761			373,054
Repurchase of convertible senior notes									(5,002)			(5,002)
Common share grants						63,700	1		623			624
Distributions					(29,880)			(72,374)				(102,254)
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	2,021,162	3,230	3,091,931
Comprehensive income:												
Net income										21,351		21,351
Unrealized loss on investments											(999)	(999)
Total comprehensive income												\$ 20,352
Common share grants						63,900			1,018			1,018
Repurchase of convertible senior notes									(1,058)			(1,058)
Distributions					(29,880)			(222,122)				(252,002)

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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	\$ 2,042,513	\$ 2,231	\$ 2,860,241
Comprehensive income:												
Net income										190,440		190,440
Unrealized loss on investments											(626)	(626)
Total comprehensive income												\$ 189,814
Common share grants						77,300	1		1,365			1,366
Distributions					(29,880)			(222,239)				(252,119)
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	\$ 2,232,953	\$ 1,605	\$ 2,799,302

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

HOSPITALITY PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	2011	Year Ended December 31, 2010	2009
Cash flows from operating activities:			
Net income	\$ 190,440	\$ 21,351	\$ 193,341
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	228,342	238,089	245,868
Amortization of deferred financing costs and debt discounts as interest	6,305	7,123	11,046
Straight line rental income	(4,807)		
Security deposits applied to payment shortfalls	(36,444)	(28,508)	(17,813)
FF&E reserve income and deposits	(47,485)	(58,944)	(49,218)
Loss (gain) on extinguishment of debt		6,720	(51,097)
Loss on asset impairment	16,384	163,681	
Equity in (earnings) losses of an investee	(139)	1	134
Other non-cash (income) expense, net	(1,340)	(2,587)	(2,241)
Changes in assets and liabilities:			
(Increase) decrease in other assets	(2,890)	(1,111)	1,297
Increase (decrease) in accounts payable and other liabilities	6,696	(4,424)	(11,048)
Increase (decrease) in due to related persons	40	53	(153)
Cash provided by operating activities	355,102	341,444	320,116
Cash flows from investing activities:			
Real estate acquisitions and improvements	(69,345)	(7,091)	(9,807)
FF&E reserve fundings	(63,177)	(97,816)	(63,390)
Net proceeds from sale of real estate	6,905		
Investment in TravelCenters of America common shares	(5,690)		
Investment in Affiliates Insurance Company		(76)	(5,134)
Increase (decrease) in security deposits	37,000	(17,220)	
Cash used in investing activities	(94,307)	(122,203)	(78,331)
Cash flows from financing activities:			
Proceeds from issuance of common shares, net			373,056
Issuance of senior notes, net of discount			296,961
Repayment of mortgage note	(3,383)		
Repurchase of convertible senior notes		(185,626)	(258,102)
Repurchase of senior notes			(45,239)
Repayment of senior notes		(50,000)	
Borrowings under revolving credit facility	276,000	298,000	389,000
Repayments of revolving credit facility	(271,000)	(154,000)	(785,000)
Deferred financing costs incurred	(6,872)	(1,130)	(2,258)
Distributions to preferred shareholders	(29,880)	(29,880)	(29,880)
Distributions to common shareholders	(222,239)	(222,122)	(72,374)
Cash used in financing activities	(257,374)	(344,758)	(133,836)

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Increase (decrease) in cash and cash equivalents		3,421		(125,517)		107,949
Cash and cash equivalents at beginning of period		4,882		130,399		22,450
Cash and cash equivalents at end of period	\$	8,303	\$	4,882	\$	130,399
Supplemental cash flow information:						
Cash paid for interest	\$	127,131	\$	135,929	\$	127,869
Cash paid for income taxes		1,354		1,553		6,055
Non-cash investing activities:						
Property managers deposits in FF&E reserve	\$	50,834	\$	60,631	\$	51,143
Property managers purchases with FF&E reserve		(144,436)		(102,909)		(78,433)
Non-cash financing activities:						
Issuance of common shares under equity compensation plans	\$	1,366	\$	1,018	\$	624

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

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(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, 2011, HPT, directly and through subsidiaries, owned 288 hotels and 185 travel centers.

At December 31, 2011, our properties were leased or managed by subsidiaries of the following companies: Host Hotels & 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; 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. In addition, we have presented our 2010 loss on asset impairment as a component of operating income rather than below such line as previously reported.

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*TM, 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 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

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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 pursue the sale of 21 hotels, we recorded a \$11,418, or \$0.09 per share, loss on asset impairment during 2011 to reduce the carrying value of certain of these hotels to their estimated fair value. Also, in performing our periodic evaluation of real estate assets for impairment during

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

2011, we revised our assumptions regarding our expected ownership period of certain hotels we were considering selling as part of our agreement with InterContinental (see Note 5). As a result of this change we recorded a \$4,966, or \$0.04 per share, loss on asset impairment during 2011 to reduce the carrying value of these hotels to their estimated fair value. See Note 12 for further information regarding hotels currently held for sale.

Intangible Assets and Liabilities. Intangible assets consist of acquired trademarks and tradenames and 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, 2011 and 2010, our intangible assets and liabilities were as follows:

Assets:			
Tradenames and trademarks	\$	89,375	\$ 89,375
Below market ground leases, net of accumulated amortization of \$21,198 and \$19,027, respectively		27,879	30,050
	\$	117,254	\$ 119,425
Liabilities:			
Above market ground leases, net of accumulated amortization of \$5,511 and \$4,816, respectively	\$	5,139	\$ 5,834

We amortize above and below market ground leases 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, 2011, 2010 and 2009, amortization relating to intangible assets was \$2,171, \$2,172 and \$2,171, respectively, and amortization relating to intangible liabilities was \$695, \$726 and \$734, respectively. As of December 31, 2011, we estimate future amortization relating to above and below market ground leases as follows:

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	Below Market Ground Leases	Above Market Ground Leases
2012	\$ 2,170	\$ (695)
2013	2,170	(653)
2014	2,170	(653)
2015	2,170	(653)
2016	2,170	(653)
Thereafter	17,029	(1,832)
	\$ 27,879	\$ (5,139)

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 changes in circumstances have occurred that could indicate impairment in value. We determine the amount of an impairment loss, if any, by comparing the historical 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.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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 on a straight line basis over the term of the related borrowing. Deferred financing costs were \$12,542 and \$9,101 at December 31, 2011 and 2010, respectively, net of accumulated amortization of \$30,364 and \$26,933, 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, 2011 will be approximately \$3,487 in 2012, \$3,205 in 2013, \$2,974 in 2014, \$1,921 in 2015, \$613 in 2016 and \$342 thereafter.

Revenue Recognition. We report hotel operating revenues for managed hotels in our consolidated statements of 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 2011, 2010 and 2009.

We recognize rental income from operating leases on a straight line basis over the term of the lease agreements. Rental income includes \$4,789 of adjustments necessary to record rent on a straight line basis for the year ended December 31, 2011. These adjustments relate to our lease with TA for 145 travel centers. See Note 8 for further information relating to our TA leases.

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 \$1,879, \$1,450 and \$1,426 in 2011, 2010 and 2009, 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.

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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, 2011, 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 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.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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 2008 through 2011 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our consolidated financial statements as a component of general and administrative expense.

New Accounting Pronouncements. In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*. This update eliminates the current 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. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect the adoption of this update to cause any material changes to our consolidated financial statements.

3. Shareholders' Equity

Share Awards

We reserved an aggregate of 3,128,791 shares of our common shares to be issued under the terms of our 1995 Share Award Plan and our 2003 Share Award Plan, collectively referred to as the Award Plans. During the years ended December 31, 2011, 2010 and 2009, we awarded 67,300 common shares with an aggregate market value of \$1,628, 53,900 common shares with an aggregate market value of \$1,186 and 52,700 common shares with an aggregate market value of \$1,089, respectively, to our officers and certain employees of our manager RMR pursuant to these 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 2011 with an aggregate market value of \$243 (\$49 per trustee), 2,000 common shares each in 2010 with an aggregate value of \$260 (\$52 per trustee) and 2,000 common shares in 2009 with an aggregate value of \$127 (\$25 per trustee), as part of their annual compensation. The shares awarded to our Trustees vest immediately. The shares awarded 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. At December 31, 2011, 2,437,022 of our common shares remain reserved for issuance under the Award Plans.

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A summary of shares granted and vested under the terms the Award Plans for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011		2010		2009	
	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	93,432	\$ 22.31	74,062	\$ 23.20	44,877	\$ 27.10
Shares granted	77,300	24.20	63,900	22.89	63,700	19.27
Shares vested	(56,622)	23.76	(44,530)	22.63	(34,515)	18.06
Unvested shares, end of year	114,110	22.70	93,432	22.31	74,062	23.20

The 114,110 unvested shares as of December 31, 2011 are scheduled to vest as follows: 42,190 shares in 2012, 34,340 shares in 2013, 24,120 shares in 2014 and 13,460 shares in 2015. As of December 31, 2011, the estimated future

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

compensation expense for the unvested shares was \$2,622 based on the closing price on December 31, 2011 of our common shares of \$22.98. The weighted average period over which the compensation expense will be recorded is approximately 22 months. During the years ended December 31, 2011, 2010 and 2009, we recorded \$1,405, \$1,340 and \$1,006, respectively, of compensation expense related to the Award Plans.

Preferred Shares

Each of our 3,450,000 Series B cumulative redeemable preferred shares had a distribution rate of \$2.21875 per annum, payable in equal quarterly amounts, and a liquidation preference of \$25.00 (\$86,250 in aggregate). Our Series B preferred shares were redeemable at our option for \$25.00 each plus accrued and unpaid distributions at any time on or after December 10, 2007. 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 plus accrued and unpaid dividends to the date of redemption. We expect to recognize a loss in the 2012 first quarter of \$2,944 on the excess of the liquidation preference of the redeemed shares over their carrying amount. We funded this redemption using existing cash balances and borrowings under our revolving credit facility.

Each of our 12,700,000 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 (\$317,500 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.

In January 2012, we sold 11,600,000 Series D cumulative redeemable preferred shares at a price of \$25.00 per share in a public offering. Net proceeds from this sale of \$280,365 (after underwriting and other offering expenses) were used to repay amounts outstanding under our revolving credit facility and to fund acquisitions. Each of our Series D 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 preferred shares are redeemable at our option for \$25.00 each plus accrued and unpaid distributions at any time on or after January 15, 2017, or 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 certain other exchanges or quotation systems. Also, upon the occurrence of such a change of control, holders of Series D preferred shares that we do not elect to redeem may at their option convert those Series D 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.

Common Share Distributions

Cash distributions paid or payable by us to our common shareholders for the years ended December 31, 2011, 2010 and 2009 were \$1.80 per share, \$1.80 per share, and \$0.00 per share, respectively. The characterization of our distributions paid in both 2011 and 2010 was 100.0% ordinary income.

On January 11, 2012, we declared a distribution of \$0.45 per common share which was paid on February 23, 2012, to shareholders of record on January 27, 2012 using existing cash balances and borrowings under our revolving credit facility.

Cumulative Other Comprehensive Income

Cumulative other comprehensive income consists of the unrealized gains on TA common shares we own and our share of AIC's comprehensive income. See Note 8 for a description of these investments.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

4. Real Estate Properties

Our real estate properties, at cost after impairments, consisted of land of \$1,360,773, buildings and improvements of \$4,343,991 and furniture, fixtures and equipment of \$431,332, as of December 31, 2011; and land of \$1,389,594, buildings and improvements of \$4,443,904 and furniture, fixtures and equipment of \$465,584 as of December 31, 2010.

During 2011, 2010 and 2009, we invested \$132,299, \$97,816 and \$63,390, respectively, in certain of our properties which resulted in increases in our contractual annual minimum returns and rents of \$11,346, \$9,782 and \$5,627 in 2011, 2010 and 2009, respectively.

At December 31, 2011, 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 of the 14 ground leases require minimum annual rents averaging \$242 per year; future rents under two ground leases have been pre-paid. Twenty of our travel centers are on land leased partially or in its entirety. The remaining terms on the leases range from 7 to 39 years with rents averaging \$446 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.

In July 2011, we sold our Holiday Inn branded hotel in Memphis, Tennessee, for net proceeds of \$6,905.

At December 31, 2011, 21 hotels were held for sale. See Note 12 for further information relating to our hotels held for sale.

On January 31, 2012, we completed an acquisition of the entities which own the Royal Sonesta Hotel in Cambridge, MA (400 rooms) and lease the Royal Sonesta Hotel in New Orleans, LA (483 rooms) for \$150,500, excluding acquisition costs. We funded these purchases with proceeds from the offering of our Series D Preferred Shares described above. Simultaneous with this acquisition, we entered into management agreements with Sonesta International Hotels Corporation (formerly known as Sonesta Acquisition Corp.), or Sonesta. See Note 8 for further information

about these transactions.

5. Management Agreements and Leases

As of December 31, 2011, we owned 288 hotels and 185 travel centers which are included in one of eight operating agreements. We do not operate any of our properties.

As of December 31, 2011, 233 of our hotels are leased to our TRSs and managed by an independent hotel operating company and 55 are leased to third parties. As of December 31, 2011, our hotel properties are managed by or leased to separate subsidiaries of InterContinental, Marriott, Host, Hyatt, and Carlson under six agreements. Such hotel agreements have initial terms expiring between 2012 and 2036. Each of these agreements is for between 1 and 130 of our hotels. 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. Each agreement generally requires 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 certain leased hotels, make payments to us of percentage rent of 5% of increases in gross hotel revenues over threshold amounts and, 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

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

fees and replenishment of security deposits. Some of the third party managers or tenants or their affiliates have provided deposits or guarantees to secure their obligation to pay us.

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. See Note 8 for further information regarding our leases with TA.

Marriott agreement. On June 14, 2011, we entered an agreement to re-align three of our contracts with Marriott. The three affected contracts (which we have historically referred to as our Marriott Nos. 2, 3 and 4 Contracts) concern 71 hotels and provide for payments of minimum returns and rents to us totaling \$98,404 per year as of the effective date. Among other terms the new agreement provides as follows:

- All 71 hotels have been combined for purposes of determining the distribution of hotel cash flows so that any excess cash flows from any of the hotels are available to pay our minimum returns for all 71 hotels.
- One of the contracts which was re-aligned by the new agreement (our historical Marriott No. 4 Contract) concerns our hotels which were leased to Barceló Crestline Corporation, or Barceló Crestline, and are managed by Marriott. Simultaneously with the re-alignment of the agreement between us and Marriott, Marriott arranged with Barceló Crestline to terminate that lease. Accordingly, all 71 affected hotels are owned by us, leased to one of our TRSs, and managed by Marriott.
- The new agreement was effective retroactively to January 1, 2011.
- The combined annual minimum returns due to us were \$98,404 per year as of the effective date, which was equal to the previous annual amounts of minimum returns and rents due to us under the historical contracts. In addition, we will participate in the net cash flows from hotel operations after payment of management fees to Marriott, which fees continue to be subordinated to our minimum returns.

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- The historical contracts were scheduled to expire beginning in 2015 through 2020. The new agreement extends through 2025. In addition, Marriott has the option to renew for two consecutive ten year terms for all, but not less than all, the properties.
- The cash security deposits which secured the minimum returns and rents to us under two of the three historical contracts have been combined and continue to secure the minimum return payments under the new agreement for all 71 hotels. These security deposits originally totaled \$64,700. As of December 31, 2011, the amounts of these deposits have been fully exhausted to fund shortfalls in the operating results of the hotels from 2009 through December 31, 2011. The new agreement provides that the combined security deposit is to be replenished up to the original amount of \$64,700 from 70% of the cash flows realized from operations of the 71 hotels, after payment of our minimum returns and working capital advances, if any, by us or Marriott, while 30% of the cash flows is paid to Marriott toward agreed amounts for management fees. The security deposit is non-interest bearing and is not held in escrow.
- In addition to this security deposit, Marriott has provided a limited guaranty for 90% of the minimum returns due to us. The Marriott guaranty is limited to total payments by Marriott to us of \$40,000 and it expires on December 31, 2017. As of December 31, 2011, the guaranty balance was \$30,873.
- The new agreement continues to require that 5% to 6% of annual gross revenues from hotel operations be escrowed as FF&E reserves.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

- In addition to amounts available in the FF&E reserve, we agreed to fund approximately \$102,000 for renovation of the hotels during the next two years. As we fund these renovations, the amount of the minimum returns due to us under the new agreement will increase by 9% per annum of the amounts we fund.

- We and Marriott identified 21 hotels of the 71 hotels in the new agreement to be offered for sale. The 21 hotels had a net book value, after previously reported impairment writedowns, of approximately \$123,025 at December 31, 2011. In February 2012, we entered an agreement to sell our full service Marriott hotel in St. Louis, Missouri for \$35,000 excluding closing costs. We expect to complete this sale in the second quarter of 2012. This pending sale is subject to buyer's completion of due diligence and other customary closing conditions; accordingly, we cannot provide any assurance that we will sell this hotel. Subsequent to December 31, 2011, we entered discussions with Marriott about retaining certain of the remaining 20 hotels in the Marriott No. 234 Contract. If certain of these hotels are sold, we will retain the net sales proceeds from the sales and the amount of minimum returns due from Marriott under the agreement will be reduced by 9% per annum of the net sales proceeds; and if we determine to retain certain of these hotels in the agreement, we will invest previously agreed amounts to improve these hotels and the amount of minimum returns due from Marriott under the agreement will be increased by 9% per annum of the amounts funded. However, because discussions with Marriott are ongoing and because we have not yet contracted for any sales, we cannot provide any assurance that we will retain or sell any of these 20 hotels. See Note 12 for further information relating to these hotels.

After giving effect to the January 1, 2011 effective date of the new agreement with Marriott, the payments we received were \$29,762 less than the minimum amounts contractually due to us during the twelve months ended December 31, 2011. The retroactive effective date of the new agreement had the net effect of increasing the amount of payment shortfalls that were covered by the security deposit by \$4,081 through June 14, 2011, the execution date of the agreement. We applied the remaining \$18,392 of available security deposit to partially cover these shortfalls and Marriott provided \$9,127 of guaranty payments to us. Also, during the period from December 31, 2011 to February 28, 2012, the minimum return payments we received for these hotels were \$1,505 less than the contractual minimum returns due to us. Marriott provided \$5,236 of guaranty payments to us. The balance of this guaranty was \$25,637 as of February 28, 2012.

InterContinental agreement. On July 25, 2011, we entered an agreement to re-align all four of our hotel contracts with InterContinental. The four affected contracts (which we have historically referred to as our InterContinental Nos. 1, 2, 3 and 4 Contracts) for 130 hotels provide for payments of minimum returns and rents to us totaling \$153,129 per year as of the effective date. Among other terms the new agreement provides as follows:

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- All 130 hotels have been combined for purposes of determining the distribution of hotel cash flows under the agreement so that cash flows from all of the hotels are available to pay our minimum returns and rents for all 130 hotels.
- The combined annual minimum returns and rents due to us from the 130 hotels were \$153,129 per year as of the effective date, which was the same amount that was due to us under the historical contracts.
- The historical contracts were scheduled to expire beginning in 2028 through 2031. The new agreement extends to 2036. In addition, InterContinental has options to renew for two consecutive 15 year terms for all, but not less than all, the properties.
- The original security deposit we held for the historical InterContinental contracts was \$36,872. In addition, pursuant to the new agreement, InterContinental delivered to us an additional \$37,000 to supplement this security deposit. As of December 31, 2011, the amount of the available deposit totaled \$55,820, as the deposit has been reduced to fund shortfalls of approximately \$18,052 in the operating results of the hotels during 2011.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

- The security deposit may be further increased up to \$100,000 from 50% of the cash flows realized from operations of the 130 hotels after payment of our minimum returns and rents. The security deposit is non-interest bearing and is not required to be held in escrow.
- The cash flows in excess of amounts used to pay our minimum returns and rents and to fund the security deposit up to \$100,000 are available to pay InterContinental's management fees up to agreed amounts, which continue to be subordinated to our minimum returns and rents.
- Available cash flows after our minimum returns and rents, funding for the security deposit and the agreed management fees are available to pay us additional returns and to pay incentive fees to InterContinental, as provided under the agreement.
- We and InterContinental have identified 42 hotels of the 130 hotels in the new agreement which we may remove from the contract and rebrand or offer for sale. If the hotels are removed from the agreement and rebranded, our minimum returns and rents will be reduced by amounts which we have agreed with InterContinental pursuant to the new agreement. If these hotels are sold, our minimum returns and rents will be reduced by 8% per annum of the net sales proceeds we receive. In addition to these 42 hotels, we sold one hotel previously managed by InterContinental on July 19, 2011 (which is excluded from the 130 hotels subject to the new agreement). We received net sales proceeds of approximately \$6,905 from this sale and our minimum returns and rents were reduced by 8% per annum of the sales proceeds to \$153,129 per year as of the effective date. We continue to evaluate plans to either sell or rebrand these hotels, including the conversion of certain hotels to the Sonesta brand and management.
- We and InterContinental have committed to a renovation program for all of the hotels included in the agreement pursuant to which we expect to invest approximately \$300,000. The final amounts invested will be adjusted to reflect the number of hotels which we determine to rebrand or sell and remove from the agreement; however, if we determine to rebrand certain properties, we expect to be required to fund amounts for rebranding and renovations to the rebranded hotels. As we fund these renovations, the amounts of our minimum returns and rents will increase by 8% per annum of the amount we fund.
- The new agreement requires that a portion of annual gross revenues from all the hotels be escrowed for FF&E reserves after the planned renovations are completed. These escrows will be funded beginning in 2014 and will increase to 5% of gross revenues in 2016. These escrowed funds will be available to fund renovations for any of the hotels included in the agreement.

The new agreement was effective as of July 1, 2011.

During the twelve months ended December 31, 2011, the payments we received under our agreements with InterContinental were \$18,052 less than the minimum amounts contractually required. We applied the available security deposit to cover these shortfalls. Also, during the period from December 31, 2011 to February 28, 2012, the minimum return payments we received under our InterContinental agreement were \$13,933 less than the minimum amounts due to us. We applied the available security deposit to cover these amounts. The remaining balance of the security deposit was \$41,887 as of February 28, 2012.

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, these deposits are not escrowed and reducing the security deposits does not result in additional cash flow to us of the deficiency amounts. Reducing amounts of security deposits does reduce the refunds due to the respective lessees or managers who have provided us with these deposits upon expiration of the respective management agreement. Under all of our hotel contracts that include security deposits, any

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

amount of the security deposits which are applied to payment deficits may be replenished from future cash flows under the respective contracts.

Other hotel management agreement and lease matters. As of February 28, 2012, all other payments due to us from our hotel managers and hotel tenants under our operating agreements were current.

In November 2010, Host notified us that it will not exercise its renewal option at the end of the current lease term for 53 hotels which we have historically referred to as our Marriott No. 1 Contract. In the absence of any default by Host, upon expiration of the agreement on December 31, 2012, we expect to return the \$50,540 security deposit to Host using existing cash balances and borrowings under our revolving credit facility, to lease these hotels to one of our TRSs and to continue the existing hotel brand and management agreements with Marriott with respect to these hotels. In June 2011, Marriott provided notice to us that it intends to exercise its option to renew these management agreements for an additional 12 years to 2024.

As of December 31, 2011, our management agreements and leases provide for minimum return payments or minimum rents to be paid to us during the remaining current terms as follows:

2012	\$	571,956
2013		504,598
2014		504,400
2015		504,245
2016		504,297
Thereafter		5,984,581
Total	\$	8,574,077

As of December 31, 2011, 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 14.9 years.

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Our hotel operating agreements generally provide that, if necessary, we will provide our managers and tenants with funding for capital improvements to our hotels in excess of amounts otherwise available in escrowed FF&E reserves. 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. At December 31, 2011, we expected to provide funding for capital improvements at our hotels pursuant to the terms of our new Marriott and InterContinental agreements described above of approximately \$302,000 in 2012.

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, 2011, we expect to fund approximately \$75,000 for capital improvements to our travel center properties during 2012.

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 \$20,665 at December 31, 2011 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

HOSPITALITY PROPERTIES TRUST**NOTES TO FINANCIAL STATEMENTS****December 31, 2011**

(dollars in thousands, except per share data)

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, 2011 will be approximately \$2,952 per year through 2018.

6. Indebtedness

At December 31, 2011 and 2010, our indebtedness was as follows:

	As of December 31,	
	2011	2010
Senior Notes, due 2012 at 6.85%	\$ 100,829	\$ 100,829
Senior Notes, due 2013 at 6.75%	287,000	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
Convertible Senior Notes, due 2027 at 3.8%	79,054	79,054
Unamortized discounts	(5,169)	(8,043)
Total unsecured senior notes	1,966,714	1,963,840
Unsecured revolving credit facility	149,000	144,000
Mortgage Note, due 2011 at 8.3%		3,383
	\$ 2,115,714	\$ 2,111,223

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.

We have \$79,054 of 3.8% convertible senior notes due 2027 still 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

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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 20, 2012, 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 exercise 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 \$78,823 and \$77,484 as of December 31, 2011 and December 31, 2010, respectively.
- The unamortized discount on the notes was \$231 and \$1,570 as of December 31, 2011 and December 31, 2010, respectively. We expect to amortize the discount through March 20, 2012, the first date on which the holders of our convertible notes may require that we repurchase them.
- Interest expense for the years ended December 31, 2011, 2010 and 2009 includes non-cash amortization of \$1,605, or \$0.01 per share, \$2,602, or \$0.02 per share, and \$6,864, or \$0.06 per share, respectively.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

- The amount allocated as the equity component of the convertible senior notes was \$37,710 as of December 31, 2011 and is included in additional paid in capital in our consolidated balance sheet.

On January 3, 2011, we repaid without penalty our 8.3% mortgage payable, which had a principal balance of \$3,383.

On September 8, 2011, we entered a new \$750,000 unsecured revolving credit facility that we use for acquisitions, working capital and general business purposes. The new facility replaced our previous \$750,000 unsecured revolving credit facility, which had a maturity date of October 24, 2011. The maturity date of the new 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 facility for one year to September 7, 2016. Interest paid under the new facility is set at LIBOR plus 130 basis points, subject to adjustments based on our senior unsecured debt ratings. As of December 31, 2011, we had \$149,000 outstanding under our revolving credit facility and \$601,000 available for borrowings. During 2011, 2010 and 2009, the weighted average interest rate on the amounts outstanding under our revolving credit facility was 1.59%, 0.9% and 1.0%, respectively.

Our revolving credit facility agreement and note indenture and its supplements contain financial covenants which, among other things, restrict our ability to incur indebtedness and require us to maintain financial ratios and a minimum net worth. We believe we were in compliance with these covenants during the periods presented.

The required principal payments due during the next five years and thereafter under all our outstanding debt at December 31, 2011, are as follows:

2012	\$	100,829
2013		287,000
2014		300,000
2015		429,000(1)
2016		275,000
Thereafter		729,054(2)
	\$	2,120,883

- (1) Includes the \$149,000 outstanding on our \$750 million revolving credit facility at December 31, 2011.
- (2) Includes our \$79,054 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 20, 2012, March 15, 2017 and March 15, 2022, or upon the occurrence of certain change in control events prior to March 20, 2012.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

7. Income Taxes

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

		For the Year Ended December 31,		
		2011	2010	2009
Current -	Federal	\$ 180	\$ 928	\$ 600
	State	1,383	928	4,529
	Foreign	144	(106)	140
		1,707	822	5,269
Deferred -	Federal			
	State			
	Foreign	(205)	(184)	(73)
		(205)	(184)	(73)
		\$ 1,502	\$ 638	\$ 5,196

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

		For the Year Ended December 31,		
		2011	2010	2009
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		4.3%	0.2%	5.4%
Alternative minimum tax		0.1%	0.0%	0.3%
Foreign taxes		(0.3)%	(0.2)%	(0.2)%
Change in valuation allowance		(3.1)%	6.1%	(1.4)%
Other differences, net		(0.3)%	(5.7)%	(1.4)%
Effective tax rate		0.7%	0.4%	2.7%

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:

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

	For the Year Ended December 31,	
	2011	2010
Deferred tax assets:		
Tax credits	\$ 12,014	\$ 11,193
Tax loss carryforwards	77,104	78,248
Other	11,473	2,874
	100,591	92,315
Valuation allowance	(100,180)	(92,068)
	411	247
Deferred tax liabilities:		
Puerto Rico basis difference	(9,185)	(9,216)
	(9,185)	(9,216)
Net deferred tax liabilities	\$ (8,774)	\$ (8,969)

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

At December 31, 2011 and 2010, we had a deferred tax liability related to the hotel we purchased in Puerto Rico. Specifically, we acquired all of the outstanding stock of a C corporation that owned the hotel as its primary asset, which generally would cause us to succeed to the acquired corporation's tax bases. However, for U.S tax purposes we made an election under Section 338(g) of the Internal Revenue Code to avoid being treated as the successor to the acquired corporation's federal income tax attributes, including its adjusted tax bases. Because we opted not to make a similar election under Puerto Rico tax law, we recorded in purchase accounting a deferred tax liability for these basis differences at our effective Puerto Rico tax rate.

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, 2011 and 2010, we had a net deferred tax asset, prior to any valuation allowance, of \$66,062 and \$67,973, 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, 2011 and 2010. As of December 31, 2011, these carryover tax attributes consist of: (i) net operating loss carryforwards for federal income tax purposes of approximately \$137,920 which begin to expire in 2026, if unused, (ii) alternative minimum tax credit carryforwards of \$4,430 which do not expire, and (iii) general 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.

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At December 31, 2011 and 2010, our consolidated TRS group had a net deferred tax asset, prior to any valuation allowance, of \$30,806 and \$23,430, 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, 2011 and 2010. As of December 31, 2011, our consolidated TRS group had net operating loss carryforwards for federal income tax purposes of approximately \$55,976 which begin to expire in 2023, if unused.

8. Related Person Transactions

We have adopted written Governance Guidelines that address, among other things, 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, authorizes and approves or ratifies the

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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 shall be reviewed, authorized 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 and (2) a property management agreement. One of our Managing Trustees, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Our other Managing Trustee, Mr. Adam Portnoy, the son of Mr. Barry Portnoy, is an owner of RMR and serves as President and Chief Executive Officer and as 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. RMR has approximately 740 employees and provides management services to other companies in addition to us.

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.

On November 2, 2011, we and RMR entered into an amended and restated business management agreement, or the business management agreement. The business management agreement provides for compensation to RMR at an annual rate equal to 0.7% of the average 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 equal to 15% of the amount by which Cash Available for Distribution for a particular fiscal year exceeds Cash Available for Distribution for the immediately preceding fiscal year. The business management agreement provides that Cash Available for Distribution means for any period, (i) our net income, before real estate depreciation, amortization and other non-cash or non-recurring items, less (ii) the amount, if any, included in the calculation in clause (i) which represents rental income recognized by us in respect of amounts which, pursuant to leasing arrangements relating to any real estate and personal property owned in connection with such real estate, we are required to escrow or reserve for renovations and refurbishments. 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 year.

In determining the fees payable by us to RMR under the business management agreement, the average invested capital of any assets we have acquired or may in the future acquire from another REIT to which RMR provides business management or property management services, or an RMR Managed REIT, will be equal to the applicable selling RMR Managed REIT's historical costs for those properties, determined in the manner specified in the business management agreement, rather than our acquisition costs for those properties. The business management agreement also provides that, with certain exceptions, if we determine to offer for sale or other disposition of any real property that, at such time, is of a type within the investment focus of another RMR Managed REIT, we will first offer that property for purchase or disposition to that RMR Managed REIT and negotiate in good faith for such purchase or disposition.

At present, the property management agreement applies to management services to the office building component of only one property in Baltimore, Maryland, which also includes an InterContinental hotel. The property management agreement provides for management fees relating to this office building equal to 3.0% of gross collected rents and construction supervision fees equal to 5.0% of construction costs.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

The aggregate business management and property management fees for 2011 were \$34,493, including \$761 as an incentive fee that we expect to pay in our common shares in March 2012. The aggregate fees for 2010 and 2009 were \$33,229 and \$32,950, respectively. No incentive fees were earned by RMR in 2010 or 2009. Business management and property management fees are included in general and administrative expense in our consolidated financial statements.

RMR also provides internal audit services to us in return for our pro rata 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 determination by our Compensation Committee. Our Audit Committee appoints our Director of Internal Audit. Our pro rata share of RMR's costs of providing this internal audit function was approximately \$240, \$213 and \$220 for 2011, 2010 and 2009, respectively, which are included in general and administrative expense 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.

Both the business management agreement and the property management agreement 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. 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. The current terms for these agreements expire on December 31, 2012, and will be subject to automatic renewal unless earlier terminated.

Under our business management agreement with RMR, we acknowledge that RMR manages other businesses, including Commonwealth REIT, Senior Housing Properties Trust, Government Properties Income Trust, TA, Five Star Quality Care, Inc. 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. Under our business management agreement with RMR, RMR has also agreed not to provide business management services to any other REIT that is principally engaged in the business of ownership of hotel or travel center properties without the consent of our Independent Trustees. Each of the business management agreement and the property management agreement also includes arbitration provisions for the resolution of certain disputes, claims and controversies.

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

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RMR provides management services for the purpose of obtaining more favorable terms with such vendors and suppliers.

As part of our annual restricted share grants 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 2011, 2010 and 2009, we granted a total of 67,300 restricted shares with an aggregate value of \$1,628, 53,900 restricted shares with an aggregate value of \$1,186 and 52,700 restricted shares with an aggregate market value of \$1,089, respectively, to such persons, based upon the closing price of our common shares on the New York Stock Exchange on the date of grant. One fifth of those restricted shares vested on the grant date and one fifth vests on each of the next four anniversaries of the grant date. These share grants to RMR employees are in addition to the fees we pay to RMR.

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, 2011, we owned 2,540,000 common shares (which includes the 1,000,000 TA common shares we purchased from the underwriters as

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

part of a public offering by TA in May 2011 for \$5,690), representing approximately 8.8% of TA's outstanding common shares. TA has two leases with us, the TA No. 1 lease and the TA No. 2 lease, pursuant to which TA currently 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.

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 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.

Both the TA No. 1 and TA No. 2 leases are triple net leases, which require TA to pay all costs incurred in the operation of the leased travel centers, including personnel, utilities, acquiring inventories, services to customers, insurance, real estate and personal property taxes, environmental related expenses and ground lease payments, if any. 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 required 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 requires TA to pay minimum rent to us in an amount of \$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 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. Starting in January 2012 and January 2013, respectively, both the TA No. 1 and the TA No. 2 leases require TA to pay us additional rent equal to 3% of increases in nonfuel gross revenues and 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. As further discussed below, pursuant to, and subject to the conditions set forth in, the Amendment Agreement, we agreed to waive payments for the first \$2,500 of percentage rent that may become due under the TA No. 2 lease. TA is also required to generally indemnify us for certain environmental matters and for liabilities that arise during the terms of the leases from ownership or operation of the leased travel centers. Both the TA No. 1 and TA No. 2 leases also include arbitration provisions for the resolution of certain disputes, claims and controversies.

We had 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 portion of the \$25,000 was not funded in one year it might have been drawn by TA from us in subsequent years; provided, however, none of the \$125,000 of this funding was available to be drawn after December 31, 2015. 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

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earlier than previously permitted. As TA elected to sell these capital improvements before the time contractually required by 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 2009 and 2010, TA sold \$8,466 and \$7,015, respectively, of qualified improvements to us pursuant to this funding commitment. Portions of these amounts 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 these fundings. 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 minimum annual rent increases according to a formula: the minimum rent per year will be increased by an amount equal to the amount funded by us times the greater

F-23

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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. TA made no request for funds under this provision in 2010 or 2009. Since January 1, 2011, we funded \$69,122 for capital improvements to TA under this lease provision, and, as a result, TA's annual rent payable to us increased by approximately \$5,875.

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. However, since then there were material changes in the market conditions under 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 adversely affected 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 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 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 and 2009, respectively, 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 and 2009, TA had accrued an aggregate of \$150,000 and \$90,000, respectively, of deferred rent payable to us.

On January 31, 2011, we and TA entered an 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:

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- 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.
- 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,

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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.

RMR provides management services to both us and TA; Mr. Barry Portnoy is a Managing Director of TA and a Managing Trustee of us and 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.

During 2011, 2010 and 2009, we recognized rental income of \$201,505, \$190,244 and \$172,074, respectively, under our lease agreements with TA. Rental income for the twelve months ended December 31, 2011 includes \$4,789 of adjustments necessary to record rent on our TA No. 1 lease on a straight line basis. As of December 31, 2011, 2010 and 2009, we had accruals for unpaid amounts of \$16,115, \$15,725 and \$13,954, respectively, owed to us by TA, excluding any deferred rents.

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 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 under this agreement 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, under this agreement 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 certain disputes, claims and controversies.

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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 Royal Sonesta Hotel Boston, in Cambridge, Massachusetts, or the Cambridge Hotel, and lease the Royal Sonesta Hotel New Orleans, in New Orleans, Louisiana, or 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.

Subject to the terms and conditions of the Merger Agreement, on January 31, 2012, Merger Sub merged with and into SNSTA, and each outstanding share of SNSTA's common stock was converted into the right to receive \$31.00 in cash, without interest and less any applicable withholding taxes. 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 Hotel, or the Cambridge Loan. We prepaid this mortgage loan, which had an outstanding principal balance of approximately

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

\$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. Under an equity commitment letter, Sonesta's stockholders provided 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 only 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 taxes and other liabilities). We currently expect that Sonesta will retain the management business of SNSTA and that Sonesta and its Sonesta management team will be available to operate other of our hotels, including certain hotels we now own and we are considering rebranding and hotels we may selectively acquire in the future.

Pursuant to the Purchase Agreement, on January 31, 2012, Sonesta entered hotel management agreements, or the Management Agreements, with subsidiaries of ours which provide for Sonesta to manage for us each of the Cambridge Hotel and the New Orleans Hotel. The Management Agreements provide that if gross revenues of a hotel, after payment of specified operating expenses and fees payable to Sonesta (other than the incentive fee described below, if applicable), are sufficient to do so, we are to be paid a fixed minimum return equal to 8% of our invested capital, as defined in the Management Agreements. We are to be paid an additional amount based upon the hotel's operating profit, as defined in the Management Agreements, 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 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. We expect that the reservation fee, system fee, procurement and construction supervision fee and incentive fee will be applicable to the Cambridge Hotel and to hotels that may in the future be managed for us by Sonesta or its affiliates, but that they will not be applicable to the New Orleans Hotel unless and until the lease of that hotel is modified. Also, we expect that the 3% base management fee will be applicable to full service hotels, such as the Cambridge Hotel and the New Orleans Hotel, and that a 5% base management fee would be applicable to limited service hotels that may in the future be managed for us by Sonesta or its affiliates.

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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 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 the 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

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

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%.

Routine property maintenance, which is expensed, will be an operating expense of the hotels and repairs and periodic renovations, which are capitalized, will be funded by us and added to our invested capital under the Management Agreements, except in the case of the New Orleans Hotel where capital expenditures are borne in large part by the lessor.

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 certain disputes, claims and controversies. Additionally, Sonesta has entered into a management and shared services agreement with RMR.

Our Independent Trustees also serve as directors or 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 some of those companies, but not TA. We understand that the other companies to which RMR provides management services also have certain other relationships with each other, including business and property management agreements and lease arrangements. In addition, officers of RMR serve as officers of those companies. Mr. Mark Kleifges, our Treasurer and Chief Financial Officer, is an officer of RMR and also serves as Treasurer and Chief Financial Officer of GOV, which is a company to which RMR provides management services. 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.

We, RMR, TA, CommonWealth REIT, Senior Housing Properties Trust, Government Properties Income Trust and Five Star Quality Care, Inc. each currently own approximately 14.29% 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 both the affirmative vote of a majority of our entire Board and the affirmative vote of a majority of our Independent Trustees. The shareholders agreement that we, the other shareholders of AIC and AIC are party to includes arbitration provisions for the resolution of certain disputes, claims and controversies.

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As of February 28, 2012, we have invested \$5,209 in AIC since its formation in November 2008. 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. Our investment had a carrying value of \$5,291 and 5,077 as of December 31, 2011 and 2010, respectively, which are included in other assets on our consolidated balance sheets. For 2011, we recognized income of \$139 related to our investment in AIC. For 2010 and 2009, we recognized losses of \$1 and \$134, respectively, related to our investment in AIC.

In June 2010, we and the other shareholders of AIC 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 2011 for a one year term. Our total premiums paid under this program in 2011 and 2010 were approximately \$5,773 and \$4,816, respectively. We are currently investigating the possibilities to expand our insurance relationships with AIC to include other types of insurance. 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.

HOSPITALITY PROPERTIES TRUST**NOTES TO FINANCIAL STATEMENTS****December 31, 2011**

(dollars in thousands, except per share data)

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 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, 2011, our 473 properties were located in 44 states in the United States, Ontario, Canada and Puerto Rico. Between 6% and 12% 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, 2011.

Agreement Reference Name	Number of Properties	Minimum Return/ Minimum Rent	% of Total	Investment(1)	% of Total
Marriott (No. 1)	53	\$ 67,557	12%	\$ 676,948	10%
Marriott (No. 234)	71	98,854	17%	957,026	15%
Marriott (No. 5)	1	9,495	2%	90,078	1%
InterContinental	130	156,220	28%	1,820,743	27%
Hyatt	22	22,037	4%	301,942	5%
Carlson	11	12,920	2%	202,251	3%
TA (No. 1)(2)	145	144,391	25%	1,897,029	28%

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TA (No. 2)	40		55,852	10%		725,407	11%
Total	473	\$	567,326	100%	\$	6,671,424	100%

(1) Amounts exclude expenditures made from FF&E reserves funded from hotel operations, but include amounts funded by us separately.

(2) In addition to minimum rents, the minimum rent amount for the TA No. 1 lease includes approximately \$5,069 of ground rent due to us from TA in 2012.

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 71 hotels (Marriott No. 234 Contract) managed by Marriott is limited to \$40,000 (\$30,873 remaining at December 31, 2011) and expires on December 31, 2017. The guarantee provided by Hyatt, with respect to the 22 hotels managed by Hyatt is limited to \$50,000 (\$21,020 remaining at December 31, 2011). The guarantee provided by Carlson, with respect to the 11 hotels managed by Carlson is limited to \$40,000 (\$25,598 remaining at December 31, 2011). The guarantee provided by Marriott with respect to the one hotel leased by Marriott (Marriott No. 5 Contract) 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, 2011, we hold security deposits for our 53 hotels leased by Host (\$50,540) and 130 hotels managed or leased by InterContinental (\$55,820). The security deposit we held for our Marriott No. 234 Contract has been exhausted, but may be replenished in the future from available cash flow.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

Certain of our managed hotel portfolios had net operating results that were, in the aggregate, \$60,264, \$85,592 and \$75,205 less than the minimum returns due to us in 2011, 2010 and 2009, 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 as a reduction of hotel operating expenses. The reduction to operating expenses was \$58,771, \$85,592 and \$75,205 in 2011, 2010 and 2009, respectively.

F-29

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

Significant Tenant

TA is the lessee of 39% of our investments, at cost, as of December 31, 2011. 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, 2011, 2010 and 2009, as revised and reported by TA in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

	For the Year Ended December 31,		
	2011	2010	2009
Operations			
Total revenues	\$ 7,888,857	\$ 5,962,481	\$ 4,699,820
Total cost of goods sold	6,850,039	5,019,630	3,822,277
Net income (loss)	23,574	(66,690)	(95,085)
Cash Flows			
Net cash provided by operating activities	30,141	29,933	52,708
Net cash used in investing activities	(86,798)	(58,584)	(42,644)
Net cash provided by (used in) financing activities	49,547	(1,628)	
Net increase (decrease) in cash	(7,141)	(30,236)	10,116
Cash and cash equivalents at the beginning of the period	125,396	155,632	145,516
Cash and cash equivalents at the end of the period	118,255	125,396	155,632
Financial Position			
	As of December 31,		
	2011	2010	2009
Current assets	\$ 484,250	\$ 407,426	\$ 410,598
Noncurrent assets	532,281	483,666	467,012
Current liabilities	287,748	239,055	219,685
Noncurrent liabilities	410,182	412,521	353,842
Total shareholders' equity	318,601	239,516	304,083

The summary financial information of TA is presented to comply with applicable accounting regulations of the SEC. References in these financial statements to the Annual Report on Form 10-K for TA are included as textual references only, and the information in such Annual Report is not incorporated by reference into these financial statements.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

10. Selected Quarterly Financial Data (Unaudited)

	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	45,578	44,173	40,061	30,748
Net income available for common shareholders per share(1)	0.37	0.36	0.32	0.25
Distributions per common share(2)	0.45	0.45	0.45	0.45

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 254,108	\$ 282,391	\$ 281,198	\$ 267,791
Net income (loss)	40,865	23,210	50,232	(92,956)
Net income (loss) available for common shareholders(1)	33,395	15,740	42,762	(100,426)
Net income (loss) available for common shareholders per share(2)	0.27	0.13	0.35	(0.81)
Distributions per common share(3)	0.45	0.45	0.45	0.45

-
- (1) We recorded a \$163,681, or \$1.33 per share, loss on asset impairment in the fourth quarter of 2010 to reduce the carrying value of certain of our hotels to their estimated fair value.
- (2) 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.
- (3) Amounts represent distributions paid in the periods shown.

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

11. Segment Information

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

	For the Year Ended December 31, 2011			
	Hotels	Travel Centers	Corporate	Consolidated
Hotel operating revenues	\$ 889,120	\$	\$	\$ 889,120
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	759,567	81,775	43,148	884,490
Operating income (loss)	249,261	119,730	(43,148)	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	249,261	119,730	(177,049)	191,942
Income tax expense			(1,502)	(1,502)
Net income (loss)	\$ 249,261	\$ 119,730	\$ (178,551)	\$ 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

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

11. Segment Information (continued)

	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

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

11. Segment Information (continued)

	For the Year Ended December 31, 2009			
	Hotels	Travel Centers	Corporate	Consolidated
Hotel operating revenues	\$ 715,615	\$	\$	\$ 715,615
Rental income	128,984	172,074		301,058
Percentage rent	1,426			1,426
FF&E reserve income	18,934			18,934
Total revenues	864,959	172,074		1,037,033
Hotel operating expenses	460,869			460,869
Depreciation and amortization expense	163,024	82,844		245,868
General and administrative expense			39,526	39,526
Total expenses	623,893	82,844	39,526	746,263
Operating income (loss)	241,066	89,230	(39,526)	290,770
Interest income			214	214
Interest expense			(143,410)	(143,410)
Gain on extinguishment of debt			51,097	51,097
Equity in losses of an investee			(134)	(134)
Income (loss) before income taxes	241,066	89,230	(131,759)	198,537
Income tax expense			(5,196)	(5,196)
Net income (loss)	\$ 241,066	\$ 89,230	\$ (136,955)	\$ 193,341

	As of December 31, 2009			
	Hotels	Travel Centers	Corporate	Consolidated
Total assets	\$ 3,120,593	\$ 2,278,942	\$ 148,835	\$ 5,548,370

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

12. Fair Value of Assets and Liabilities

The table below presents certain of our assets carried at fair value at December 31, 2011, categorized by the level of inputs, as defined in the fair value hierarchy under GAAP, used in the valuation of each asset.

Description	Total	Fair Value at Reporting Date Using		Total Gains (Losses), Net
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	
Properties held for sale (1)	\$ 123,025	\$ 123,025	\$ 123,025	\$ (11,418)
Investment securities (2)	\$ 10,795	\$ 10,795	\$	\$

(1) Our properties held for sale are reported at estimated fair value less costs to sell and consist of 21 hotel properties we were marketing for sale at December 31, 2011. In connection with our decision to pursue the sale of these 21 Marriott hotels as described in Note 4, we classified the hotels as held for sale and recorded a \$11,418, or \$0.09 per share, loss on asset impairment during 2011 to reduce the carrying value of 17 of these hotels to their estimated fair value less costs to sell. We estimated the fair value of these hotels using standard valuation techniques and estimates of value developed by hotel brokerage firms (Level 3 inputs). Three InterContinental branded hotels with a carrying value of \$46,745 were removed from held for sale status in August 2011. We are no longer marketing these hotels for sale and are currently evaluating rebranding alternatives for these hotels.

(2) Our investment securities, including our 2,540,000 shares of TA, which are included in other assets, are reported at fair value which is based on quoted market prices (Level 1 inputs).

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, senior notes and mortgage notes payable and security deposits. At December 31, 2011 and December 31, 2010, the fair values of these additional financial instruments were not materially different from their carrying values, except as follows:

HOSPITALITY PROPERTIES TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(dollars in thousands, except per share data)

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage Note, due 2011 at 8.3%	\$	\$	\$ 3,383	\$ 3,408
Senior Notes, due 2012 at 6.85%	100,829	105,407	100,829	109,897
Senior Notes, due 2013 at 6.75%	287,000	301,871	287,000	315,364
Senior Notes, due 2014 at 7.875%	300,000	333,887	300,000	349,974
Senior Notes, due 2015 at 5.125%	280,000	290,052	280,000	296,782
Senior Notes, due 2016 at 6.3%	275,000	291,572	275,000	297,795
Senior Notes, due 2017 at 5.625%	300,000	313,106	300,000	316,846
Senior Notes, due 2018 at 6.7%	350,000	386,942	350,000	392,303
Convertible Senior Notes, due 2027 at 3.8%	79,054	80,087	79,054	81,579
Unamortized discounts	(5,169)		(8,043)	
Total financial liabilities	\$ 1,966,714	\$ 2,102,924	\$ 1,967,223	\$ 2,163,948

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

Hospitality Properties Trust

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2011

(dollars in millions)

145 TravelCenters of America	\$	586	\$	885	\$	176	\$		\$	599	\$	1,048	\$	1,647
66 Courtyard Hotels		120		628		102				120		730		850
40 Petro Stopping Centers		229		401		71				241		460		701
76 Candlewood Hotels		86		457		20		(48)	(25)	84		406		490
31 Residence Inns		64		303		52				64		355		419
35 Staybridge Suites		91		353		15		(46)	(34)	91		288		379
12 Crowne Plaza Hotels		69		251		45		(40)	(13)	68		244		312
5 InterContinental Hotels		32		196		87		(16)	(9)	32		258		290
22 Hyatt Place		24		185		32				24		217		241
2 Marriott hotels		10		69		44				10		113		123
3 TownePlace Suites		4		24						4		24		28
5 Radisson Hotels		7		88		9				8		96		104
5 Country Inn & Suites		6		58		6				6		64		70
2 Holiday Inns		5		16						5		16		21
2 SpringHill Suites		3		15		1				3		16		19
1 Park Plaza Hotel		1		9						1		9		10
<i>Assets Held for Sale</i>														
6 Residence Inn		5		31		18		(3)	(3)	6		41		47
9 TownePlace		13		54		4		(16)	(18)	13		25		38
5 Courtyard		7		15		30		(7)	(10)	5		29		34
1 Marriott		4		21		3				4		25		29
Total (473 properties)	\$	1,366	\$	4,059	\$	715	\$	(176)	\$	(112)	\$	1,388	\$	5,852

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

(2) Excludes \$431 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, 2011
(dollars in millions)

	Accumulated Depreciation(1)	Date of Construction	Date Acquired	Life on which Depreciation in Latest Income Statement is Computed
145 Travel Centers of America	\$ (237)	1962 through 2005	2007	10 - 40 Years
66 Courtyard Hotels	(243)	1987 through 2000	1995 through 2003	10 - 40 Years
40 Petro Stopping Centers	(100)	1975 through 2005	2007	10 - 40 Years
76 Candlewood Hotels	(110)	1996 through 2000	1997 through 2003	10 - 40 Years
31 Residence Inns	(116)	1989 through 2002	1996 through 2005	10 - 40 Years
35 Staybridge Suites	(74)	1989 through 2002	1996 through 2006	10 - 40 Years
12 Crowne Plaza Hotels	(34)	1971 through 1987	2006	10 - 40 Years
5 InterContinental Hotels	(46)	1924 through 1989	2006	10 - 40 Years
22 Hyatt Place	(76)	1992 through 2000	1997 through 2002	10 - 40 Years
2 Marriott Hotels	(29)	1972 through 1995	1998 through 2001	10 - 40 Years
5 Radisson Hotels	(38)	1987 through 1990	1996 through 1997	10 - 40 Years
5 Country Inns & Suites	(26)	1987 through 1997	1996 and 2005	10 - 40 Years
3 TownePlace Suites	(8)	1997 through 2000	1998 through 2001	10 - 40 Years
2 Holiday Inns	(4)	1984 through 2001	2006	10 - 40 Years
1 Park Plaza Hotel	(3)	1987 through 1990	1996	10 - 40 Years
2 SpringHill Suites	(4)	1997 through 2000	2000 through 2001	10 - 40 Years
<u>Assets Held for Sale</u>				
6 Residence Inn	(14)	1990 through 1999	1996 through 1999	10-40 Years
9 TownePlace Suites	(1)	1997 through 2000	1998 through 2000	10-40 Years
5 Courtyard	(6)	1997 through 1999	1997 through 1999	10-40 Years
1 Marriott	(12)	1972	1998	10-40 Years
Total (473 properties)	\$ (1,181)			

(1) Excludes accumulated depreciation of \$217 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, 2009 to December 31, 2011, is as follows:

	2011	2010	2009
Balance at beginning of year	\$ 5,845,794	\$ 5,938,200	\$ 5,875,450
Additions: acquisitions and capital expenditures	145,948	81,786	73,471
Dispositions	(11,459)	(10,511)	(10,721)
Loss on asset impairment	(16,384)	(163,681)	
Cost basis adjustment (1)	(112,012)		
Balance at close of year	\$ 5,851,887	\$ 5,845,794	\$ 5,938,200

(B) The change in accumulated depreciation for the period from January 1, 2009 to December 31, 2011, is as follows:

	2011	2010	2009
Balance at beginning of year	\$ 1,133,924	\$ 973,801	\$ 814,942
Additions: depreciation expense	164,706	170,634	169,580
Dispositions	(5,205)	(10,511)	(10,721)
Cost basis adjustment (1)	(112,012)		
Balance at close of year	\$ 1,181,413	\$ 1,133,924	\$ 973,801

(C) The net tax basis for federal income tax purposes of our real estate properties was \$3,819,168 on December 31, 2011.

(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 19, 2012
