

SENIOR HOUSING PROPERTIES TRUST  
Form 10-K/A  
March 29, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K/A**

**AMENDMENT NO. 2**

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

For the fiscal year ended December 31, 2003

OR

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

Commission File Number 1-15319

**SENIOR HOUSING PROPERTIES TRUST**

Maryland

04-3445278

(State of Organization)

(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458

617-796-8350

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  
Trust Preferred Securities of SNH Capital Trust I

New York Stock Exchange  
New York Stock Exchange

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

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, and (2) has been subject to such filing requirements for the past 90 days. 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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The aggregate market value of the voting shares of the registrant held by non-affiliates was \$616.9 million based on the \$13.56 closing price per common share on the New York Stock Exchange on June 30, 2003. For purposes of this calculation, 12,809,238 common shares of beneficial interest, \$0.01 par value, held by HRPT Properties Trust and an aggregate of 146,578 common shares held directly or by affiliates of 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 March 8, 2004: 63,453,338.

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References in this Amendment No. 2 to Annual Report on Form 10-K to the Company, SNH, Senior Housing, we, us and our include Senior Housing Properties Trust and its consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires.

### DOCUMENTS INCORPORATED BY REFERENCE

None.

### EXPLANATORY NOTE

Senior Housing Properties Trust is filing this Amendment No. 2 to its Annual Report on Form 10-K/A to amend Items 7 and 15 in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, or the Annual Report, originally filed with the Securities and Exchange Commission on March 12, 2004, and as amended by Amendment No. 1 to Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on March 17, 2004.

Item 7 of the Annual Report is amended to correct a scrivener's error in the contractual obligations table appearing under the heading "Our Investment and Financing Liquidity and Resources". Item 15 of the Annual Report is amended to add summary audited financial information regarding Five Star Quality Care, Inc. (which is not an accelerated filer) for its fiscal years ended December 31, 2001, 2002 and 2003, as reported by that company in its Annual Report on Form 10-K for its fiscal year ended December 31, 2003.

In addition, we are filing or furnishing, as indicated in this Form 10-K/A, as exhibits currently dated certifications under the Sarbanes-Oxley Act of 2002.

This amendment is limited in scope to the contractual obligations table and the summary audited financial statements described above and does not amend, update, or change any other items or disclosures contained in the Annual Report, as amended by Amendment No. 1. Accordingly, all other items that remain unaffected are omitted in this filing. Except as described in the preceding paragraph, we do not purport by this Form 10-K/A to update any of the information contained in the Annual Report.

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### SENIOR HOUSING PROPERTIES TRUST AMENDMENT NO. 2 TO 2003 FORM 10-K ANNUAL REPORT

#### Table of Contents

Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	1
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	14

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

The following information should be read in conjunction with the consolidated financial statements included in this Annual Report.

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**PORTFOLIO OVERVIEW**

The following tables present an overview of our portfolio as of December 31, 2003 (dollars in thousands):

<u>Facility Type</u>	<u># of Properties</u>	<u># of Units/Beds</u>	<u>Investment</u>	<u>% of Investment</u>	<u>Annual Rent</u>	<u>% of Annual Rent</u>
Independent living communities <sup>(1)</sup>	35	10,191	\$ 868,593	61.2%	\$ 82,403	58.2%
Assisted living facilities	48	3,542	260,257	18.4%	29,826	21.1%
Skilled nursing facilities	65	6,868	245,838	17.3%	20,697	14.6%
Hospitals	2	364	43,553	3.1%	8,700	6.1%
<b>Total</b>	<b>150</b>	<b>20,965</b>	<b>\$1,418,241</b>	<b>100.0%</b>	<b>\$141,626</b>	<b>100.0%</b>

  

<u>Tenant/Operator</u>	<u># of Properties</u>	<u># of Units/Beds</u>	<u>Investment</u>	<u>% of Investment</u>	<u>Annual Rent</u>	<u>% of Annual Rent</u>
Five Star/Sunrise <sup>(2)</sup>	31	7,491	\$ 619,942	43.6%	\$ 63,674	45.0%
Marriott/Sunrise <sup>(2)</sup>	14	4,030	325,473	22.9%	30,975	21.8%
NewSeasons	10	1,019	87,656	6.2%	9,287	6.6%
HEALTHSOUTH	2	364	43,553	3.1%	8,700	6.1%
Five Star #2	13	1,054	83,471	5.9%	8,235	5.8%
Five Star #1	53	4,868	147,072	10.4%	7,646	5.4%
Alterra Healthcare	18	894	61,079	4.3%	7,015	5.0%
Genesis HealthCare Corporation	1	156	13,007	1.0%	1,509	1.1%
5 private companies (combined)	8	1,089	36,988	2.6%	4,585	3.2%
<b>Total</b>	<b>150</b>	<b>20,965</b>	<b>\$1,418,241</b>	<b>100.0%</b>	<b>\$141,626</b>	<b>100.0%</b>

Year Ended December 31,

<u>Tenant Operating Statistics</u> <sup>(3)</sup>	<u>Percentage of Operating Revenue Sources</u>									
	<u>Rent Coverage</u>		<u>Occupancy</u>		<u>Private Pay</u>		<u>Medicare</u>		<u>Medicaid</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Five Star/Sunrise <sup>(2)(4)</sup>	1.0x	1.1x	90%	90%	86%	87%	10%	10%	4%	3%
Marriott/Sunrise <sup>(2)</sup>	1.3x	1.4x	87%	89%	83%	84%	13%	13%	4%	3%
NewSeasons <sup>(5)(6)</sup>	1.1x	NA	79%	NA	100%	NA	0%	NA	0%	NA
HEALTHSOUTH <sup>(7)</sup>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Five Star #2 <sup>(5)</sup>	1.0x	1.1x	87%	88%	100%	100%	0%	0%	0%	0%
Five Star #1	2.9x	2.6x	90%	91%	21%	22%	21%	20%	58%	58%
Alterra Healthcare <sup>(5)</sup>	1.6x	1.5x	86%	89%	98%	98%	0%	0%	2%	2%
Genesis HealthCare Corporation	1.5x	1.8x	97%	96%	23%	26%	34%	38%	43%	36%
5 private companies (combined)	2.4x	2.1x	87%	88%	23%	21%	19%	20%	58%	59%

(1) Properties where the majority of units are independent living apartments are classified as independent living communities.

(2) On March 28, 2003, Marriott sold its senior living division, MSLS, to Sunrise. Effective on that date, Sunrise became the manager of the 31 properties leased to Five Star and the tenant and manager of the 14 properties leased to MSLS. Marriott continues to guarantee the lease for the 14 properties.

(3) All tenant operating statistics presented are based upon the operating results provided by our tenants for the indicated periods ending December 31 or the most recent prior period tenant operating results available to us from our tenants. Rent coverage is calculated as operating cash flow from our tenants' facility operations, before subordinated charges and capital expenditure reserves, divided by rent payable to us. We have not independently verified our tenants' operating data.

(4) Rent coverage is after non-subordinated management fees of \$17.1 million and \$17.4 million for the year ended December 31, 2003 and 2002, respectively.

(5) Includes data for periods prior to our ownership of these properties.

- (6) We acquired these properties on December 29, 2003.
- (7) In March 2003, HEALTHSOUTH issued a press release stating that its historical financial information should not be relied upon. Because we have reason to doubt the financial information we have from HEALTHSOUTH, we do not disclose any operating statistics for this tenant.

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

**RESULTS OF OPERATIONS**

Year Ended December 31, 2003, Compared to Year Ended December 31, 2002

Rental income for the year ended December 31, 2003, was \$129.2 million compared to rental income of \$115.6 million for the year ended December 31, 2002, an increase of \$13.6 million, or 11.8%. This increase results from our acquisition and lease of 40 properties during 2002 and 32 properties during 2003.

FF&E reserve income for the year ended December 31, 2003, was zero compared to \$5.3 million for the year ended December 31, 2002. One of our leases with Five Star required a percentage of gross revenues be paid to us as additional rent, which was escrowed for future capital expenditures at the leased facilities. This lease was amended on October 1, 2002. As a result of this amendment, the FF&E reserve escrow deposits are not paid to us as additional rent, but are paid into accounts owned by Five Star. We have security and remainder interests in these accounts and in property purchased with funding from these accounts. Accordingly, we no longer record FF&E reserve income.

Interest and other income for the year ended December 31, 2003 and 2002, each include \$800,000 of dividend income from one million shares of HRPT that we own. Also included in interest and other income for the year ended December 31, 2003, is \$750,000 of proceeds from the sale of a mortgage note. In connection with one of our 2002 acquisitions, we were assigned the rights under this mortgage note from an unrelated third party. The mortgage note was assigned zero value at the time of the assignment. However, in March 2003, we sold the note to an affiliate of the note obligor for \$750,000. The year ended December 31, 2003, also includes \$371,000 of mortgage interest income from mortgage financing we provided in February 2003 to Alterra, and a net operating loss of \$146,000 from the property we repossessed from a tenant which defaulted its lease obligations to us in March 2003.

Interest expense for the year ended December 31, 2003, was \$35.1 million compared to interest expense for the year ended December 31, 2002, of \$27.4 million, an increase of \$7.7 million, or 28.1%. The increase was caused by our issuance of \$150.0 million of 7 7/8% senior unsecured notes in April 2003, partially offset by less interest expense on reduced amounts outstanding under our revolving bank credit facility during 2003.

Depreciation expense for the year ended December 31, 2003, was \$35.7 million compared to depreciation expense for the year ended December 31, 2002, of \$31.6 million, an increase of \$4.1 million, or 13.0%. General and administrative expense for the year ended December 31, 2003, was \$10.5 million compared to general and administrative expense for the year ended December 31, 2002, of \$8.5 million, an increase of \$2.0 million, or 23.5%. These increases were primarily due to the full impact in 2003 of our investment in 40 properties during 2002, our investment in 32 properties in 2003 and costs of \$1.2 million in connection with our litigations with Marriott and HEALTHSOUTH. In January 2004, we settled our litigation with Marriott.

During the year ended December 31, 2003, we experienced a loss of \$1.2 million on the sale of one property. In the year ended December 31, 2002, we recorded a loss from discontinued operations of \$1.8 million at a facility leased to Five Star which was closed and subsequently sold during 2002. We had no discontinued operations in 2003.

Net income was \$45.9 million, or \$0.78 per share, for the year ended December 31, 2003, compared to \$50.2 million, or \$0.89 per share, for the year ended December 31, 2002, a decrease of \$4.3 million, or \$0.11 per share. These changes reflect the changes described above in revenues and expenses and the more than 2.0 million share increase in the weighted average number of shares outstanding between the 2003 and 2002 periods resulting from our issuance of our common shares during 2002.

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

Year Ended December 31, 2002, Compared to Year Ended December 31, 2001

Total revenues for the year ended December 31, 2002, were \$122.3 million, compared to total revenues of \$274.6 million for the year ended December 31, 2001. Included in total revenues for the year ended December 31, 2001, are revenues from facilities operations of \$224.9 million. During 2001, Five Star, one of our wholly owned subsidiaries, operated facilities for our account. On December 31, 2001, we distributed substantially all of our ownership of Five Star to our shareholders and Five Star became a separate public company. In connection with the Five Star spin-off, Five Star leased the facilities from us which it previously operated for our account; and, as a result, after the Five Star spin-off, we do not have facilities operations revenues or expenses.

Rental income for the year ended December 31, 2002, was \$115.6 million compared to rental income of \$47.4 million for the year ended December 31, 2001, an increase of \$68.2 million. This increase was due to our acquisition and lease of 31 properties on January 11, 2002, for annual rent of \$63.0 million, our lease to Five Star of facilities which had been previously operated for our account for annual rent of \$6.9 million and our lease to Five Star which commenced in October 2002 for annual rent of \$6.3 million. This increase was partially offset by a decrease in annual rent from HEALTHSOUTH of \$10.3 million to \$8.7 million resulting from a lease modification related to a non-monetary exchange of properties, effective January 2, 2002. The primary reasons which we entered into this exchange transaction were as follows:

HEALTHSOUTH advised us that it was not interested to continue operating the five nursing homes which it leased from us, but it was interested to operate on a long term basis the two hospitals which it delivered to us;

Historically the two hospitals which we received had produced financial performance which was equal to or better than the financial performance of the five nursing homes we delivered to HEALTHSOUTH; and

Although the amount of annual rent which we would receive was less than we previously received, we obtained a longer term lease commitment from a tenant that represented itself to be, and that we believed to be, an investment grade quality company.

FF&E reserve income for the year ended December 31, 2002, was \$5.3 million compared to zero for the year ended December 31, 2001. The lease with Five Star for certain properties acquired in January 2002 required a percentage of gross revenues be paid to us as additional rent, which was escrowed for future capital expenditures at the leased facilities. This lease was amended on October 1, 2002. As a result of this amendment, the FF&E reserve escrow deposits are not paid to us as additional rent, but are paid into accounts owned by Five Star. We have security and remainder interests in these accounts and in property purchased with funding from these accounts. As a result, we no longer receive FF&E reserve income.

Interest and other income for the years ended December 31, 2002 and 2001, each include \$800,000 of dividend income from the one million shares of HRPT that we own.

Total expenses for the year ended December 31, 2002, were \$67.5 million, compared to total expenses of \$255.2 million for the year ended December 31, 2001, a decrease of \$187.7 million. Total expenses for the year ended December 31, 2001, include expenses from facilities operations of \$217.9 million. Subsequent to the Five Star spin-off, we no longer have any facilities operations expenses.

Interest expense for the year ended December 31, 2002, was \$27.4 million compared to interest expense for the year ended December 31, 2001, of \$5.9 million, an increase of \$21.5 million. This increase was primarily due to our issuance of \$245.0 million of 8% senior unsecured notes in December 2001 and our assumption of

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

debt in connection with our purchase of properties in January 2002. These increases were partially offset by a decrease in the weighted average interest rate on our revolving bank credit facility.

Depreciation expense for the year ended December 31, 2002, was \$31.6 million compared to depreciation expense for the year ended December 31, 2001, of \$19.4 million, an increase of \$12.2 million. Recurring general and administrative expense for the year ended December 31, 2002, was \$8.5 million compared to recurring general and administrative expense for the year ended December 31, 2001, of \$4.1 million, an increase of \$4.4 million. These increases were primarily due to our acquisition of properties in January and October 2002 and increased legal fees in connection with our litigation with Marriott.

During the year ended December 31, 2001, we incurred nonrecurring general and administrative costs totaling approximately \$4.2 million. These costs were incurred in connection with the establishment of operating systems for foreclosed and repossessed properties, which systems were distributed to shareholders in the Five Star spin-off. In addition, we incurred \$3.7 million of non-recurring costs in connection with the Five Star spin-off.

Distributions on trust preferred securities for the year ended December 31, 2002, were \$2.8 million compared to \$1.5 million for the year ended December 31, 2001. The increase is due to our issuance of trust preferred securities in June and July 2001.

During the year ended December 31, 2002, we recorded a loss from discontinued operations of \$1.8 million related to a facility leased to Five Star which was closed during the second quarter of 2002 and sold during the fourth quarter of 2002. The loss includes historical depreciation expense as well as an impairment write down of the real estate associated with this property, offset by the sales proceeds received by us. For the 2001 period, amounts were reclassified from depreciation expense and facilities operations revenues and expenses to the loss from discontinued operations.

Net income was \$50.2 million, or \$0.89 per share, for the year ended December 31, 2002, compared to \$17.0 million, or \$0.55 per share, for the year ended December 31, 2001, an increase of \$33.2 million, or \$0.34 per share. This increase is primarily the result of the changes in revenues and expenses resulting from our January and October 2002 acquisitions, the Five Star spin off and the issuance of senior notes and trust preferred securities as described above, and the increase in weighted average number of shares outstanding between the 2001 and 2002 periods.

**Recent Developments**

In February 2003, we purchased from Alterra 18 assisted living properties for \$61.0 million and leased them to a subsidiary of Alterra for an initial term through 2017, plus renewal options. In addition, we provided \$6.9 million of mortgage financing to Alterra for six assisted living properties. Our investment in properties leased and mortgaged by Alterra was part of Alterra's bankruptcy reorganization financing. The Alterra Bankruptcy Court approved the terms of our investment and that approval included an order that payments due to us under the lease and mortgage were accorded administrative priority status under the Bankruptcy Code. In October 2003, Alterra filed a plan of reorganization that we believed failed to meet certain conditions that we agreed to when we made our investment. Accordingly, we objected to Alterra's plan. In November 2003, we reached a compromise with Alterra regarding the revised plan pursuant to which Alterra prepaid our mortgage note in full and paid us an additional \$3.5 million. This \$3.5 million, net of \$688,000 of costs we incurred related to our objection, is being amortized into our income during the remaining term of the Alterra lease.

In December 2003, we purchased 10 assisted living properties with resident capacity of 1,019 for \$86.6 million from NewSeasons. We funded this acquisition by borrowing under our revolving bank credit

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

facility and with cash on hand. Simultaneously, NewSeasons leased these facilities from us for an initial term ending in 2017, plus renewal options for up to an additional 30 years. The rent payable to us will average approximately \$9.3 million per year during the initial lease term; although it will commence at a lower rent of approximately \$8.0 million per year and then increase at agreed times during the lease term. Substantially all of the revenues at these properties are paid by residents from their private resources. NewSeasons is a subsidiary of IBC. IBC is a large regional health insurance company based in Philadelphia, Pennsylvania, with reported revenues of approximately \$8.5 billion in 2002. IBC has guaranteed NewSeasons' rent to us. In addition, we, NewSeasons and IBC have entered into an agreement for the possible expansion of

our business relationships by adding up to four assisted living properties with resident capacity of 540. These four properties are currently encumbered by mortgage debts. We intend to purchase these properties if and when these mortgage debts are prepaid or assumed on terms mutually acceptable to us, NewSeasons, IBC and the lenders. If we purchase all four of these properties, our purchase price for these additional properties will be \$28.4 million; any that we purchase will be added to the lease for the 10 currently leased properties and rent payable to us will increase.

Subsequent to December 31, 2003, we have entered into several transactions with Five Star, which are discussed below under the heading, Related Party Transactions .

In January 2004, we issued 5,000,000 common shares of beneficial interest, raising net proceeds of \$86.3 million. These net proceeds were used to repay borrowings outstanding under our revolving bank credit facility.

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

### LIQUIDITY AND CAPITAL RESOURCES

#### Our Operating Liquidity and Resources

Our principal sources of funds for current expenses and distributions to shareholders are rents from our properties. Minimum rents are generally received monthly or quarterly from our tenants and percentage rents are received monthly, quarterly or annually. This flow of funds has historically been sufficient for us to pay our operating expenses, debt service and distributions. We believe that our operating cash flow will be sufficient to meet our operating expenses, debt service and distribution payments for the foreseeable future.

#### Our Investment and Financing Liquidity and Resources

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our receipt of rents and the need to make distributions or pay operating expenses, we maintain a revolving bank credit facility with a group of commercial banks. Our revolving bank credit facility matures in November 2005 and may be extended at our option to November 2006 upon payment of an extension fee. Borrowings under the revolving bank credit facility can be up to \$250.0 million and the revolving bank credit facility includes a feature under which the maximum borrowing may be expanded to \$500.0 million, in certain circumstances. Borrowings under our revolving bank credit facility are unsecured. Funds may be borrowed, repaid and reborrowed until maturity, and no principal repayment is due until maturity. Interest on borrowings under the revolving bank credit facility is payable at a spread above LIBOR.

In February 2003, we acquired 18 assisted living facilities and provided mortgage financing for six other assisted living facilities for a total investment of \$67.9 million. The funding for this transaction was provided by borrowings under our revolving bank credit facility. In November 2003, the mortgage financing of \$6.9 million was fully repaid.

In April 2003, we issued \$150.0 million of 7 7/8% senior unsecured notes due 2015, raising net proceeds, after a discount and costs of issuance, of \$146.2 million. The net proceeds from this issuance were used to repay amounts outstanding under our revolving bank credit facility and for general business purposes.

In May 2003, we purchased three assisted living facilities for \$6.5 million. During 2003, in accordance with several of our leases, we funded \$11.4 million of expenditures related to the repair, maintenance or renovation of our properties. In September 2003, we purchased one independent living property for \$12.3 million. In December 2003, we purchased 10 assisted living facilities for \$86.6 million. In March 2004, we purchased one independent and assisted living facility for \$24.1 million. The funding for these transactions was provided by borrowings under our revolving bank credit facility and cash on hand.

During 2003, we agreed to sell two nursing homes for \$10.5 million, subject to various conditions. Proceeds from the sale of these properties will be used to repay borrowings outstanding under our revolving bank credit facility and for general business purposes.

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In January 2004, we issued 5 million of our common shares in a public offering. The net proceeds of \$86.3 million were used to repay borrowings outstanding on our revolving bank credit facility.

In connection with our December 2003 acquisition of 10 assisted living facilities, we agreed to purchase up to an additional four assisted living facilities. These four properties are currently encumbered by mortgage debts. We intend to purchase these properties if and when these mortgage debts are prepaid or assumed on terms mutually acceptable to us, the seller and the lenders. If we purchase all four of these properties, our purchase price for these additional properties will be \$28.4 million. Funding required to complete this transaction is expected to be provided by borrowing under our revolving bank credit facility and cash on hand.

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

At December 31, 2003, we had \$3.5 million of cash and cash equivalents and \$148.0 million available under our revolving bank credit facility. As of March 8, 2004, we had \$40.0 million outstanding and \$210.0 million available under our revolving bank credit facility. We expect to use cash balances, borrowings under our revolving bank credit facility and net proceeds of offerings of equity or debt securities to fund future property acquisitions, including the future funding for expenditures related to the repair, maintenance or renovation of our properties.

When amounts are outstanding on our revolving bank credit facility and as the maturity dates of our revolving bank credit facility and term debts approach over the longer term, we will explore alternatives for the repayment of amounts due. Such alternatives may include incurring additional long term debt and issuing new equity securities. As of March 8, 2004, we had \$1.6 billion available on an effective shelf registration statement. An effective shelf registration statement allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities. Although there can be no assurance that we will consummate any debt or equity offerings or other financings, we believe we will have access to various types of financing, including debt or equity offerings, with which to finance future acquisitions and to pay our debts and other obligations.

On January 6, 2004, a distribution of \$0.31 per common share was declared with respect to our 2003 fourth quarter results. This distribution was paid to shareholders on February 20, 2004, using cash on hand and borrowings under our revolving bank credit facility.

As of December 31, 2003, our contractual obligations were as follows (dollars in thousands):

<u>Contractual Obligations</u>	<u>Payment due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long-Term Debt Obligations <sup>(1)</sup>	\$418,800	\$ 9,100	\$ --	\$ --	\$409,700
Capital Lease Obligations	8,017	791	1,769	2,052	3,405
Ground Lease Obligations	6,196	426	852	852	4,066
Purchase Obligations <sup>(2)</sup>	28,400	28,400	--	--	--
Total	\$461,413	\$38,717	\$2,621	\$2,904	\$417,171

(1) Our term debt maturities are as follows: \$9.1 million in 2004; \$245.0 million in 2012; \$150.0 million in 2015; and \$14.7 million in 2027. In addition to the long-term debt obligations included in the table above, we had \$27.4 million of trust preferred securities outstanding. As discussed in Note 8 of the accompanying financial statements, our subsidiary that has issued these trust preferred securities also holds \$27.4 million of debentures that have been issued by us and which are due in 2041. As discussed in Note 2 of the accompanying financial statements, the accounting treatment of these trust preferred securities and the related debentures may change in the first quarter of 2004.

(2) This amount includes \$28.4 million the four additional properties we agreed to purchase in connection with our December 2003 acquisition.



**Debt and Trust Preferred Securities Covenants**

Our principal debt obligations at December 31, 2003, were our unsecured revolving bank credit facility and our \$395.0 million of unsecured senior notes. Our senior notes are governed by an indenture. This indenture and related supplements and our revolving bank credit facility 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 other ratios. Our trust preferred securities are governed by an indenture which is generally less restrictive than the indenture governing our senior notes and the

7

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

terms of our revolving bank credit facility. As of December 31, 2003, we were in compliance with all of the covenants under our indentures and related supplements and our revolving bank credit facility.

None of our indentures and related supplements, our revolving bank credit facility or our other debt obligations contain provisions for acceleration which could be triggered by our debt ratings. However, under the revolving bank credit facility, our senior debt rating is used to determine the fees and the interest rate payable.

Our public debt indenture and related supplements contain cross default provisions to any other debts of \$10.0 million or more. Similarly, a default on our public debt or trust preferred securities indenture would be a default under our revolving bank credit facility.

As of March 8, 2004, we have no commercial paper, derivatives, swaps, hedges, joint ventures or partnerships.

8

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

**Related Party Transactions**

In 1999, HRPT distributed a majority of our shares to its shareholders of record on October 8, 1999. In order to effect this spin off and to govern relations after the spin off, we entered into a transaction agreement with HRPT, pursuant to which it was agreed that so long as (1) HRPT owns more than 10% of our shares; (2) we and HRPT engage the same investment manager; or (3) we and HRPT have one or more common managing trustees; then we will not invest in office buildings, including medical office buildings and clinical laboratory buildings, without the prior consent of HRPT's independent trustees, and HRPT will not invest in properties involving senior housing without the prior consent of our independent trustees. If an investment involves both office and senior housing components, the character of the investment will be determined by building area, excluding common areas, unless our board and HRPT's board otherwise agree at the time. These provisions do not apply to any investments HRPT held at the time of the spin off. Also as part of the transaction agreement, we agreed to subject our ability to waive ownership restrictions contained in our charter to the consent of HRPT's trustees so long as HRPT owns more than 9.8% of our outstanding voting or equity interest.

On December 31, 2001, we distributed substantially all of our shares of Five Star to our shareholders of record on December 17, 2001. In order to effect this spin off and to govern relations after the spin off, we entered into agreements with Five Star, pursuant to which it was agreed that:

so long as we remain a real estate investment trust, Five Star may not waive the share ownership restrictions in its charter on the ability of any person or group to acquire more than 9.8% of any class of its equity shares without, among other requirements, our consent and Five Star's determination that the exception to the ownership limitations would not cause a default under any of its leases;

so long as Five Star is our tenant, Five Star will neither permit any person or group to acquire more than 9.8% of any class of Five Star's voting stock or permit the occurrence of other change in control events, as defined, nor will Five Star take any action that, in the reasonable judgment of us or HRPT, might jeopardize the tax status of us or HRPT as a real estate investment trust;

we have the option, upon the acquisition by a person or group of more than 9.8% of Five Star's voting stock and upon other change in control events of Five Star, as defined, to cancel all of Five Star's rights under its leases with us; and

so long as Five Star maintains its shared service agreement with RMR or is a tenant under a lease with us, Five Star will not acquire or finance any real estate without first giving us, HRPT, Hospitality Properties Trust, or HPT, or any other publicly owned real estate investment trust or other entity managed by RMR the opportunity to acquire or finance real estate investments of the type in which we, HRPT, HPT or any other publicly owned real estate investment trust or other entity managed by RMR, respectively, invest.

At the time Five Star was spun off from us, all of the persons serving as directors of Five Star were also our trustees. Two of our trustees, Messrs. Martin and Portnoy, are current directors of Five Star.

As of December 31, 2003, we leased 97 senior living communities to Five Star for total annual minimum rent of \$79.6 million.

During 2003, we and Five Star were jointly involved in litigation with Marriott and MSLS, the operator of 31 of the senior living communities which we leased to Five Star. We and Five Star equally shared the costs of this litigation. This litigation was settled in January 2004.

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

Since January 1, 2003, we have entered or agreed to enter into several transactions with Five Star, including the following:

During 2003, pursuant to the terms of our leases with Five Star, we purchased \$11.4 million of improvements to our properties leased by Five Star, and the annual rent payable to us by Five Star was increased by 10% of the amounts invested, or \$1.1 million.

In March 2003, one of our private company tenants defaulted its lease for a nursing home in Missouri. We terminated this lease and engaged Five Star to manage this property for our account. Currently, this property is listed for sale or lease. Five Star is paid a management fee of 5% of the gross revenues at this nursing home, totaling \$135,000 through December 31, 2003.

In May 2003, we purchased from an unrelated third party three assisted living properties with 143 living units located in Virginia for \$6.5 million. In September 2003, we purchased from Five Star one independent living property with 164 units in California for \$12.3 million, its appraised value. These four properties were added to our existing lease with Five Star for nine other independent and assisted living properties. The annual minimum rent for the properties included in this lease increased by \$1.9 million. All other terms of the lease remained unchanged.

In July 2003, we agreed to sell to Five Star two nursing homes in Michigan that we leased to Five Star. The purchase price is \$10.5 million, the appraised value of the properties. These two properties are leased on a combined basis with other nursing home properties. Under the terms of our lease with Five Star, upon consummation of the sale, the annual rent payable under the combined lease will be reduced by 10% of the net proceeds that we received from the sale. We expect the sale of these properties to occur during the first half of 2004. However, this sale is contingent upon Five Star's obtaining Department of Housing and Urban Development insured financing for its purchase, and this sale may not close because of a failure of this condition or for some other reason.

On March 1, 2004, we purchased from Five Star one independent and assisted living facility with 229 units located in Maryland. The purchase price was \$24.1 million, the appraised value of the property. Simultaneous with this purchase, our existing leases with Five Star were modified as follows:

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the lease for 53 nursing homes and the lease for 13 independent and assisted living facilities were combined into one lease and the property acquired on March 1, 2004 was added to this combined lease;

the combined lease maturity date was changed to December 31, 2020 from December 31, 2018 and 2019 for the separate leases;

the minimum rent for the combined lease of 53 nursing homes and 14 independent living facilities was increased by \$2.4 million; and

for all of our leases with Five Star, the amount of additional rent to be paid to us was changed to 4% of the increase in revenues at the leased properties beginning in 2006.

All other lease terms remained substantially unchanged.

10

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

In October 2003, we entered into an agreement between us and HRPT, pursuant to which we agreed to file a registration statement with respect to our shares held by HRPT and use reasonable efforts to effect the registration of those shares. HRPT paid the expenses of this registration. The registration statement became effective October 24, 2003. In January and February 2004, we completed a public offering of 5 million of our common shares. In a simultaneous offering, HRPT sold 3,148,500 of our shares which it owned. We and HRPT were parties to a joint underwriting agreement in connection with this offering. We did not receive any proceeds from the sale of our shares by HRPT, but HRPT paid its pro-rata share of the expenses of this offering.

RMR provides investment, management and administrative services to us under an advisory agreement which is renewed annually if the renewal is approved by a majority of our independent trustees. RMR is compensated at an annual rate equal to a percentage of our average real estate investments, as defined. The percentage applied to our investments at the time we were spun off from HRPT is 0.5%. The annual compensation percentage for the first \$250 million of investments made since our spin off from HRPT is 0.7% and thereafter is 0.5%. RMR may also earn an incentive fee based upon increases in our funds from operations per share, as defined. The incentive fee payable to RMR is paid in common shares. Aggregate fees earned by RMR for services during 2003 were \$7.6 million, including \$263,000 as an incentive fee which will be paid in common shares in April 2004. RMR is owned by Messrs. Martin and Portnoy who are our managing trustees. Messrs. Martin and Portnoy each have material interests in the transactions between us and RMR described above. All transactions between us and RMR are approved by our independent trustees. Our independent trustees have approved the renewal of the advisory agreement for its term which will end December 31, 2004.

#### Critical Accounting Policies

Our critical accounting policies are those that 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 assessments are consistently applied and produce financial information that fairly presents our results of operations. Our three most critical accounting policies concern our investments in real property and are:

*Allocation of Purchase Price and Recognition of Depreciation Expense.* The acquisition cost of each real property investment is allocated to various property components such as land, buildings and improvements, and each component generally has a different useful life. Acquisition cost allocations and the determination of the useful lives are based on our management's estimates or, under some circumstances, studies commissioned from independent real estate appraisal firms. For real estate acquired subsequent to June 1, 2001, the effective date of Statement of Financial Accounting Standards No. 141, Business Combinations, we allocate the value of real estate acquired among building, land, furniture, fixtures and equipment, the value of in-place leases and the fair market value of above or below market leases and customer relationships. We compute related 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. The value of intangible assets is amortized over the term of the respective lease. The allocated cost of land is not depreciated. Inappropriate allocation of acquisition costs or incorrect estimates of useful lives could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods required

by generally accepted accounting principles.

*Impairment of Assets.* We periodically evaluate our real property investments for impairment indicators. These indicators may include weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and 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 real property investment by comparing it to the expected future undiscounted cash flows to be generated

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

from that property. 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 the present value of these expected future cash flows. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future tenant profitability, market or industry factors differ from our expectations we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

*Classification of Leases.* Our real property investments are generally 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 lease 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, discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

These policies involve significant judgments based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual values, the ability 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 are operated. In the future we may need to revise our 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.

During 2000, we assumed the operations of nursing homes from bankrupt former tenants, pursuant to negotiated settlement agreements. During the first quarter of 2001, we obtained substantially all of the healthcare regulatory licenses and Medicare and Medicaid provider agreements necessary for these nursing home operations, and we consolidated the nursing home operations effective January 1, 2001. With respect to the consolidated facilities' operations, our most critical accounting policies in 2001 involved revenue recognition and our assessment of the net realizable value of the facilities' accounts receivable. These policies involved significant judgments based upon our experience, including judgments about changes in governmental payment methodology, contract modifications and economic conditions that affect the collectibility of the facilities' accounts receivable. As a result of the Five Star spin-off on December 31, 2001, we no longer operate any facilities. Also, the accounts receivable related to facilities' operations were transferred to Five Star as part of the initial capitalization of Five Star.

### 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 rents which we receive based upon a percentage of our tenants' 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 tenants' operating costs may increase faster than revenues and this fact may have an adverse impact upon us if our tenants' operating income from our properties becomes insufficient to pay our rent. To mitigate the adverse impact of increased operating costs at our leased properties, we generally require our tenants to guarantee our rent. To mitigate the adverse impact of increased costs of debt capital in the event of material inflation, we previously have purchased interest rate cap agreements and we may enter into similar interest rate hedge arrangements in the future. The decision to enter into these agreements was and will be based on the amount of

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

floating rate debt outstanding, our belief that material interest rate increases are likely to occur and upon requirements of our borrowing arrangements.

**Impact of Government Reimbursement**

Approximately 84% of our current annual rents come from properties where approximately 83% or more of the operating revenues are derived from residents who pay from their own private resources. Of the remaining 16% of our rents which come from properties where the revenues are heavily dependent upon Medicare and Medicaid programs, the operations of these properties currently produce sufficient cash flow to support our rent. However, as discussed above in Business Government Regulation and Reimbursement, we expect that Medicare and Medicaid rates paid to our tenants may not increase in amounts sufficient to pay our tenants increased operating costs, or that they may even decline. Also, the hospitals we lease to HEALTHSOUTH are heavily dependent upon Medicare revenues. As discussed in Item 1, reports of erroneous financial statements by HEALTHSOUTH have called into question whether those hospitals in fact produce sufficient revenues to pay our rent. We cannot predict whether our tenants which are affected by Medicare and Medicaid rates will be able to continue to pay their rent obligations if these expected circumstances occur and persist for an extended time.

**Seasonality**

Nursing home and assisted living operations have historically reflected modest seasonality. During calendar fourth quarter holiday periods, residents at such facilities are sometimes discharged to join in family celebrations and admission decisions are often deferred. The first quarter of each calendar year usually coincides with increased illness among residents which can result in increased costs or discharges to hospitals. As a result of these factors and others, these operations sometimes produce greater earnings in the second and third quarters of each calendar year and lesser earnings in the fourth and first calendar quarters. We do not expect these seasonal differences to have a material impact upon the ability of our tenants to pay our rent.

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) Index to Financial Statements and Financial Statement Schedules

	<u>Page</u>
1. The following consolidated financial statements and financial statement schedule of Senior Housing Properties Trust are included on the pages indicated:	
Report of Ernst & Young LLP, Independent Auditors	F-1
Consolidated Balance Sheets as of December 31, 2003 and 2002	F-2
Consolidated Statements of Income for each of the three years in the period ended December 31, 2003	F-3
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2003	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2003	F-5
Notes to Consolidated Financial Statements	F-7
Schedule III - Real Estate and Accumulated Depreciation as of December 31, 2003	S-1
2. Summary audited financial information for Sunrise Senior Living Services, Inc.	F-1/A
3. Summary audited financial information for Five Star Quality Care, Inc.	F-2/A
All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.	

(c) Exhibits

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The following exhibits are filed or furnished with this Form 10-K/A:

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification Required by Rule 13a-14(a) / 15d - 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <i>(Filed herewith.)</i>
31.2	Certification Required by Rule 13a-14(a) / 15d - 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <i>(Filed herewith.)</i>
31.3	Certification Required by Rule 13a-14(a) / 15d - 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <i>(Filed herewith.)</i>
31.4	Certification Required by Rule 13a-14(a) / 15d - 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <i>(Filed herewith.)</i>
32.1	Certification Pursuant to 18 U.S.C. Sec 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. <i>(Furnished herewith.)</i>

14

### Summary Financial Information of Five Star Quality Care, Inc.

The following table presents summary financial information for Five Star Quality Care, Inc., or Five Star, for its fiscal years ended December 31, 2001, 2002 and 2003, as reported in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003. Reference is made to Item 1 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2003 for additional information with respect to Five Star.

### Summary Financial Information of Five Star Quality Care, Inc. (in thousands)

	As of or for the year ended		
	December 31, 2003	December 31, 2002	December 31, 2001 <sup>(1)</sup>
Total revenues	\$ 576,215	\$ 519,403	\$219,834
Net (loss) income	(7,939)	(13,174)	527
Total assets	147,370	133,197	68,043
Total indebtedness	10,435	16,123	--
Total shareholders' equity	64,427	65,047	50,233

<sup>(1)</sup> During this period, Five Star was our 100% owned subsidiary.

F-2/A

### SIGNATURES

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

SENIOR HOUSING PROPERTIES TRUST

By: /s/ David J. Hegarty

David J. Hegarty

President and Chief Operating Officer

Dated: March 29, 2004