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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or
Organization)

04-3445278

(IRS Employer Identification No.)

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

02458-1634
(Zip Code)

617-796-8350

(Registrant's Telephone Number, Including Area Code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Number of registrant's common shares outstanding as of August 1, 2012: 176,475,108.

SENIOR HOUSING PROPERTIES TRUST
FORM 10-Q

June 30, 2012

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In this Quarterly Report on Form 10-Q, the terms “the Company”, “we”, “us” and “our” refer to Senior Housing Properties Trust and its consolidated subsidiaries, unless otherwise noted.

PART I. Financial Information**Item 1. Financial Statements.**

SENIOR HOUSING PROPERTIES TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share data)
(unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Real estate properties:		
Land	\$ 583,683	\$ 564,628
Buildings and improvements	4,282,707	4,156,963
	4,866,390	4,721,591
Less accumulated depreciation	688,407	630,261
	4,177,983	4,091,330
Cash and cash equivalents	20,405	23,560
Restricted cash	10,044	7,128
Deferred financing fees, net	23,479	25,434
Acquired real estate leases and other intangible assets, net	100,619	100,235
Loan receivable	—	38,000
Other assets	134,022	97,361
Total assets	<u>\$ 4,466,552</u>	<u>\$ 4,383,048</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unsecured revolving credit facility	\$ 360,000	\$ —
Senior unsecured notes, net of discount	741,412	965,770
Secured debt and capital leases	863,516	861,615
Accrued interest	13,315	22,281
Assumed real estate lease obligations, net	15,091	17,778
Other liabilities	57,059	42,998
Total liabilities	<u>2,050,393</u>	<u>1,910,442</u>
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, \$.01 par value: 174,700,000 shares authorized, 162,675,108 and 162,646,046 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	1,627	1,626
Additional paid in capital	2,944,868	2,944,212
Cumulative net income	973,540	907,937
Cumulative other comprehensive income	(2,860)	(3,772)
Cumulative distributions	(1,501,016)	(1,377,397)
Total shareholders' equity	<u>2,416,159</u>	<u>2,472,606</u>
Total liabilities and shareholders' equity	<u>\$ 4,466,552</u>	<u>\$ 4,383,048</u>

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Rental income	\$ 110,986	\$ 100,318	\$ 220,491	\$ 198,870
Residents fees and services	35,986	844	71,554	844
Total revenues	146,972	101,162	292,045	199,714
Expenses:				
Depreciation	35,230	26,935	68,607	53,296
Property operating expenses	40,734	11,302	80,068	21,735
General and administrative	8,068	6,793	15,753	12,949
Acquisition related costs	1,829	2,814	2,517	3,927
Impairment of assets	—	—	3,071	166
Total expenses	85,861	47,844	170,016	92,073
Operating income	61,111	53,318	122,029	107,641
Interest and other income	227	244	709	476
Interest expense	(28,120)	(23,361)	(57,009)	(46,107)
Loss on early extinguishment of debt	—	(427)	—	(427)
Gain on sale of properties	—	21,315	—	21,315
Equity in earnings of an investee	76	46	121	83
Income before income tax expense	33,294	51,135	65,850	82,981
Income tax expense	(43)	(87)	(247)	(158)
Net income	33,251	51,048	65,603	82,823
Other comprehensive income:				
Change in net unrealized loss on investments	(1,315)	(6,727)	916	(3,183)
Share of comprehensive (loss) income of an investee	(3)	39	(4)	43
Comprehensive income	\$ 31,933	\$ 44,360	\$ 66,515	\$ 79,683
Weighted average shares outstanding	162,670	141,869	162,659	141,862
Net income per share	\$ 0.20	\$ 0.36	\$ 0.40	\$ 0.58

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 65,603	\$ 82,823
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	68,607	53,296
Amortization of deferred financing fees and debt discounts	3,024	2,144
Straight line rental income	(6,062)	(5,725)
Amortization of acquired real estate leases and other intangible assets	(170)	(371)
Loss on early extinguishment of debt	—	427
Impairment of assets	3,071	166
Gain on sale of properties	—	(21,315)
Equity in earnings of an investee	(121)	(83)
Change in assets and liabilities:		
Restricted cash	(2,916)	(718)
Other assets	10,719	3,120
Accrued interest	(8,966)	5,100
Other liabilities	13,740	12,867
Cash provided by operating activities	<u>146,529</u>	<u>131,731</u>
Cash flows from investing activities:		
Real estate acquisitions and deposits	(123,867)	(306,819)
Real estate improvements	(20,015)	(16,462)
Loan receivable	—	(41,000)
Principal payments on loan receivable	38,000	32,000
Investment in Five Star Quality Care, Inc.	—	(5,000)
Proceeds from sale of properties	—	38,663
Cash used for investing activities	<u>(105,882)</u>	<u>(298,618)</u>
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	—	(103)
Proceeds from issuance of unsecured senior notes, net of discount	—	247,327
Proceeds from borrowings on revolving credit facility	434,000	365,000
Repayments of borrowings on revolving credit facility	(74,000)	(309,000)
Redemption of senior notes	(225,000)	—
Repayment of other debt	(54,889)	(4,541)
Payment of deferred financing fees	(294)	(9,604)
Distributions to shareholders	(123,619)	(104,976)
Cash (used for) provided by financing activities	<u>(43,802)</u>	<u>184,103</u>
(Decrease) increase in cash and cash equivalents	(3,155)	17,216
Cash and cash equivalents at beginning of period	23,560	10,866
Cash and cash equivalents at end of period	<u>\$ 20,405</u>	<u>\$ 28,082</u>

SENIOR HOUSING PROPERTIES TRUST

Supplemental cash flow information:

Interest paid	\$	62,951	\$	38,863
Income taxes paid		378		256

Non-cash investing activities:

Acquisitions funded by assumed debt	(56,789)	(48,062)
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Non-cash financing activities:

Assumption of mortgage notes payable	56,789	48,062
Issuance of common shares	657	441

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Senior Housing Properties Trust and its subsidiaries, or we, us, or our, are unaudited. Certain information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2011, or our Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. All material intercompany transactions and balances among us and our consolidated subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. These reclassifications were made to conform the prior periods' rental income, property operating expenses, general and administrative expenses, interest and other income and impairment of assets to the current classification. These reclassifications had no effect on net income or shareholders' equity.

Note 2. Recent Accounting Pronouncements

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

In January 2012, we adopted FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*. This update eliminated the option to report other comprehensive income and its components in the statement of shareholders' equity. This update was 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 was effective for interim and annual reporting periods beginning after December 15, 2011. The implementation of this update did not cause any material changes to our condensed consolidated financial statements.

Note 3. Real Estate Properties

At June 30, 2012, we owned 375 properties located in 39 states and Washington, D.C.

In February 2012, we acquired a previously disclosed senior living community located in Priceville, Alabama with 92 living units for approximately \$11,300, excluding closing costs. We recorded intangible assets of approximately \$583 related to this acquisition. A subsidiary of Five Star Quality Care, Inc., which, together with its subsidiaries, we refer to in this report as Five Star, manages this community for our account under a long term contract. We funded this acquisition using cash on hand. As of June 30, 2012, we own 24 communities that are managed by Five Star, or the Managed Communities. We use the taxable REIT subsidiary, or TRS, structure authorized by the Real Estate Investment Trust Investment Diversification and Empowerment Act, or RIDEA, for our

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Managed Communities, which we began acquiring in June 2011. The results of operations for the Managed Communities are included in our short and long term residential care communities segment. See Note 11 for further information regarding the arrangements we have with Five Star regarding the lease, operations and management of our senior living communities and see Note 9 for further information regarding our reportable operating segments.

In May 2012, we acquired a previously disclosed senior living community located in Charleston, South Carolina with 59 assisted living units for approximately \$8,059, excluding closing costs. We recorded intangible assets of approximately \$362 related to this acquisition. A subsidiary of Five Star manages this community for our account under a long term contract. We funded this acquisition using cash on hand and by assuming approximately \$4,789 of mortgage debt.

In May 2012, we acquired a previously disclosed property leased to medical providers, medical related businesses, clinics and biotech laboratory tenants, or an MOB, with 28,440 square feet located in Georgia for approximately \$8,600, excluding closing costs. We recorded intangible lease assets and liabilities of \$1,392 and \$10, respectively, related to this acquisition. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

In May 2012, we acquired another previously disclosed MOB with 111,538 square feet located in Georgia for approximately \$23,100, excluding closing costs. We recorded intangible lease assets of \$6,421 related to this acquisition. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

In June 2012, we acquired a previously disclosed MOB with 204,429 square feet located in Hawaii for approximately \$70,495, excluding closing costs. We recorded intangible lease assets and liabilities of \$4,306 and \$629, respectively, related to this acquisition. We funded this acquisition using cash on hand, borrowings under our revolving credit facility and by assuming approximately \$52,000 of mortgage debt.

In June 2012, we acquired another previously disclosed MOB with 92,180 square feet located in Maryland for approximately \$18,250, excluding closing costs. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

In July 2012, we acquired a previously disclosed senior living community located in Mount Pleasant, South Carolina with 232 living units for approximately \$37,273, excluding closing costs. A subsidiary of Five Star manages this community for our TRS under a long term contract. We funded this acquisition in escrow in June 2012 prior to and pending closing using cash on hand and borrowings under our revolving credit facility, and as of June 30, 2012, the amount funded is included in other assets on our condensed consolidated balance sheet.

In July 2012, we acquired one MOB with 63,082 square feet located in Houston, Texas for approximately \$16,850, excluding closing costs. We funded this acquisition using cash on hand.

In July 2012, we acquired another MOB with 52,858 square feet located in Boynton Beach, Florida for approximately \$7,750, excluding closing costs. We funded this acquisition using cash on hand.

On July 31, 2012, we acquired four previously disclosed senior living communities located in Colorado, Idaho and Washington with a total of 511 living units for total purchase prices of approximately \$36,500, excluding closing costs. We leased these properties to Stellar Senior Living, LLC, a third party operator, with a current term expiring in 2027 for initial rent of approximately \$2,920 per year. Percentage rent,

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based on increases in gross revenues at these properties, will commence in 2014. We funded this acquisition using cash on hand, borrowings under our revolving credit facility and by assuming approximately \$6,876 of mortgage debt.

We have previously disclosed agreements to acquire three properties which have not yet closed, including two senior living communities and one MOB for total purchase prices of approximately \$126,700, including the assumption of approximately \$49,447 of mortgage debt and excluding closing costs. The two senior living communities are located in Missouri and New York and include a total of 397 living units, and the MOB is located in Massachusetts and includes 35,000 square feet. The closings of these acquisitions are contingent upon customary closing conditions; accordingly, we can provide no assurance that we will purchase these properties.

In July 2012, we entered an agreement to acquire one MOB for approximately \$15,275, including the assumption of approximately \$9,676 of mortgage debt and excluding closing costs. The MOB is located in Minnesota and includes a total of 76,637 square feet. This acquisition has not yet closed. The closing of this acquisition is contingent upon completion of our diligence and other customary closing conditions; accordingly, we can provide no assurance that we will purchase this property.

In May 2012, we entered into an operations transfer agreement, or the Operations Transfer Agreement, with Sunrise Senior Living, Inc., or Sunrise, and Five Star related to 10 senior living communities, or the 10 Communities, that we currently lease to Sunrise. The Operations Transfer Agreement provides that we and Sunrise will accelerate the December 31, 2013 termination date of these Sunrise leases, that we will lease the 10 Communities to our TRSs and that Five Star will manage the 10 Communities pursuant to long term contracts. The Operations Transfer Agreement provides that these transactions will occur when we and Five Star have obtained required regulatory approvals to operate the 10 Communities. Because of the required regulatory approval processes, we expect the transition of the 10 Communities' operations to occur on various dates during the remainder of 2012. Pursuant to the Operations Transfer Agreement, we paid Sunrise \$1,000 to purchase the inventory and certain improvements owned by Sunrise at these 10 Communities, which will be transferred to our applicable TRSs when the leases of the 10 Communities commence.

In July 2012, we sold one MOB located in Massachusetts for a sale price of approximately \$1,100. At June 30, 2012, two of our properties, including one senior living community located in Pennsylvania and this MOB, are classified as held for sale. These two properties are included in real estate properties on our condensed consolidated balance sheets and have an aggregate net book value of approximately \$1,715 at both June 30, 2012 and December 31, 2011.

We periodically evaluate our properties for impairments. Impairment indicators may include declining tenant occupancy, 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 legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the affected property by comparing it to the expected future undiscounted net cash flows to be generated from that property. If the sum of these expected future net cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. During the six months ended June 30, 2012, we recorded an impairment of assets charge of \$3,071 to reduce the carrying value of one of our properties to its estimated sale price less costs to sell. During the six months ended June 30, 2011, we recorded impairment of assets charges of \$166 to reduce the carrying value of two of our properties to their estimated sales prices less costs to sell.

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(dollar amounts in thousands, except per share data or as otherwise stated)

During the three and six months ended June 30, 2012, pursuant to the terms of our existing leases with Five Star, we purchased \$7,775 and \$14,093, respectively, of improvements made to our properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star increased by approximately \$625 and \$1,137, respectively.

The allocation of the purchase price of certain of our acquisitions described above is based upon preliminary estimates of the fair value of assets acquired and liabilities assumed. Consequently, amounts preliminarily allocated to assets acquired and liabilities assumed could change significantly from those used in these condensed consolidated financial statements.

Note 4. Unrealized Gain / Loss on Investments

As of June 30, 2012, we owned 250,000 common shares of CommonWealth REIT, or CWH, and 4,235,000 common shares of Five Star, which are carried at fair market value in other assets in our condensed consolidated balance sheets. Cumulative other comprehensive income shown in our condensed consolidated balance sheets includes the net unrealized loss on investments determined as the net difference between the value at quoted market prices of our CWH and Five Star shares on June 30, 2012 (\$19.12 and \$3.07 per share, respectively) and our weighted average costs on the dates we acquired these shares, as adjusted to reflect any share splits or combinations (\$26.00 and \$3.36 per share, respectively).

Note 5. Loan Receivable

In May 2011, we and Five Star entered into a loan agreement, or the Bridge Loan, under which we agreed to lend Five Star up to \$80,000 to fund a portion of Five Star's purchase of a portfolio of six senior living communities. By September 30, 2011, Five Star had completed its acquisition of these communities and had borrowed all \$80,000 of this Bridge Loan. By December 31, 2011, Five Star had repaid \$42,000 of those borrowings. In April 2012, Five Star paid the remaining balance of \$38,000, resulting in the termination of this Bridge Loan. The Bridge Loan was secured by mortgages on three of the senior living communities that Five Star acquired and on four other senior living communities owned by Five Star. The Bridge Loan bore interest at a rate equal to the annual rates of interest applicable to our borrowings under our revolving credit facility, plus 1%. We recognized interest income from this Bridge Loan of \$39 and \$314 for the three and six months ended June 30, 2012, respectively, and \$58 for the three and six months ended June 30, 2011, which are included in interest and other income in our condensed consolidated statements of income and comprehensive income.

Note 6. Indebtedness

Our principal debt obligations at June 30, 2012 were: our \$750,000 unsecured revolving credit facility; three public issuances of unsecured senior notes, including: \$250,000 principal amount due 2016 at an annual interest rate of 4.30%, \$200,000 principal amount due 2020 at an annual interest rate of 6.75% and \$300,000 principal amount due 2021 at an annual interest rate of 6.75%; and \$849,511 aggregate principal amount of mortgages secured by 63 of our properties with maturity dates from 2013 to 2043. The 63 mortgaged properties had a carrying value of \$1,100,704 at June 30, 2012. We also have two properties subject to capital leases totaling \$14,005 at June 30, 2012; these two properties had a carrying value of \$15,760 at June 30, 2012.

In connection with the acquisitions discussed in Note 3 above, during the six months ended June 30, 2012, we assumed \$56,789 of mortgage debt with a weighted average interest rate of 5.54% and a weighted average maturity of 5.9 years. We recorded the assumed mortgages at their fair value which

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

approximated their outstanding principal balances. We determined the fair value of the assumed mortgages using a market approach based upon Level 2 inputs (significant other observable inputs) in the fair value hierarchy.

In January 2012, we repaid all \$225,000 of our 8.625% unsecured senior notes at their maturity date. We funded this repayment using borrowings under our revolving credit facility.

In February 2012, we paid in full a mortgage loan encumbering one of our properties that had a principal balance of approximately \$12,400, an interest rate of 6.03% and a maturity date in March 2012. In April 2012, we paid in full 17 mortgage loans encumbering 17 of our properties that had an aggregate principal balance of \$32,576, weighted average interest rate of 6.95% and maturity dates in June and July 2012. In June 2012, we paid in full a mortgage loan encumbering one of our properties that had a principal balance of approximately \$3,140, an interest rate of 6.07% and a maturity date in September 2012.

In July 2012, we sold \$350,000 of senior unsecured notes. The notes require interest at a fixed rate of 5.625% per annum and are due in 2042. Net proceeds from this sale of the notes, after underwriting discounts, fees and other expenses were approximately \$338,800. Interest on the notes is payable quarterly in arrears. We used a part of the net proceeds of this offering to repay borrowings under our revolving credit facility and we expect to apply the remaining net proceeds to prepay the variable portion of our Federal National Mortgage Association, or FNMA, secured term loan and for general business purposes, which may include funding future acquisitions of properties.

The interest rate payable for amounts drawn under our \$750,000 revolving credit facility is LIBOR plus 160 basis points, subject to adjustments based on our credit ratings. We can borrow, repay and reborrow under the credit facility until maturity, and no principal repayment is due until maturity. The interest rate payable on borrowings under our revolving credit facility was 1.80% at June 30, 2012. In addition to interest, we pay certain fees to maintain this revolving credit facility and we amortize certain set up costs. Our revolving credit facility is available for acquisitions, working capital and general business purposes. As of June 30, 2012, we had \$360,000 outstanding and \$390,000 available under this revolving credit facility. Our revolving credit facility contains financial covenants that require us to maintain financial ratios and a minimum net worth. We believe we were in compliance with these covenants during the periods presented. Our revolving credit facility matures in June 2015 and includes an option for us to extend the facility for one year to June 2016 upon payment of a fee, and includes a feature under which maximum borrowings may be increased up to \$1,500,000, subject to certain conditions.

Note 7. Shareholders' Equity

On May 9, 2012, we paid a \$0.38 per share, or \$61,813, distribution to our common shareholders with respect to our operating results for the quarter ended March 31, 2012. On July 9, 2012, we declared a quarterly distribution of \$0.38 per share, or \$67,061, to our common shareholders of record on July 26, 2012, with respect to our operating results for the quarter ended June 30, 2012; we expect to pay this distribution on or about August 24, 2012.

On May 12, 2011, we paid a \$0.37 per share, or \$52,490, distribution to our common shareholders with respect to our operating results for the quarter ended March 31, 2011. On August 11, 2011, we paid a \$0.37 per share, or \$56,748, distribution to our common shareholders with respect to our operating results for the quarter ended June 30, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

Under the terms of our business management agreement with Reit Management & Research LLC, or RMR, on March 29, 2012, we issued 20,462 common shares in payment of an incentive fee of approximately \$453 for services rendered to us by RMR during 2011.

On May 17, 2012, we granted 2,000 common shares of beneficial interest, par value \$.01 per share, valued at \$20.48 per share, the closing price of our common shares on the New York Stock Exchange, or the NYSE, on that day, to each of our five Trustees.

In July 2012, we issued 13,800,000 common shares in a public offering, raising net proceeds of approximately \$287,100. We used the net proceeds of this offering to repay borrowings outstanding under our revolving credit facility.

Note 8. Fair Value of Assets and Liabilities

The following table presents certain of the assets and liabilities that are measured at fair value on a recurring and non recurring basis at June 30, 2012 categorized by the level of inputs used in the valuation of each asset or liability.

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets held for sale ⁽¹⁾	\$ 1,715	\$ —	\$ 1,715
Long-lived assets held and used ⁽²⁾	\$ 1,982	\$ —	\$ 1,982
Investments in available for sale securities ⁽³⁾	\$ 17,781	\$ 17,781	\$ —
Unsecured senior notes ⁽⁴⁾	\$ 823,480	\$ 823,480	\$ —

- (1) Assets held for sale consist of two of our properties that we expect to sell that are reported at fair value. We used offers to purchase the properties made by third parties or comparable sales transactions (Level 2 inputs) to determine the fair value of these properties. We have previously recorded cumulative impairments of approximately \$8,621 to these properties in order to reduce their book values to fair value.
- (2) Long-lived assets held and used consist of one of our properties. We used broker information and comparable sales transactions (Level 2 inputs) to determine the fair value of this property and recognized an impairment of assets charge of \$3,071 during the six months ended June 30, 2012 to reduce its carrying value to the amount stated.
- (3) Our investments in available for sale securities include our 250,000 common shares of CWH and 4,235,000 common shares of Five Star. The fair values of these shares are based on quoted prices at June 30, 2012 in active markets (Level 1 inputs).
- (4) We estimate the fair values of our unsecured senior notes using an average of the bid and ask price of our then outstanding three issuances of senior notes (Level 1 inputs) on or about June 30, 2012. The fair values of these senior note obligations exceed their book values of \$741,412 by \$82,068 because these notes were trading at a premium to their face amounts.

In addition to the assets and liabilities described in the above table, our additional financial instruments include rents receivable, cash and cash equivalents, restricted cash, secured and unsecured debt and other

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

liabilities. The fair values of these additional financial instruments approximate their carrying values at June 30, 2012 based upon their liquidity, short term maturity, variable rate pricing or our estimate of fair value using discounted cash flow analyses and prevailing interest rates.

Note 9. Segment Reporting

We have three operating segments, of which two are reportable operating segments. The two reportable operating segments are: (i) short term and long term residential care communities that offer dining for residents and (ii) properties where medical related activities occur but where residential overnight stays and dining services are not provided, or MOB. Properties in the short term and long term residential care communities segment include leased and managed independent living communities, assisted living communities, skilled nursing facilities and rehabilitation hospitals. We earn rental income revenues from the tenants that lease and operate our leased communities and we earn fees and services revenues from the residents of our Managed Communities. Five Star began managing our Managed Communities for our account in June 2011. Properties in the MOB segment include those leased to medical providers, medical related businesses, clinics and biotech laboratory tenants. We earn rental income revenues from tenants of our MOB. The “All Other Operations” category in the following table includes amounts related to corporate business activities and the operating results of certain properties that offer fitness, wellness and spa services to members.

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

	For the Three Months Ended June 30, 2012			
	Short and Long Term Residential Care Communities	MOBs	All Other Operations	Consolidated
Revenues:				
Rental income	\$ 59,643	\$ 46,885	\$ 4,458	\$ 110,986
Residents fees and services	35,986	—	—	35,986
Total revenues	95,629	46,885	4,458	146,972
Expenses:				
Depreciation	21,065	13,217	948	35,230
Property operating expenses	26,244	14,490	—	40,734
General and administrative	—	—	8,068	8,068
Acquisition related costs	—	—	1,829	1,829
Total expenses	47,309	27,707	10,845	85,861
Operating income (loss)	48,320	19,178	(6,387)	61,111
Interest and other income	—	—	227	227
Interest expense	(12,976)	(381)	(14,763)	(28,120)
Equity in earnings of an investee	—	—	76	76
Income (loss) before income tax expense	35,344	18,797	(20,847)	33,294
Income tax expense	—	—	(43)	(43)
Net income (loss)	\$ 35,344	\$ 18,797	\$ (20,890)	\$ 33,251
Total assets	\$ 2,449,845	\$ 1,587,430	\$ 429,277	\$ 4,466,552

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

	For the Three Months Ended June 30, 2011			
	Short and Long Term Residential Care Communities	MOBs	All Other Operations	Consolidated
Rental income	\$ 57,186	\$ 38,658	\$ 4,474	\$ 100,318
Residents fees and services	844	—	—	844
Total revenues	58,030	38,658	4,474	101,162
Expenses:				
Depreciation	17,014	8,973	948	26,935
Property operating expenses	609	10,693	—	11,302
General and administrative	—	—	6,793	6,793
Acquisition related costs	—	—	2,814	2,814
Total expenses	17,623	19,666	10,555	47,844
Operating income (loss)	40,407	18,992	(6,081)	53,318
Interest and other income	—	—	244	244
Interest expense	(10,326)	(215)	(12,820)	(23,361)
Loss on early extinguishment of debt	—	—	(427)	(427)
Gain on sale of properties	21,236	79	—	21,315
Equity in earnings of an investee	—	—	46	46
Income (loss) before income tax expense	51,317	18,856	(19,038)	51,135
Income tax expense	—	—	(87)	(87)
Net income (loss)	<u>\$ 51,317</u>	<u>\$ 18,856</u>	<u>\$ (19,125)</u>	<u>\$ 51,048</u>
Total assets	<u>\$ 2,060,845</u>	<u>\$ 1,288,412</u>	<u>\$ 384,161</u>	<u>\$ 3,733,418</u>

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

	For the Six Months Ended June 30, 2012			
	Short and Long Term Residential Care Communities	MOBs	All Other Operations	Consolidated
Revenues:				
Rental income	\$ 118,467	\$ 93,146	\$ 8,878	\$ 220,491
Residents fees and services	71,554	—	—	71,554
Total revenues	190,021	93,146	8,878	292,045
Expenses:				
Depreciation	41,962	24,749	1,896	68,607
Property operating expenses	51,743	28,325	—	80,068
General and administrative	—	—	15,753	15,753
Acquisition related costs	—	—	2,517	2,517
Impairment of assets	—	3,071	—	3,071
Total expenses	93,705	56,145	20,166	170,016
Operating income (loss)	96,316	37,001	(11,288)	122,029
Interest and other income	—	—	709	709
Interest expense	(26,153)	(793)	(30,063)	(57,009)
Equity in earnings of an investee	—	—	121	121
Income (loss) before income tax expense	70,163	36,208	(40,521)	65,850
Income tax expense	—	—	(247)	(247)
Net income (loss)	<u>\$ 70,163</u>	<u>\$ 36,208</u>	<u>\$ (40,768)</u>	<u>\$ 65,603</u>
Total assets	<u>\$ 2,449,845</u>	<u>\$ 1,587,430</u>	<u>\$ 429,277</u>	<u>\$ 4,466,552</u>

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

	For the Six Months Ended June 30, 2011			
	Short and Long Term Residential Care Communities	MOBs	All Other Operations	Consolidated
Rental income	\$ 114,296	\$ 75,748	\$ 8,826	\$ 198,870
Residents fees and services	844	—	—	844
Total revenues	115,140	75,748	8,826	199,714
Expenses:				
Depreciation	33,743	17,657	1,896	53,296
Property operating expenses	609	21,126	—	21,735
General and administrative	—	—	12,949	12,949
Acquisition related costs	—	—	3,927	3,927
Impairment of assets	—	166	—	166
Total expenses	34,352	38,949	18,772	92,073
Operating income (loss)	80,788	36,799	(9,946)	107,641
Interest and other income	—	—	476	476
Interest expense	(20,599)	(432)	(25,076)	(46,107)
Loss on early extinguishment of debt	—	—	(427)	(427)
Gain on sale of properties	21,236	79	—	21,315
Equity in earnings of an investee	—	—	83	83
Income (loss) before income tax expense	81,425	36,446	(34,890)	82,981
Income tax expense	—	—	(158)	(158)
Net income (loss)	<u>\$ 81,425</u>	<u>\$ 36,446</u>	<u>\$ (35,048)</u>	<u>\$ 82,823</u>
Total assets	<u>\$ 2,060,845</u>	<u>\$ 1,288,412</u>	<u>\$ 384,161</u>	<u>\$ 3,733,418</u>

Note 10. Significant Tenant

Five Star is our former subsidiary and RMR provides management services to both us and Five Star. Rental income from Five Star represented 40.3% of our annualized rental income and the properties Five Star leases from us represent 44.5% of our investments, at cost, as of June 30, 2012. As of June 30, 2012, Five Star also manages a portfolio of 24 senior living communities for our account. These properties leased and managed by Five Star are included in our short and long term residential care communities segment. The following tables present summary financial information for Five Star for the three and six months ended June 30, 2012 and 2011, as reported in its Quarterly Report on Form 10-Q.

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

Operations	For the Three Months Ended June 30,	
	2012	2011
Total revenues	\$ 349,094	\$ 311,884
Operating income	6,611	8,072
Income from continuing operations	4,931	5,987
Net income	4,638	5,196

	For the Six Months Ended June 30,	
	2012	2011
Total revenues	\$ 695,215	\$ 619,500
Operating income	9,124	14,531
Income from continuing operations	5,677	11,896
Net income	5,007	9,329

Cash Flows	For the Six Months Ended June 30,	
	2012	2011
Cash provided by operating activities	\$ 30,748	\$ 31,445
Net cash used in discontinued operations	(316)	(2,365)
Cash used in investing activities	(22,057)	(69,354)
Cash (used in) provided by financing activities	(13,114)	62,662
Change in cash and cash equivalents	(4,739)	22,388
Cash and cash equivalents at beginning of period	28,374	20,770
Cash and cash equivalents at end of period	23,635	43,158

Financial Position	As of June 30,	
	2012	2011
Current assets	\$ 138,739	\$ 160,156
Non-current assets	442,946	321,395
Total indebtedness	109,226	73,975
Current liabilities	195,735	160,174
Non-current liabilities	99,981	91,748
Total shareholders' equity	285,969	229,629

The summary financial information of Five Star is presented to comply with applicable accounting regulations of the Securities and Exchange Commission, or SEC. References in these financial statements to the Quarterly Report on Form 10-Q for Five Star are included to show the source of the information only, and the information in Five Star's Quarterly Report on Form 10-Q is not incorporated by reference into these financial statements. See Note 11 for further information regarding our leases with Five Star.

SENIOR HOUSING PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollar amounts in thousands, except per share data or as otherwise stated)

Note 11. Related Person Transactions

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. Under our business management agreement with RMR, we acknowledge that RMR also provides management services to other companies, which include Five Star and CWH. One of our Managing Trustees, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Our other Managing Trustee, Mr. Adam Portnoy, is the son of Mr. Barry Portnoy, and an owner, President, Chief Executive Officer and a director of RMR. Each of our executive officers is also an officer of RMR, and our President and Chief Operating Officer, Mr. David Hegarty, is a director of RMR. Certain of Five Star's executive officers and CWH's executive officers are officers of RMR. Our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR provides management services. Mr. Barry Portnoy serves as a managing director or managing trustee of those companies and Mr. Adam Portnoy serves as a managing trustee of a majority of those companies.

Pursuant to our business management agreement with RMR, we incurred expenses of \$6,367 and \$5,572 for the three months ended June 30, 2012 and 2011, respectively, and \$12,727 and \$10,390 for the six months ended June 30, 2012 and 2011, respectively. These amounts are included in general and administrative expenses in our condensed consolidated statements of income and comprehensive income. In March 2012, we issued 20,462 common shares to RMR in satisfaction of the incentive fee RMR earned for services provided to us during 2011, in accordance with the terms of the business management agreement. In connection with our property management agreement with RMR, we incurred property management and construction supervision fees of \$1,424 and \$1,057 for the three months ended June 30, 2012 and 2011, respectively, and \$2,770 and \$2,081 for the six months ended June 30, 2012 and 2011, respectively. These amounts are included in property operating expenses or have been capitalized, as appropriate, in our condensed consolidated financial statements.

Five Star is our former 100% owned subsidiary. In 2001, we distributed substantially all of Five Star's then outstanding shares of common stock to our shareholders. We are Five Star's largest stockholder and, as of the date of this report, we owned 4,235,000 shares of common stock of Five Star, or approximately 8.8% of Five Star's outstanding shares of common stock. One of our Managing Trustees, Mr. Barry Portnoy, is also a managing director of Five Star. RMR provides management services to both us and Five Star.

Five Star is our largest tenant and manages several senior living communities for us. As of June 30, 2012, we leased 188 senior living communities and two rehabilitation hospitals to Five Star and Five Star managed 24 senior living communities for our account.

Under Five Star's leases with us, Five Star pays us rent consisting of minimum annual rent amounts plus percentage rent based on increases in gross revenues at certain properties. Five Star's total minimum annual rent payable to us under those leases as of June 30, 2012 was \$196,371, excluding percentage rent. We recognized total rent from Five Star of \$48,942 and \$46,789 for the three months ended June 30, 2012 and 2011, respectively, and \$97,753 and \$93,488 for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and December 31, 2011, our rents receivable from Five Star were \$17,518 and \$17,313, respectively, and are included in other assets on our condensed consolidated balance sheets. During the six months ended June 30, 2012, pursuant to the terms of our existing leases with Five Star, we purchased \$14,093 of improvements made to properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star increased by approximately \$1,137.

SENIOR HOUSING PROPERTIES TRUST
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Five Star began managing communities for our account in June 2011 in connection with our acquisition of certain senior living communities at that time. Since that time, we have acquired additional communities that are being managed by Five Star. Five Star manages our managed communities pursuant to long term management agreements. We and Five Star have entered into a pooling agreement that combines our management agreements with Five Star. The pooling agreement aggregates the determination of fees and expenses of the various communities that are subject to that pooling agreement, including determination of our return of our invested capital and Five Star's incentive fees. We incurred management fees of \$1,080 and \$2,148 for the three and six months ended June 30, 2012, respectively, and \$25 for the three and six months ended June 30, 2011, with respect to the communities Five Star manages for our account. We expect that we may enter into additional management arrangements with Five Star for senior living communities that we may acquire in the future on terms similar to those management arrangements we currently have with Five Star, including, as further disclosed in Note 3—Real Estate Properties and below, with respect to the 10 Communities we currently lease to Sunrise. Five Star's management of the 10 Communities we currently lease to Sunrise is subject to conditions and may not occur; there can be no assurances that Five Star will manage additional senior living communities for our account.

We currently lease 14 senior living communities to a subsidiary of Sunrise. As previously reported, in May 2012, we and Five Star entered into the Operations Transfer Agreement with Sunrise. Pursuant to the Operations Transfer Agreement, we and Sunrise agreed to accelerate the December 31, 2013 termination date of 10 of our leases with Sunrise, which leases relate to the 10 Communities. The Operations Transfer Agreement also contemplates that we will lease the 10 Communities to our TRSs and Five Star will begin to operate the 10 Communities as a manager for our account, pursuant to long term management agreements. The Operations Transfer Agreement provides that these transactions will occur when we and Five Star have obtained regulatory approvals to operate the applicable 10 Communities. We expect the long term management agreement with Five Star for each of the 10 Communities will be on terms substantially similar to the management agreements previously entered into between us and Five Star for communities that include assisted living units and which are owned by our TRSs and managed by Five Star, and may be included in our pooling agreement with Five Star for our managed communities.

In May 2012, we acquired a senior living community in South Carolina that we previously disclosed we had agreed to acquire, with 59 assisted living units, for approximately \$8,059, excluding closing costs, and entered into a long term management agreement with Five Star to manage this community for our account on terms substantially consistent with the terms of our other management agreements that we have previously entered into with Five Star for communities that include assisted living units. Also, in July 2012, we acquired a senior living community in South Carolina that we previously disclosed we had agreed to acquire, with 232 assisted living units, for approximately \$37,273, excluding closing costs, and entered into a long term management agreement with Five Star to manage this community for our account on terms substantially consistent with the terms of our other management agreements with Five Star for communities that include assisted living units and these management agreements were added to our pooling agreement with Five Star for our managed communities.

As discussed above in Note 5—Loan Receivable, in May 2011, we and Five Star entered into the Bridge Loan, under which we lent to Five Star \$80,000 to fund a portion of Five Star's purchase of six senior living communities. In April 2012, Five Star repaid in full the \$38,000 principal amount then outstanding under the Bridge Loan, resulting in the termination of the Bridge Loan. We recognized interest income from the Bridge Loan of \$39 and \$314 for the three and six months ended June 30, 2012, respectively, and we recognized interest income of \$58 for the three and six months ended June 30, 2011.

SENIOR HOUSING PROPERTIES TRUST
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(dollar amounts in thousands, except per share data or as otherwise stated)

CWH was formerly our parent. We were spun off to CWH's shareholders in 1999. As of the date of this report, we owned 250,000 common shares of CWH. One of our Managing Trustees, Mr. Barry Portnoy, is a managing trustee of CWH. Our other Managing Trustee, Mr. Adam Portnoy, is a managing trustee and the President of CWH. In addition, one of our Independent Trustees, Mr. Frederick Zeytoonjian, is also an independent trustee of CWH. RMR provides management services to both us and CWH.

As previously reported, CWH previously granted us a right of first refusal to purchase certain of CWH's properties if CWH sought to sell them. Between November 2010 and January 2011, we purchased 27 properties (approximately 2,803,000 square feet of rental space), which were majority leased as MOBs from CWH for total sale prices of \$470,000, excluding closing costs. In September 2011, we acquired from CWH 13 additional properties (approximately 1,310,000 square feet), which were located in eight states and majority leased as MOBs for total sale prices of \$167,000, excluding closing costs. Certain of the properties included in these purchases were subject to the right of first refusal granted to us by CWH referred to above. In connection with our September 2011 purchase of 13 properties from CWH, we and CWH terminated our existing right of first refusal, as we have purchased substantially all of the properties that were subject to that right of first refusal.

We, RMR, Five Star, CWH and four other companies to which RMR provides management services each currently own 12.5% of Affiliates Insurance Company, or AIC, an Indiana insurance company. One of those four other companies became a shareholder of AIC during the quarter ended June 30, 2012. All of our Trustees and nearly all of the trustees and directors of the other AIC shareholders 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. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Trustees are also directors of AIC. Our investment in AIC had a carrying value of \$5,408 and \$5,291 as of June 30, 2012 and December 31, 2011, respectively. We recognized income of \$76 and \$46 for the three months ended June 30, 2012 and 2011, respectively, and \$121 and \$83 for the six months ended June 30, 2012 and 2011, respectively, related to this investment. We and the other shareholders of AIC have purchased property insurance providing \$500,000 of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. This program was modified and extended in June 2012 for a one year term and we paid a premium, including taxes and fees, of \$4,438 in connection with that renewal, which amount may be adjusted from time to time in response to our acquisition and disposition of properties that are included in this program. We are also currently investigating the possibilities to expand our insurance relationships with AIC to include other types of insurance. We may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we are not obligated to do so. By participating in this insurance business with RMR and the other companies to which RMR provides management services, we expect that we may benefit financially by possibly reducing our insurance expenses or by realizing our pro-rata share of any profits of this insurance business.

For further information about these and other such relationships and related person transactions, please see elsewhere in this Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Person Transactions" in Part I, Item 2 and "Warning Concerning Forward Looking Statements," and our Annual Report, our Proxy Statement for our 2012 Annual Meeting of Shareholders dated February 21, 2012, or our Proxy Statement, and our other filings with the SEC, including Note 5 to our consolidated financial statements included in our Annual Report, the sections captioned "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Person Transactions" and "Warning Concerning Forward Looking Statements" of our Annual Report and the section captioned "Related Person

SENIOR HOUSING PROPERTIES TRUST
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Transactions and Company Review of Such Transactions” and the information regarding our Trustees and executive officers in our Proxy Statement. In addition, please see the section captioned “Risk Factors” of our Annual Report for a description of risks that may arise from these transactions and relationships. Our filings with the SEC, including our Annual Report and our Proxy Statement, are available at the SEC’s website at www.sec.gov. In addition, copies of certain of our agreements with these parties, including our business management agreement and property management agreement with RMR, our leases, forms of management agreements and related pooling agreement and Bridge Loan with Five Star, various agreements we have with CWH and our shareholders agreement with AIC and its shareholders, are also publicly available as exhibits to our public filings with the SEC and accessible at the SEC’s website.

Note 12. Income Taxes

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, 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 do, however, lease certain managed senior living communities to our wholly owned TRSs that, unlike most of our subsidiaries, file a separate consolidated corporate income tax return and are subject to federal and state income taxes. Our consolidated income tax provision includes the income tax provision related to the operations of our TRSs and certain state income taxes we incur despite our REIT status. During the three and six months ended June 30, 2012, we recognized current tax expense of \$43 and \$247, respectively. During the three and six months ended June 30, 2011, we recognized current tax expense of \$87 and \$158, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and our Annual Report.

PORTFOLIO OVERVIEW

The following tables present an overview of our portfolio (dollars in thousands except per living unit / bed or square foot data):

<u>(As of June 30, 2012)</u>	<u>Number of Properties</u>	<u>Number of Units/Beds or Square Feet</u>	<u>Investment Carrying Value ⁽¹⁾</u>	<u>% of Total Investment</u>	<u>Investment per Unit / Bed or Square Foot ⁽²⁾</u>	<u>Q2 2012 NOI ⁽³⁾</u>	<u>% of Q2 2012 Total NOI</u>
<u>Facility Type</u>							
Independent living communities ⁽⁴⁾	56	14,163	\$ 1,647,313	33.9%	\$ 116,311	\$ 35,493	33.4%
Assisted living facilities ⁽⁴⁾	147	10,642	1,239,770	25.5%	\$ 116,498	26,962	25.4%
Skilled nursing facilities ⁽⁴⁾	48	5,024	206,735	4.2%	\$ 41,149	4,274	4.0%
Rehabilitation hospitals	2	364	73,692	1.5%	\$ 202,451	2,656	2.5%
Wellness centers	10	812,000 sq. ft.	180,017	3.7%	\$ 222	4,458	4.2%
MOBs	112	8,066,000 sq. ft.	1,518,863	31.2%	\$ 188	32,395	30.5%
Total	375		\$ 4,866,390	100.0%		\$ 106,238	100.0%
<u>Tenant / Operator / Managed Properties</u>							
Five Star (Lease No. 1)	89	6,539	\$ 674,880	13.9%	\$ 103,208	\$ 14,026	13.2%
Five Star (Lease No. 2)	48	6,140	561,645	11.5%	\$ 91,473	13,186	12.4%
Five Star (Lease No. 3)	28	5,618	656,871	13.5%	\$ 116,923	15,794	14.9%
Five Star (Lease No. 4)	25	2,614	271,419	5.6%	\$ 103,833	5,936	5.6%
Sunrise / Marriott ⁽⁵⁾	14	4,091	325,165	6.7%	\$ 79,483	7,681	7.2%
Brookdale	18	894	61,122	1.3%	\$ 68,369	1,754	1.6%
5 private companies (combined)	7	959	36,087	0.7%	\$ 37,630	1,266	1.2%
TRS Managed ⁽⁶⁾	24	3,338	580,321	11.9%	\$ 173,853	9,742	9.2%
Wellness centers	10	812,000 sq. ft.	180,017	3.7%	\$ 222	4,458	4.2%
Multi-tenant MOBs	112	8,066,000 sq. ft.	1,518,863	31.2%	\$ 188	32,395	30.5%
Total	375		\$ 4,866,390	100%		\$ 106,238	100%

Tenant / Managed Property Operating Statistics ⁽⁷⁾

	<u>Rent Coverage</u>		<u>Occupancy</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Five Star (Lease No. 1)	1.17x	1.31x	84.1%	86.5%
Five Star (Lease No. 2)	1.38x	1.39x	82.6%	82.1%
Five Star (Lease No. 3)	1.40x	1.52x	85.7%	87.2%
Five Star (Lease No. 4)	1.20x	1.12x	86.5%	83.4%
Sunrise / Marriott ⁽⁵⁾	1.53x	1.46x	89.6%	89.8%
Brookdale	2.25x	2.22x	92.7%	92.6%
5 private companies (combined)	2.78x	2.50x	83.8%	84.1%
TRS Managed ⁽⁶⁾	NA	NA	86.5%	80.8%
Wellness centers	2.16x	2.16x	100.0%	100.0%
Multi-tenant MOBs ⁽⁸⁾	NA	NA	94.5%	96.6%

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- (1) Amounts are before depreciation, but after impairment write downs, if any.
 - (2) Represents investment carrying value divided by the number of living units, beds or leased square feet at June 30, 2012.
 - (3) Net operating income, or NOI, is defined and calculated by reportable segment and reconciled to net income below in this Item 2.
 - (4) Senior living properties are categorized by the type of living units or beds which constitute a majority of the living units or beds at the property.
 - (5) Marriott International, Inc. guarantees the lessee's obligations under this lease. In December 2011, Sunrise extended the leases to December 31, 2018 for four of these senior living communities. In May 2012, we entered agreements with Sunrise for early terminations of leases for the remaining 10 senior living communities currently leased to Sunrise and which were scheduled to terminate at the end of their current term of December 31, 2013; we expect the lease terminations and the transfer of these 10 senior living communities' operations to our TRS and Five Star management to occur on various dates during the remainder of 2012.
 - (6) These 24 senior living communities acquired since June 2011 are leased to our TRSs and managed by Five Star.
 - (7) Operating data for TRS managed properties are presented for the 12 month period ended or, if shorter, from the date of acquisitions through June 30, 2012 and operating data for multi-tenant MOBs are presented as of June 30, 2012 and 2011; operating data for other properties and tenants are presented based upon the operating results provided by our tenants for the 12 months ended March 31, 2012 and 2011, or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our tenants' operations of our properties, before subordinated charges, divided by minimum rents payable to us. We have not independently verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties.
 - (8) Our MOB leases include both triple-net leases where, in addition to paying fixed rents, the tenants assume the obligation to operate and maintain the properties at their expense, and some net and modified gross leases where we are responsible to operate and maintain the properties and we charge tenants for some or all of the property operating costs. A small percentage of our MOB leases are so-called "full-service" leases where we receive fixed rent from our tenants and no reimbursement for our property operating costs.

The following tables set forth information regarding our lease expirations as of June 30, 2012 (dollars in thousands):

Year	Annualized Rental Income ⁽¹⁾				Percent of Total Annualized Rental Income Expiring	Cumulative Percentage of Annualized Rental Income Expiring
	Short and Long Term Residential Care Communities ⁽²⁾	MOBs	Wellness Centers	Total		
2012	\$ —	\$ 18,766	\$ —	\$ 18,766	4.1%	4.1%
2013	18,303	15,844	—	34,147	7.4%	11.5%
2014	—	22,433	—	22,433	4.9%	16.4%
2015	3,034	18,023	—	21,057	4.6%	21.0%
2016	—	15,539	—	15,539	3.4%	24.4%
2017	33,034	25,308	—	58,342	12.7%	37.1%
2018	14,445	6,913	—	21,358	4.6%	41.7%
2019	599	27,983	—	28,582	6.2%	47.9%
2020	—	7,659	—	7,659	1.7%	49.6%
Thereafter	178,493	36,709	17,536	232,738	50.4%	100.0%
Total	<u>\$ 247,908</u>	<u>\$ 195,177</u>	<u>\$ 17,536</u>	<u>\$ 460,621</u>	<u>100.0%</u>	

Average remaining lease term for all properties (weighted by annualized rental income): 9.2 years

- ⁽¹⁾ Annualized rental income is rents pursuant to existing leases as of June 30, 2012, including estimated percentage rent adjustments, straight line rent adjustments, recurring expense reimbursements for certain net and modified gross leases and excluding lease value amortization at certain of our MOBs and wellness centers.
- ⁽²⁾ Excludes rent received from our TRSs. If the NOI from our TRSs (three months ended June 30, 2012, annualized) were included in the foregoing table, the percent of total annualized rental income expiring would be: 2012 – 3.8%; 2013 – 6.8%; 2014 – 4.5%; 2015 – 4.2%, 2016 – 3.1%; 2017 – 11.7%; 2018 – 4.3%; 2019 – 5.7%; 2020 – 1.5%; and thereafter – 54.4%.

Year	Number of Tenants				Percent of Total Number of Tenancies Expiring	Cumulative Percentage of Number of Tenancies Expiring
	Short and Long Term Residential Care Communities ⁽¹⁾	MOBs	Wellness Centers	Total		
2012	—	65	—	65	12.3%	12.3%
2013	1	70	—	71	13.4%	25.7%
2014	—	88	—	88	16.6%	42.3%
2015	3	76	—	79	14.9%	57.2%
2016	—	63	—	63	11.9%	69.1%
2017	2	48	—	50	9.5%	78.6%
2018	1	31	—	32	6.0%	84.6%
2019	1	26	—	27	5.1%	89.7%
2020	—	16	—	16	3.0%	92.7%
Thereafter	4	32	2	38	7.3%	100.0%
Total	12	515	2	529	100.0%	

⁽¹⁾ Excludes our TRSs as tenants.

Year	Number of Living Units / Beds or Square Feet with Leases Expiring							
	Living Units / Beds ⁽¹⁾			Square Feet				
	Short and Long Term Residential Care Communities (Units / Beds)	Percent of Total Living Units / Beds Expiring	Cumulative Percentage of Living Units / Beds Expiring	MOBs (Square Feet)	Wellness Centers (Square Feet)	Total Square Feet	Percent of Total Square Feet Expiring	Cumulative Percent of Total Square Feet Expiring
2012	—	0.0%	0.0%	427,278	—	427,278	5.1%	5.1%
2013	2,472	9.2%	9.2%	601,220	—	601,220	7.1%	12.2%
2014	—	0.0%	9.2%	995,083	—	995,083	11.8%	24.0%
2015	423	1.6%	10.8%	799,482	—	799,482	9.5%	33.5%
2016	—	0.0%	10.8%	880,401	—	880,401	10.4%	43.9%
2017	3,508	13.1%	23.9%	861,903	—	861,903	10.2%	54.1%
2018	1,619	6.0%	29.9%	343,859	—	343,859	4.1%	58.2%
2019	175	0.7%	30.6%	904,037	—	904,037	10.8%	69.0%
2020	—	0.0%	30.6%	465,440	—	465,440	5.5%	74.5%
Thereafter	18,658	69.4%	100.0%	1,342,067	812,000	2,154,067	25.5%	100.0%
Total	26,855	100.0%		7,620,770	812,000	8,432,770	100.0%	

⁽¹⁾ Excludes 3,338 living units leased to our TRSs. If the number of living units / beds included in our TRS leases were included in the foregoing table, the percent of total living units / beds expiring would be: 2012 – 0.0%; 2013 – 8.2%; 2014 – 0.0%; 2015 – 1.4%; 2016 – 0.0%; 2017 – 11.6%; 2018 – 5.4%; 2019 – 0.6%; 2020 – 0.0%; and thereafter – 72.8%.

During the three months ended June 30, 2012, we entered into MOB lease renewals for 185,000 square feet and new leases for 26,000 square feet, at weighted average rental rates that were 3.0% below rents previously charged for the same space. These leases have average net rent of \$29.34 per square foot. Average lease terms for leases entered into during the second quarter of 2012 were 5.2 years. Commitments for tenant improvement and leasing costs for leases we entered into during the second quarter of 2012 totaled \$2.2 million, or \$10.64 per square foot on average (approximately \$2.05 per square foot per year of the lease term).

RESULTS OF OPERATIONS (dollars and square feet in thousands, unless otherwise noted)

We have three operating segments, of which two are reportable operating segments. The two reportable operating segments are: (i) short term and long term residential care communities that offer dining for residents and (ii) properties where medical related activities occur but where residential overnight stays and dining services are not provided, or MOBs. Properties in the short term and long term residential care communities segment include leased and managed independent living communities, assisted living communities, skilled nursing facilities and rehabilitation hospitals. We earn rental income revenues from the tenants that lease and operate our leased communities and we earn fees and services revenues from the residents of our Managed Communities. Five Star began managing our Managed Communities for our account in June 2011. Properties in the MOB segment include those leased to medical providers, medical related businesses, clinics and biotech laboratory tenants. We earn rental income revenues from tenants of our MOBs. The “All Other Operations” category in the following table includes amounts related to corporate business activities and the operating results of certain properties that offer fitness, wellness and spa services to members.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Short term and long term residential care communities	\$ 95,629	\$ 58,030	\$ 190,021	\$ 115,140
MOBs	46,885	38,658	93,146	75,748
All other operations	4,458	4,474	8,878	8,826
Total revenues	<u>\$ 146,972</u>	<u>\$ 101,162</u>	<u>\$ 292,045</u>	<u>\$ 199,714</u>
Net income:				
Short term and long term residential care communities	\$ 35,344	\$ 51,317	\$ 70,163	\$ 81,425
MOBs	18,797	18,856	36,208	36,446
All other operations	(20,890)	(19,125)	(40,768)	(35,048)
Net income	<u>\$ 33,251</u>	<u>\$ 51,048</u>	<u>\$ 65,603</u>	<u>\$ 82,823</u>

The following sections analyze and discuss the results of operations of each of our segments for the periods presented.

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011 (dollars in thousands):

Short and long term residential care communities :

	All Properties As of the Three Months Ended June 30,		Comparable Properties ⁽¹⁾ As of the Three Months Ended June 30,	
	2012	2011	2012	2011
Total properties	253	238	223	223
# of units / beds	30,193	27,596	26,176	26,176
Occupancy:				
Leased communities ⁽²⁾	85.4%	86.0%	85.3%	85.7%
TRS managed communities ⁽³⁾	87.7%	80.8%	—	—
Rent coverage ⁽²⁾	1.39x	1.44x	1.41x	1.45x
Rental income ⁽²⁾	\$ 59,643	\$ 57,186	\$ 57,730	\$ 56,419
Residents fees and services ⁽³⁾	\$ 35,986	\$ 844	\$ —	\$ —

⁽¹⁾ Consists of short and long term residential care communities we have owned continuously since April 1, 2011.

⁽²⁾ Excludes rents and occupancy, as applicable, from our Managed Communities. All tenant operating data presented are based upon the operating results provided by our tenants for the 12 months ended March 31, 2012 and 2011, or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our triple-net lease tenants' operations of our properties, before subordinated charges, divided by triple-net lease minimum rents payable to us. We have not independently

- (3) verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties. Represents the average occupancy for our 24 Managed Communities for the three month period ended or, if shorter, from the date of acquisitions through June 30, 2012 and our revenues for the three months ended June 30, 2012.

Short and long term residential care communities, all properties :

	Three Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 59,643	\$ 57,186	\$ 2,457	4.3%
Residents fees and services ⁽¹⁾	35,986	844	35,142	4163.7%
Property operating expenses ⁽¹⁾	(26,244)	(609)	(25,635)	(4209.4)%
Net operating income (NOI)	69,385	57,421	11,964	20.8%
Depreciation expense	(21,065)	(17,014)	(4,051)	(23.8)%
Operating income	48,320	40,407	7,913	19.6%
Interest expense	(12,976)	(10,326)	(2,650)	(25.7)%
Gain on sale of properties	—	21,236	(21,236)	—
Net income	\$ 35,344	\$ 51,317	\$ (15,973)	(31.1)%

(1) Includes data for our Managed Communities.

Rental income. Rental income increased because of rents from our acquisition of five communities during the second quarter of 2011 for approximately \$89,600 and one community during the third quarter of 2011 for approximately \$10,235 which are leased by Five Star and our purchase of approximately \$36,500 of improvements made to our properties which are leased by Five Star since April 1, 2011, partially offset by a reduction in rental income resulting from the sale of five properties during the second quarter of 2011 for approximately \$38,625. Rental income includes non-cash straight line rent adjustments totaling approximately \$1,176 and \$508 for the three months ended June 30, 2012 and 2011, respectively. Rental income increased year over year on a comparable basis because of improvement purchases from Five Star at certain of the 223 communities we have owned continuously since April 1, 2011.

Residents fees and services. Residents fees and services are the revenues earned at our 24 Managed Communities that we acquired for approximately \$587,074 since June 2011, which are leased to our TRSs and managed for our account by Five Star. We recognize these revenues as services are provided. Lease agreements with residents generally have a term of one year and are cancelable by the residents with 30 days' notice.

Property operating expenses. Property operating expenses include expenses incurred at our 24 Managed Communities, which are leased to our TRSs and which we acquired since June 2011. Property operating expenses consist of management fees, real estate taxes, utility expense, salaries and benefits of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties.

Net operating income. NOI increased because of the changes in rental income, residents fees and services and property operating expenses described above. The reconciliation of NOI to net income for our short and long term residential care communities segment is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in “Non-GAAP Financial Measures”.

Depreciation expense. Depreciation expense increased as a result of our acquisition of 30 communities since April 1, 2011 and our purchase of improvements made to our properties which are leased by Five Star since April 1, 2011, partially offset by the sale of five properties during the second quarter of 2011.

Interest expense. Interest expense for our short and long term residential care communities arises from mortgage debt secured by certain of these properties. The increase in interest expense is the result of the assumption of \$204,000 of mortgage debt in connection with certain of our 2011 acquisitions occurring in the second, third and fourth quarter of that year, and the assumption of \$4,789 of mortgage debt in connection with a May 2012 acquisition, partially offset by the repayment of one mortgage loan in February 2012 that had a principal balance of approximately \$12,400 and an interest rate of 6.03%, the repayment of 17 mortgage loans in the second quarter of 2012 that had a total principal balance of approximately \$33,400 and a weighted average interest rate of 6.89%, the amortization of the principal balance of our mortgage debt and the reduction in the variable rate of interest applicable to one mortgage debt.

Gain on sale of properties. Gain on sale of properties is a result of the sale of five senior living communities during the second quarter of 2011.

MOBs:

	All Properties		Comparable Properties ⁽¹⁾	
	As of the Three Months		As of the Three Months	
	Ended June 30,		Ended June 30,	
	2012	2011	2012	2011
Total properties	112	91	87	87
Total square feet ⁽²⁾	8,066	6,147	5,972	5,972
Occupancy ⁽³⁾	94.5%	96.6%	94.2%	96.8%
Rental income	\$ 46,885	\$ 38,658	\$ 38,283	\$ 38,405
Property operating expenses	\$ 14,490	\$ 10,693	\$ 10,584	\$ 10,527

(1) Consists of MOBs we have owned continuously since April 1, 2011.

(2) Prior periods exclude space remeasurements made during the periods presented.

(3) MOB occupancy includes (i) space being fitted out for occupancy pursuant to existing leases and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants.

MOBs, all properties:

	Three Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 46,885	\$ 38,658	\$ 8,227	21.3%
Property operating expenses	(14,490)	(10,693)	(3,797)	(35.5)%
Net operating income (NOI)	32,395	27,965	4,430	15.8%
Depreciation expense	(13,217)	(8,973)	(4,244)	(47.3)%
Operating income	19,178	18,992	186	1.0%
Interest expense	(381)	(215)	(166)	(77.2)%
Gain on sale of properties	—	79	(79)	—
Net income	\$ 18,797	\$ 18,856	\$ (59)	(0.3)%

Rental income. Rental income increased because of rents from 25 MOBs we acquired for approximately \$346,820 since April 1, 2011, partially offset by the sale of two MOBs for approximately \$835 during the second quarter of 2011. Rental income includes non-cash straight line rent adjustments totaling \$1,663 and \$1,982 and amortization of approximately \$661 and \$99 of acquired real estate leases and obligations for the three months ended June 30, 2012 and 2011, respectively.

Property operating expenses. Property operating expenses consist of property management fees, real estate taxes, utility expense, salaries and benefit costs of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties. Property operating expenses increased because of our MOB acquisitions since April 1, 2011, partially offset by the sale of two MOBs during the second quarter of 2011.

Net operating income. NOI increased because of the changes in rental income and property operating expenses described above. The reconciliation of NOI to net income for our MOB segment is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in “Non-GAAP Financial Measures”.

Depreciation expense. Depreciation expense increased because of our MOB acquisitions since April 1, 2011, partially offset by the sale of two MOBs during the second quarter of 2011.

Interest expense. Interest expense for our MOBs arises from mortgage debt secured by certain of these properties. The change in interest expense is the result of our assumption of \$13,300 of mortgage debt in connection with our acquisition of two MOBs in July and November 2011 and our assumption of \$52,000 of mortgage debt in connection with our acquisition of one MOB in June 2012, partially offset by the repayment of one mortgage loan in April 2012 that had a principal balance of approximately \$2,330 and an interest rate of 6.73% and the amortization of our mortgage debt.

Gain on sale of properties. Gain on sale of properties is a result of the sale of two MOBs during the second quarter of 2011.

MOBs, comparable properties (MOBs we have owned continuously since April 1, 2011):

	Three Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 38,283	\$ 38,405	\$ (122)	(0.3)%
Property operating expenses	(10,584)	(10,527)	(57)	(0.5)%
Net operating income (NOI)	27,699	27,878	(179)	(0.6)%
Depreciation expense	(10,734)	(8,953)	(1,781)	(19.9)%
Operating income	16,965	18,925	(1,960)	(10.4)%
Interest expense	(179)	(215)	36	16.7%
Net income	\$ 16,786	\$ 18,710	\$ (1,924)	(10.3)%

Rental income. Rental income includes non-cash straight line rent adjustments totaling \$1,197 and \$1,975 and amortization of approximately \$1,328 and \$103 of acquired real estate leases and obligations for the three months ended June 30, 2012 and 2011, respectively.

Property operating expenses. Property operating expenses consist of property management fees, real estate taxes, utility expense, salaries and benefit costs of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties. Property operating expenses increased slightly due to an increase in real estate taxes, partially offset by lower utility expenses.

Net operating income. NOI decreased because of the changes in rental income and property operating expenses described above. The reconciliation of NOI to net income for our MOB segment for comparable properties is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in “Non-GAAP Financial Measures”.

Depreciation expense. Depreciation expense increased primarily because of improvements we made on certain of these properties since April 1, 2011, the amortization of leasing costs and an increase in amortization of above and below market lease adjustments that we amortize over the respective lease terms.

Interest expense. Interest expense for our MOBs arises from mortgage debt secured by certain of these properties. The change in interest expense is the result of the repayment of one mortgage loan in April 2012 that had a principal balance of approximately \$2,330 and an interest rate of 6.73% and the amortization of our mortgage debt.

All other operations : ⁽¹⁾

	Three Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 4,458	\$ 4,474	\$ (16)	(0.4)%
Expenses:				
Depreciation	948	948	—	—
General and administrative	8,068	6,793	1,275	18.8%
Acquisition related costs	1,829	2,814	(985)	(35.0)%
Total expenses	10,845	10,555	290	2.7%
Operating loss	(6,387)	(6,081)	(306)	(5.0)%
Interest and other income	227	244	(17)	(7.0)%
Interest expense	(14,763)	(12,820)	(1,943)	(15.2)%
Loss on early extinguishment of debt	—	(427)	427	—
Equity in earnings of an investee	76	46	30	65.2%
Loss before income tax expense	(20,847)	(19,038)	(1,809)	(9.5)%
Income tax expense	(43)	(71)	28	39.4%
Net loss	\$ (20,890)	\$ (19,109)	\$ (1,781)	(9.3)%

⁽¹⁾ All other operations includes our wellness center operations that we do not consider a significant, separately reportable segment of our business and corporate business activities, and our operating expenses that are not attributable to a reportable specific segment.

Rental income. Rental income includes non-cash straight line rent adjustments totaling approximately \$365 and amortization of approximately \$55 of acquired real estate leases and obligations in both the three months ended June 30, 2012 and 2011.

Depreciation expense. Depreciation expense remained consistent as there were no wellness center acquisitions nor capital improvement funding for the three months ended June 30, 2012 and 2011 and we generally depreciate our long lived wellness center assets on a straight line basis.

General and administrative expense. General and administrative expenses consist of fees pursuant to our business management agreement with RMR, equity compensation expense, legal and accounting fees and other costs relating to our status as a publicly traded company. General and administrative expenses increased principally as a result of acquisitions of senior living communities and MOB's for approximately \$1,022,400 since April 1, 2011, partially offset by the sale of seven properties during the second quarter of 2011 for approximately \$39,460.

Acquisition related costs. Acquisition related costs represent legal and due diligence costs incurred in connection with our acquisition activity during the three months ended June 30, 2012 and 2011. Acquisition

related costs decreased because of a lower number and value of senior living and MOB acquisitions during the three months ended June 30, 2012 than the prior year period.

Interest and other income. The decrease in interest and other income is mainly due to a reduction in interest received from our Bridge Loan with Five Star that was terminated in April 2012. Interest and other income also includes interest on our investable cash and dividend income related to the 250,000 common shares of CWH that we own.

Interest expense. Interest expense increased because of our issuance of \$300,000 of unsecured senior notes with an interest rate of 6.75% in December 2011 and greater amounts outstanding under our revolving credit facility, partially offset by reduced interest expense because of the redemption in January 2012 of all \$225,000 of our 8.625% unsecured senior notes. Our weighted average balance outstanding and interest rate under our revolving credit facility was \$273,835 and 1.8%, and \$62,313 and 1.8%, for the three months ended June 30, 2012 and 2011, respectively.

Loss on early extinguishment of debt. In June 2011, we entered into a new \$750,000 unsecured revolving credit facility that replaced our previous \$550,000 unsecured revolving credit facility. As a result of this refinancing, we recorded a loss on early extinguishment of debt of \$427 consisting of the write off of unamortized deferred financing fees.

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

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011 (dollars in thousands):

Short and long term residential care communities:

	All Properties		Comparable Properties ⁽¹⁾	
	As of the Six Months Ended		As of the Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Total properties	253	238	223	223
# of units / beds	30,193	27,596	26,176	26,176
Occupancy:				
Leased communities ⁽²⁾	85.4%	86.0%	85.3%	85.7%
TRS managed communities ⁽³⁾	86.5%	80.8%	—	—
Rent coverage ⁽²⁾	1.39x	1.44x	1.41x	1.45x
Rental income ⁽²⁾	\$ 118,467	\$ 114,296	\$ 114,661	\$ 112,904
Residents fees and services ⁽³⁾	\$ 71,554	\$ 844	\$ —	\$ —

⁽¹⁾ Consists of short and long term residential care communities we have owned continuously since January 1, 2011.

⁽²⁾ Excludes rents and occupancy, as applicable, from our Managed Communities. All tenant operating data presented are based upon the operating results provided by our tenants for the 12 months ended March 31, 2012 and 2011, or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our triple-net lease tenants' operations of our properties, before subordinated charges, divided by triple-net lease minimum rents payable to us. We have not independently

- (3) verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties. Represents the average occupancy for our 24 Managed Communities for the 12 month period ended or, if shorter, from the date of acquisitions through June 30, 2012 and our revenues for the six months ended June 30, 2012.

Short and long term residential care communities, all properties :

	Six Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 118,467	\$ 114,296	\$ 4,171	3.6%
Residents fees and services ⁽¹⁾	71,554	844	70,710	8378.0%
Property operating expenses ⁽¹⁾	(51,743)	(609)	(51,134)	(8396.4)%
Net operating income (NOI)	138,278	114,531	23,747	20.7%
Depreciation expense	(41,962)	(33,743)	(8,219)	(24.4)%
Operating income	96,316	80,788	15,528	19.2%
Interest expense	(26,153)	(20,599)	(5,554)	(27.0)%
Gain on sale of properties	—	21,236	(21,236)	—
Net income	<u>\$ 70,163</u>	<u>\$ 81,425</u>	<u>\$ (11,262)</u>	<u>(13.8)%</u>

(1) Includes data for our Managed Communities.

Rental income. Rental income increased because of rents from our acquisition of five communities during the second quarter of 2011 for approximately \$89,600 and one community during the third quarter of 2011 for approximately \$10,235 which are leased by Five Star and our purchase of approximately \$47,360 of improvements made to our properties which are leased by Five Star since January 1, 2011, partially offset by a reduction in rental income resulting from the sale of five properties during the second quarter of 2011 for approximately \$38,625. Rental income includes non-cash straight line rent adjustments totaling approximately \$1,681 and \$1,016 for the six months ended June 30, 2012 and 2011, respectively. Rental income increased year over year on a comparable basis related to the improvement purchases from Five Star at certain of the 223 communities we have owned continuously since January 1, 2011.

Residents fees and services. Residents fees and services are the revenues earned at our 24 Managed Communities that we acquired for approximately \$587,074 since June 2011, which are leased to our TRSs and managed for our account by Five Star. We recognize these revenues as services are provided. Lease agreements with residents generally have a term of one year and are cancelable by the residents with 30 days' notice.

Property operating expenses. Property operating expenses include expenses incurred at our 24 Managed Communities, which are leased to our TRSs and which we acquired since June 2011. Property operating expenses consist of management fees, real estate taxes, utility expense, salaries and benefits of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties.

Net operating income. NOI increased because of the changes in rental income, residents fees and services and property operating expenses described above. The reconciliation of NOI to net income for our short and long term residential care communities segment is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in “Non-GAAP Financial Measures”.

Depreciation expense. Depreciation expense increased as a result of our acquisition of 30 communities since January 1, 2011 and our purchase of improvements made to our properties which are leased by Five Star since January 1, 2011, partially offset by the sale of five properties during the second quarter of 2011.

Interest expense. Interest expense for our short and long term residential care communities arises from mortgage debt secured by certain of these properties. The increase in interest expense is the result of the assumption of \$204,000 of mortgage debt in connection with certain of our 2011 acquisitions occurring in the second, third and fourth quarter of that year, and the assumption of \$4,789 of mortgage debt in connection with a May 2012 acquisition, partially offset by the repayment of one mortgage loan in February 2012 that had a principal balance of approximately \$12,400 and an interest rate of 6.03%, the repayment of 17 mortgage loans in the second quarter of 2012 that had a total principal balance of approximately \$33,400 and a weighted average interest rate of 6.89%, the amortization of the principal balance of our mortgage debt and the reduction in the variable rate of interest applicable to one mortgage debt.

Gain on sale of properties. Gain on sale of properties is a result of the sale of five senior living communities during the second quarter of 2011.

MOBs:

	All Properties		Comparable Properties ⁽¹⁾	
	As of the Six Months Ended		As of the Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Total properties	112	91	80	80
Total square feet ⁽²⁾	8,066	6,147	5,150	5,150
Occupancy ⁽³⁾	94.5%	96.6%	94.0%	97.1%
Rental income	\$ 93,146	\$ 75,748	\$ 70,315	\$ 69,294
Property operating expenses	\$ 28,325	\$ 21,126	\$ 18,988	\$ 18,862

⁽¹⁾ Consists of MOBs we have owned continuously since January 1, 2011.

⁽²⁾ Prior periods exclude space remeasurements made during the periods presented.

⁽³⁾ MOB occupancy includes (i) space being fitted out for occupancy pursuant to existing leases and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants.

MOBs, all properties:

	Six Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 93,146	\$ 75,748	\$ 17,398	23.0%
Property operating expenses	(28,325)	(21,126)	(7,199)	(34.1)%
Net operating income (NOI)	64,821	54,622	10,199	18.7%
Depreciation expense	(24,749)	(17,657)	(7,092)	(40.2)%
Impairment of assets	(3,071)	(166)	(2,905)	(1750.0)%
Operating income	37,001	36,799	202	0.5%
Interest expense	(793)	(432)	(361)	(83.6)%
Gain on sale of properties	—	79	(79)	—
Net income	\$ 36,208	\$ 36,446	\$ (238)	(0.7)%

Rental income. Rental income increased because of rents from 32 MOBs we acquired for approximately \$456,840 since January 1, 2011, partially offset by the sale of two MOBs for approximately \$835 during the second quarter of 2011. Rental income includes non-cash straight line rent adjustments totaling \$3,652 and \$3,979 and amortization of approximately \$59 and \$260 of acquired real estate leases and obligations for the six months ended June 30, 2012 and 2011, respectively.

Property operating expenses. Property operating expenses consist of property management fees, real estate taxes, utility expense, salaries and benefit costs of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties. Property operating expenses increased because of our MOB acquisitions since January 1, 2011, partially offset by the sale of two MOBs during the second quarter of 2011.

Net operating income. NOI increased because of the changes in rental income and property operating expenses described above. The reconciliation of NOI to net income for our MOB segment is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in “Non-GAAP Financial Measures”.

Depreciation expense. Depreciation expense increased because of our MOB acquisitions since January 1, 2011, partially offset by the sale of two MOBs during the second quarter of 2011.

Impairment of assets. During the six months ended June 30, 2012, we recorded an impairment of assets charge of \$ 3,071 related to one property to reduce the carrying value of this property to its estimated fair value. During the six months ended June 30, 2011, we recorded an impairment of assets charge of \$166 related to two properties to reduce the carrying value of these properties to their estimated sales prices less costs to sell.

Interest expense. Interest expense for our MOBs arises from mortgage debt secured by certain of these properties. The change in interest expense is the result of our assumption of \$13,300 of mortgage debt in connection with our acquisition of two MOBs in July and November 2011 and our assumption of \$52,000 of mortgage debt in connection with our acquisition of one MOB in June 2012, partially offset by the repayment of

one mortgage loan in April 2012 that had a principal balance of approximately \$2,330 and an interest rate of 6.73% and the amortization of our mortgage debt.

Gain on sale of properties. Gain on sale of properties is a result of the sale of two MOB's during the second quarter of 2011.

MOB's, comparable properties (MOB's we have owned continuously since January 1, 2011):

	Six Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 70,315	\$ 69,294	\$ 1,021	1.5%
Property operating expenses	(18,988)	(18,862)	(126)	(0.7)%
Net operating income (NOI)	51,327	50,432	895	1.8%
Depreciation expense	(18,099)	(16,252)	(1,847)	(11.4)%
Operating income	33,228	34,180	(952)	(2.8)%
Interest expense	(389)	(432)	43	10.0%
Net income	\$ 32,839	\$ 33,748	\$ (909)	(2.7)%

Rental income. Rental income includes non-cash straight line rent adjustments totaling \$2,333 and \$3,572 and amortization of approximately \$1,609 and \$462 of acquired real estate leases and obligations for the six months ended June 30, 2012 and 2011, respectively.

Property operating expenses. Property operating expenses consist of property management fees, real estate taxes, utility expense, salaries and benefit costs of property level personnel, repairs and maintenance expense, cleaning expense and other direct costs of operating properties. Property operating expenses increased because of our MOB acquisitions since April 1, 2011, partially offset by the sale of two MOB's during the second quarter of 2011.

Net operating income. NOI decreased because of the changes in rental income and property operating expenses described above. The reconciliation of NOI to net income for our MOB segment for comparable properties is shown in the table above. Our definition of NOI and our consolidated reconciliation of NOI to net income are included below in "Non-GAAP Financial Measures".

Depreciation expense. Depreciation expense increased primarily because of improvements we made on certain of these properties since January 1, 2011, the amortization of leasing costs and an increase in amortization of above and below market lease adjustments that we amortize over the respective lease terms.

Interest expense. Interest expense for our MOB's arises from mortgage debt secured by certain of these properties. The change in interest expense is the result of the repayment of one mortgage loan in April 2012 that had a principal balance of approximately \$2,330 and an interest rate of 6.73% and the amortization of our mortgage debt.

All other operations : ⁽¹⁾

	Six Months Ended June 30,			
	2012	2011	Change	% Change
Rental income	\$ 8,878	\$ 8,826	\$ 52	0.6%
Expenses:				
Depreciation	1,896	1,896	—	—
General and administrative	15,753	12,949	2,804	21.7%
Acquisition related costs	2,517	3,927	(1,410)	(35.9)%
Total expenses	20,166	18,772	1,394	7.4%
Operating loss	(11,288)	(9,946)	(1,342)	(13.5)%
Interest and other income	709	476	233	48.9%
Interest expense	(30,063)	(25,076)	(4,987)	(19.9)%
Loss on early extinguishment of debt	—	(427)	427	—
Equity in earnings of an investee	121	83	38	45.8%
Loss before income tax expense	(40,521)	(34,890)	(5,631)	(16.1)%
Income tax expense	(247)	(158)	(89)	(56.3)%
Net loss	\$ (40,768)	\$ (35,048)	\$ (5,720)	(16.3)%

⁽¹⁾ All other operations includes our wellness center operations that we do not consider a significant, separately reportable segment of our business and corporate business activities, and our operating expenses that are not attributable to a reportable specific segment.

Rental income. Rental income for our wellness centers increased because of scheduled consumer price index based rent increases since January 1, 2011 at certain of our wellness centers. Rental income includes non-cash straight line rent adjustments totaling approximately \$730 and amortization of approximately \$110 of acquired real estate leases and obligations in both the six months ended June 30, 2012 and 2011.

Depreciation expense. Depreciation expense remained consistent as there were no wellness center acquisitions nor capital improvement funding for the six months ended June 30, 2012 and 2011 and we generally depreciate our long lived wellness center assets on a straight line basis.

General and administrative expense. General and administrative expenses consist of fees pursuant to our business management agreement with RMR, equity compensation expense, legal and accounting fees and other costs relating to our status as a publicly traded company. General and administrative expenses increased principally as a result of acquisitions of senior living communities and MOB's for approximately \$1,132,400 since January 1, 2011, partially offset by the sale of seven properties during the second quarter of 2011 for approximately \$39,460.

Acquisition related costs. Acquisition related costs represent legal and due diligence costs incurred in connection with our acquisition activity during the six months ended June 30, 2012 and 2011. Acquisition

related costs decreased because of a lower number and value of senior living and MOB acquisitions during the six months ended June 30, 2012 than the prior year period.

Interest and other income. The increase in interest and other income is mainly due to \$314 of interest received from our Bridge Loan with Five Star during the six months ended June 30, 2012. Interest and other income also includes interest on our investable cash and dividend income related to the 250,000 common shares of CWH that we own.

Interest expense. Interest expense increased because of our issuance of \$250,000 of unsecured senior notes with an interest rate of 4.30% in January 2011, our issuance of \$300,000 of unsecured senior notes with an interest rate of 6.75% in December 2011 and greater amounts outstanding under our revolving credit facility at higher weighted average interest rates, partially offset by reduced interest expense because of the redemption in January 2012 of all \$225,000 of our 8.625% unsecured senior notes. Our weighted average balance outstanding and interest rate under our revolving credit facility was \$247,951 and 1.8%, and \$74,004 and 1.0%, for the six months ended June 30, 2012 and 2011, respectively.

Loss on early extinguishment of debt. In June 2011, we entered into a new \$750,000 unsecured revolving credit facility that replaced our previous \$550,000 unsecured revolving credit facility. As a result of this refinancing, we recorded a loss on early extinguishment of debt of \$427 consisting of the write off of unamortized deferred financing fees.

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

Non-GAAP Financial Measures (dollars in thousands, except per share amounts)

We provide below calculations of our funds from operations, or FFO, Normalized FFO and NOI for the three and six months ended June 30, 2012 and 2011. 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, operating income and cash flow from operating activities as presented in our condensed consolidated statements of income and comprehensive income and condensed consolidated statements of cash flows. These measures do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, operating income or cash flow from operating activities, determined in accordance with GAAP or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. Other REITs and real estate companies may calculate FFO, Normalized FFO or NOI differently than us.

Funds From Operations and Normalized Funds From Operations

We calculate FFO and Normalized FFO as shown below. FFO is calculated on the basis defined by the National Association of Real Estate Investment Trusts, or NAREIT, which is net income, calculated in accordance with GAAP, excluding any gain or loss on sale of properties and impairment of assets, plus real estate depreciation and amortization. Our calculation of Normalized FFO differs from the NAREIT definition of FFO because we include percentage rent and exclude acquisition related costs and loss on early extinguishment of debt, if any. We consider FFO and Normalized FFO to be appropriate measures of performance for a REIT, along with net income, operating income and cash flow from operating, investing and financing activities. We believe that FFO and Normalized FFO provides 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 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 equity and debt capital to us and our expectation of our future capital requirements and operating performance.

Our calculations of FFO and Normalized FFO for the three and six months ended June 30, 2012 and 2011 and reconciliations of FFO and Normalized FFO to net income, the most directly comparable financial measure under GAAP reported in our condensed consolidated financial statements, appear in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 33,251	\$ 51,048	\$ 65,603	\$ 82,823
Depreciation expense	35,230	26,935	68,607	53,296
Gain on sale of properties	—	(21,315)	—	(21,315)
Impairment of assets	—	—	3,071	166
FFO	68,481	56,668	137,281	114,970
Acquisition related costs	1,829	2,814	2,517	3,927
Loss on early extinguishment of debt	—	427	—	427
Percentage rent adjustment ⁽¹⁾	2,900	2,700	5,800	5,400
Normalized FFO	<u>\$ 73,210</u>	<u>\$ 62,609</u>	<u>\$ 145,598</u>	<u>\$ 124,724</u>
Weighted average shares outstanding	<u>162,670</u>	<u>141,869</u>	<u>162,659</u>	<u>141,862</u>
FFO per share	<u>\$ 0.42</u>	<u>\$ 0.40</u>	<u>\$ 0.84</u>	<u>\$ 0.81</u>
Normalized FFO per share	<u>\$ 0.45</u>	<u>\$ 0.44</u>	<u>\$ 0.90</u>	<u>\$ 0.88</u>
Net income per share	<u>\$ 0.20</u>	<u>\$ 0.36</u>	<u>\$ 0.40</u>	<u>\$ 0.58</u>
Distributions declared per share	<u>\$ 0.38</u>	<u>\$ 0.37</u>	<u>\$ 0.76</u>	<u>\$ 0.74</u>

⁽¹⁾ Our percentage rents are generally determined on an annual basis. We defer recognition of percentage rental income we receive during the first, second and third quarters until the fourth quarter when all contingencies related to percentage rents are satisfied. Although recognition of this revenue is deferred until the fourth quarter, our Normalized FFO calculation for the first three quarters includes estimated amounts of percentage rents with respect to those periods. When we calculate our Normalized FFO for the fourth quarter, we exclude percentage rents we presented for the first three quarters.

Property Net Operating Income (NOI)

We calculate NOI as shown below. We define NOI as income from real estate less our property operating expenses. We consider NOI to be an appropriate supplemental measure to net income because it may help both investors and management to understand the operations of our properties. We use NOI internally to evaluate individual and company wide property level performance and we believe NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods. The calculation of NOI excludes depreciation and amortization, acquisition related costs, and general and administrative expenses from the calculation of net income in order to provide results that are more closely related to our properties' results of operations.

The calculation of NOI by reportable segment is included above in this Item 2. The following table includes the reconciliation of NOI to net income, the most directly comparable financial measure under GAAP reported in our condensed consolidated financial statements, for the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Reconciliation of NOI to Net Income:				
Short and long term residential care communities NOI	\$ 69,385	\$ 57,421	\$ 138,278	\$ 114,531
MOB NOI	32,395	27,965	64,821	54,622
All other operations NOI	4,458	4,474	8,878	8,826
Total NOI	106,238	89,860	211,977	177,979
Depreciation expense	(35,230)	(26,935)	(68,607)	(53,296)
General and administrative expense	(8,068)	(6,793)	(15,753)	(12,949)
Acquisition related costs	(1,829)	(2,814)	(2,517)	(3,927)
Impairment of assets	—	—	(3,071)	(166)
Operating income	61,111	53,318	122,029	107,641
Interest and other income	227	244	709	476
Interest expense	(28,120)	(23,361)	(57,009)	(46,107)
Loss on early extinguishment of debt	—	(427)	—	(427)
Gain on sale of properties	—	21,315	—	21,315
Equity in earnings of an investee	76	46	121	83
Income before income tax expense	33,294	51,135	65,850	82,981
Income tax expense	(43)	(87)	(247)	(158)
Net income	<u>\$ 33,251</u>	<u>\$ 51,048</u>	<u>\$ 65,603</u>	<u>\$ 82,823</u>

LIQUIDITY AND CAPITAL RESOURCES

Rental income revenues and residents fees and services revenues from our leased and managed properties and borrowings under our revolving credit facility are our principal sources of funds to pay operating expenses, debt service and distributions to shareholders. We believe that our operating cash flow will be sufficient to meet our operating expenses and debt service and pay distributions on our shares for the next 12 months and for the foreseeable future thereafter. Our future cash flows from operating activities will depend primarily upon our ability to:

- maintain or improve the occupancy of, and the current rental rates at, our properties;
- control operating cost increases at our properties; and
- purchase additional properties which produce cash flows in excess of our cost of acquisition capital and property operating expenses.

Our Operating Liquidity and Resources

We generally receive minimum rents monthly or quarterly from our tenants, we receive percentage rents from our residential community tenants monthly, quarterly or annually and we receive residents fees and

services revenues, net of expenses, from our Managed Communities monthly. During the six months ended June 30, 2012 and 2011, we generated \$146.5 million and \$131.7 million, respectively, of cash from operations. The increase in our cash from operations over the prior year primarily resulted from our property acquisitions, as further described below.

Our Investment and Financing Liquidity and Resources

At June 30, 2012, we had \$20.4 million of cash and cash equivalents and \$390.0 million available under our unsecured revolving credit facility. We expect to use cash balances, borrowings under our revolving credit facility and net proceeds of offerings of equity or debt securities to fund future working capital requirements, property acquisitions and expenditures related to the repair, maintenance or renovation of our properties.

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our receipts of rents and our need or desire to pay operating expenses and distributions to our shareholders, we maintain a \$750.0 million revolving credit facility with a group of institutional lenders. The maturity date of this facility is June 24, 2015 and we have an option, subject to certain conditions and the payment of a fee, to extend the facility for one year. This revolving credit facility also includes a feature under which maximum borrowings may be increased up to \$1.5 billion in certain circumstances. Borrowings under our revolving credit facility are unsecured. We may borrow, repay and reborrow funds under the credit facility until maturity, and no principal repayment is due until maturity. We pay interest on borrowings under the revolving credit facility at LIBOR plus 160 basis points, subject to adjustments based on our credit ratings. At June 30, 2012, the weighted average interest rate payable on our revolving credit facility was 1.80%. There have been recent governmental inquiries regarding the setting of LIBOR, which may result in changes to that process that could have the general effect of increasing LIBOR. Increases in LIBOR would increase the amount of interest we pay under our revolving credit facility. As of June 30, 2012 and August 1, 2012, we had \$360.0 million and zero amounts, respectively, outstanding under our revolving credit facility.

When significant amounts are outstanding under our revolving credit facility or as the maturity dates of our revolving credit facility and term debts approach, we intend to explore alternatives for the repayment of amounts due. Such alternatives may include incurring additional debt and issuing new equity securities. We currently 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.

In January 2012, we repaid all \$225.0 million of our 8.625% unsecured senior notes at their maturity date. We funded this repayment using borrowings under our revolving credit facility. In February 2012, we paid in full a mortgage loan encumbering one of our properties that had a principal balance of approximately \$12.4 million, an interest rate of 6.03% and a maturity date in March 2012. In April 2012, we paid in full 17 mortgage loans encumbering 17 of our properties that had an aggregate principal balance of \$32.6 million, weighted average interest rate of 6.95% and maturity dates in June and July 2012. In June 2012, we paid in full a mortgage loan encumbering one of our properties that had a principal balance of approximately \$3.1 million, an interest rate of 6.07% and a maturity date in September 2012.

During the six months ended June 30, 2012, we acquired six properties located in five states for total purchase prices of approximately \$139.8 million, excluding closing costs. Our weighted average capitalization rate for these acquisitions was 8.2% based on estimated annual NOI. Capitalization rate is the ratio of the estimated annual GAAP revenues less property operating expenses, if any, to the purchase price on the date of acquisition. For more information about these acquisitions, see Note 3 to our Condensed Consolidated Financial Statements (unaudited) appearing in Item 1 above.

In July 2012, we acquired a previously disclosed senior living community located in Mount Pleasant, South Carolina with 232 living units for approximately \$37.3 million, excluding closing costs. Substantially all the residents at this community currently pay for occupancy and services with private resources. We funded this acquisition using cash on hand and borrowings under our revolving credit facility.

In July 2012, we acquired one MOB with 63,082 square feet located in Houston, Texas for approximately \$16.8 million, excluding closing costs. Upon acquisition, this property was 100% leased to 11 tenants for weighted (by rents) average lease terms of 6.9 years. We funded this acquisition using cash on hand.

In July 2012, we acquired another MOB with 52,858 square feet located in Florida for approximately \$7.7 million, excluding closing costs. Upon acquisition, this property was 80% leased to 18 tenants for weighted (by rents) average lease terms of 2.8 years. We funded this acquisition using cash on hand.

On July 31, 2012, we acquired four previously disclosed senior living communities located in Colorado, Idaho and Washington with a total of 511 living units for total purchase prices of approximately \$36.5 million, including the assumption of approximately \$6.9 million of mortgage debt and excluding closing costs. We leased these properties to Stellar Senior Living, LLC, a third party operator, for initial rent of approximately \$2.9 million per year. Percentage rent, based on increases in gross revenues at these properties, will commence in 2014.

We have previously disclosed agreements to acquire three properties which have not yet closed, including two senior living communities and one MOB for total purchase prices of approximately \$126.7 million, including the assumption of approximately \$49.4 million of mortgage debt and excluding closing costs. The two senior living communities are located in Missouri and New York and include a total of 397 living units, and the MOB is located in Massachusetts and includes 35,000 square feet. The closings of these acquisitions are contingent upon customary closing conditions; accordingly, we can provide no assurance that we will purchase these properties.

In July 2012, we entered an agreement to acquire one MOB for approximately \$15.3 million, including the assumption of approximately \$9.7 million of mortgage debt and excluding closing costs. The MOB is located in Minnesota and includes a total of 76,637 square feet. This acquisition has not yet closed. The closing of this acquisition is contingent upon completion of our diligence and other customary closing conditions; accordingly, we can provide no assurance that we will purchase this property.

In May 2012, we entered into the Operations Transfer Agreement with Sunrise and Five Star related to 10 Communities that we currently lease to Sunrise. The Operations Transfer Agreement provides that we and Sunrise will accelerate the December 31, 2013 termination date of these Sunrise leases, that we will lease the 10 Communities to our TRSs and that Five Star will manage the 10 Communities pursuant to long term contracts. Pursuant to the Operations Transfer Agreement, we paid Sunrise \$1.0 million to purchase the inventory and certain improvements owned by Sunrise at these 10 Communities.

In July 2012, we sold one MOB located in Massachusetts with approximately 18,900 square feet for a sale price of approximately \$1.1 million.

In May 2011, we and Five Star entered into a loan agreement under which we agreed to lend Five Star up to \$80.0 million to fund a portion of Five Star's purchase of a portfolio of six senior living communities. In April 2012, Five Star repaid the then remaining \$38.0 million and this Bridge Loan was terminated.

During the three and six months ended June 30, 2012, pursuant to the terms of our existing leases with Five Star, we purchased \$7.8 million and \$14.1 million, respectively, of improvements made to our properties

leased to Five Star, and, as a result, the annual rent payable to us by Five Star increased by approximately \$625,000 and \$1.1 million, respectively. We used cash on hand and borrowings under our revolving credit facility to fund these purchases.

During the three and six months ended June 30, 2012 and 2011, cash expenditures made and capitalized for leasing costs, building improvements and Managed Communities capital expenditures were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
MOB leasing capital ⁽¹⁾	\$ 1,826	\$ 1,898	\$ 3,324	\$ 4,208
MOB building improvements ⁽²⁾	1,061	230	1,855	454
Managed Communities capital improvements ⁽³⁾	2,267	237	3,325	237
Total capital expenditures	<u>\$ 5,154</u>	<u>\$ 2,365</u>	<u>\$ 8,504</u>	<u>\$ 4,899</u>

⁽¹⁾ MOB leasing capital includes tenant improvements and leasing costs.

⁽²⁾ MOB building improvements generally include: (i) construction costs and expenditures to replace obsolete building components that extend the useful life of existing assets, and (ii) non-recurring expenditures or expenditures that we believe increase the value of our existing properties.

⁽³⁾ Includes capital improvements to the senior living communities we have acquired since June 2011 that are leased to our TRSs and managed by Five Star for our account.

We have made commitments for expenditures in connection with our MOB leasing activities during the three months ended June 30, 2012, as follows:

	New Leases	Renewals	Total
Square feet leased during the quarter (000s)	26	185	211
Total commitments for tenant improvements and leasing costs (\$000s)	\$ 933	\$ 1,313	\$ 2,246
Leasing costs per square foot	\$ 35.88	\$ 7.10	\$ 10.64
Average lease term (years)	8.2	4.7	5.2
Leasing costs per square foot per year	\$ 4.38	\$ 1.51	\$ 2.05

In July 2012, we issued 13,800,000 common shares in a public offering, raising net proceeds of approximately \$287.1 million. We used the net proceeds of this offering to repay borrowings outstanding under our revolving credit facility.

In July 2012, we sold \$350.0 million of senior unsecured notes. The notes require interest at a fixed rate of 5.625% per annum and are due in 2042. Net proceeds from this sale of the notes, after underwriting discounts, fees and other expenses were approximately \$338.8 million. Interest on the notes is payable quarterly in arrears. We used a part of the net proceeds of this offering to repay borrowings under our revolving credit facility and we expect to apply the remaining net proceeds to prepay the variable portion of our FNMA secured term loan and for general business purposes, which may include funding possible future acquisitions of properties.

We believe we will have access to various types of financings, including equity or debt offerings, to fund our future acquisitions and to pay our debts and other obligations as they become due. Our ability to complete and the costs of our future debt transactions are expected to depend primarily upon market conditions and our credit ratings. We have no control over market conditions. Our credit ratings depend upon evaluations by credit rating agencies of our business practices and plans and, in particular, whether we appear to have the ability to maintain our earnings and service our debt funding obligations, to space our debt maturities and to balance our use of equity and debt capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably anticipatable adverse changes. We intend to conduct our business activities in a manner which will continue to afford us reasonable access to capital for investment and financing activities. However, there can be no assurance that we will be able to complete any equity or debt offerings or that our cost of any future public or private financings will not increase.

On July 9, 2012, we declared a quarterly distribution of \$0.38 per common share, or \$67.1 million, to our common shareholders of record on July 26, 2012 for the quarter ended June 30, 2012. This distribution will be paid to shareholders on or about August 24, 2012, using cash on hand and borrowings under our revolving credit facility, if necessary.

Off Balance Sheet Arrangements

As of June 30, 2012, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Debt Covenants

Our principal debt obligations at June 30, 2012 were: \$360.0 million outstanding under our \$750.0 million unsecured revolving credit facility; three public issuances of unsecured senior notes of \$250.0 million due 2016 at an annual interest rate of 4.30%, \$200.0 million due 2020 at an annual interest rate of 6.75% and \$300.0 million due 2021 at an annual interest rate of 6.75%; and \$849.5 million of mortgages secured by 63 of our properties with maturity dates from 2013 to 2043. We also have two properties encumbered by capital leases totaling \$14.0 million at June 30, 2012. Our unsecured senior notes are governed by an indenture. The indenture for our unsecured senior notes and related supplements and our revolving credit facility contain a number of covenants which 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 generally require us to maintain certain other financial ratios. As of June 30, 2012, we believe we were in compliance with all of the covenants under our indenture and related supplements, our revolving credit facility and our other debt obligations.

None of our indenture and related supplements, our revolving credit facility or our other debt obligations contain provisions for acceleration which could be triggered by our debt ratings. However, in certain circumstances, our revolving credit facility uses our senior debt rating to determine the fees and the interest rate payable by us.

Our public debt indenture and related supplements contain cross default provisions, which are generally triggered upon default of any of our other debts of at least \$10.0 million or, with respect to certain notes under such indenture and supplements, higher amounts. Similarly, our revolving credit facility contains a cross default provision to any other debts of \$25.0 million or more that are recourse debts and to any other debts of \$75.0 million or more that are non-recourse debts. Termination of our business management and property

management agreements with RMR would cause a default under our revolving credit facility, if not approved by a majority of our lenders.

Related Person Transactions

We have relationships and historical and continuing transactions with our Trustees, our executive officers, RMR, Five Star, CWH 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 and personnel and various services we require to operate our business are provided to us by RMR pursuant to management agreements; and RMR is owned by our Managing Trustees. Also, as a further example, we have or had relationships with other companies to which RMR provides management services and which have trustees, directors or officers who are also trustees, directors or officers of ours or RMR, including: Five Star, which is our former subsidiary, our largest tenant and a manager of certain of our senior living communities, and we are Five Star's largest stockholder; CWH, which was our former parent and with which we have engaged in transactions from time to time, including our acquiring MOBs from CWH; and AIC, of which we, RMR, Five Star, CWH and four other companies to which RMR provides management services each currently own approximately 12.5%, and with respect to which we and the other shareholders of AIC have property insurance in place providing \$500.0 million of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. For further information about these and other such relationships and related person transactions, please see Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference. In addition, for more information about these transactions and relationships, please see elsewhere in this Quarterly Report on Form 10-Q, including "Warning Concerning Forward Looking Statements," and our Annual Report, our Proxy Statement and our other filings with the SEC, including Note 5 to our consolidated financial statements included in our Annual Report, the sections captioned "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Person Transactions" and "Warning Concerning Forward Looking Statements" of our Annual Report and the section captioned "Related Person Transactions and Company Review of Such Transactions" and the information regarding our Trustees and executive officers in our Proxy Statement. In addition, please see the section captioned "Risk Factors" of our Annual Report for a description of risks that may arise from these transactions and relationships. Our filings with the SEC, including our Annual Report and our Proxy Statement, are available at the SEC's website at www.sec.gov. In addition, copies of certain of our agreements with these parties, including our business management agreement and property management agreement with RMR, our leases, forms of management agreements and related pooling agreement and Bridge Loan with Five Star, various agreements we have with CWH and our shareholders agreement with AIC and its shareholders, are also publicly available as exhibits to our public filings with the SEC and accessible at the SEC's website.

We believe that our agreements with RMR, Five Star, CWH and AIC are on commercially reasonable terms. We also believe that our relationships with RMR, Five Star, CWH 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.

Impact of Government Reimbursement

As of June 30, 2012, approximately 94% of our NOI was generated from properties where a majority of the NOI is derived from private resources, and the remaining 6% of our NOI was generated from properties where a majority of the NOI was derived from Medicare and Medicaid reimbursements. We and our tenants operate facilities in many states and participate in many federal and state health care payment programs, including the federal Medicare and state Medicaid programs for services in skilled nursing facilities, hospitals

and other similar facilities, state Medicaid programs for services in assisted living communities and other federal and state health care payment programs. Because of the current federal budget deficit and other federal spending priorities and continued difficult state fiscal conditions, there have been numerous recent legislative and regulatory actions or proposed actions with respect to federal Medicare rates and state Medicaid rates and federal payments to states for Medicaid programs. Examples of these, and other information regarding such programs, is discussed under the caption, “Business — Government Regulation and Reimbursement” in our Annual Report and under the caption “Impact of Government Reimbursement” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012. Recently CMS issued updated Medicare prospective payment rates for SNFs and IRFs effective October 1, 2012, which CMS estimates will result in a net increase of approximately 1.8% in aggregate Medicare payments for SNFs and 2.1% in aggregate Medicare payments for IRFs in federal fiscal year 2013. The U.S. Supreme Court recently upheld two major provisions of the Patient Protection and Affordable Care Act, or PPACA, which is discussed under the caption “Business—Government Regulation and Reimbursement” in our Annual Report. These two provisions are the individual mandate, which requires most Americans to maintain health insurance or to pay a penalty, and the Medicaid expansion, which requires states to expand their Medicaid programs by 2014 to cover all individuals under the age of 65 with incomes not exceeding 133% of the federal poverty guideline. In upholding the Medicaid expansion, the Supreme Court found that it violated the U.S. Constitution as drafted, but remedied the violation by modifying the expansion to preclude the Secretary of the U.S. Department of Health and Human Services from withholding existing federal Medicaid funds from states that fail to comply with the Medicaid expansion, instead allowing the Secretary only to deny new Medicaid expansion funding. As a result of the Court’s ruling, some states may choose not to participate in the Medicaid expansion or may delay their participation. We are unable to predict the impact of these or other recent legislative and regulatory actions or proposed actions with respect to state Medicaid rates and federal Medicare rates and federal payments to states for Medicaid programs on us or our tenants. The changes implemented or to be implemented as a result of such actions could result in the failure of Medicare, Medicaid or private payment reimbursement rates to cover our or our tenants’ costs of providing required services to residents, in reductions in payments or other circumstances that could have a material adverse effect on the ability of some of our tenants to pay rent to us, the profitability of certain of our communities which are leased to our TRSs and the values of our properties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to risks associated with market changes in interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Our strategy to manage exposure to changes in interest rates has not materially changed since December 31, 2011. Other than as described below, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

At June 30, 2012, our outstanding fixed rate debt included the following (dollars in thousands):

Debt ⁽¹⁾	Principal Balance ⁽²⁾	Annual Interest Rate ⁽²⁾	Annual Interest Expense	Maturity	Interest Payments Due
Unsecured senior notes	\$ 300,000	6.75%	\$ 20,250	2021	Semi-Annually
Unsecured senior notes	250,000	4.30%	10,750	2016	Semi-Annually
Unsecured senior notes	200,000	6.75%	13,500	2020	Semi-Annually
Mortgages ⁽³⁾	298,973	6.71%	20,061	2019	Monthly
Mortgages	91,889	5.924%	5,444	2016	Monthly
Mortgages	52,000	5.64%	2,933	2016	Monthly
Mortgages	47,228	6.54%	3,089	2017	Monthly
Mortgages	37,268	5.83%	2,173	2014	Monthly
Mortgages	13,886	6.91%	960	2013	Monthly
Mortgages	13,182	5.66%	746	2015	Monthly
Mortgages	12,617	6.25%	789	2016	Monthly
Mortgages	11,680	6.365%	743	2015	Monthly
Mortgages	10,745	6.11%	657	2013	Monthly
Mortgages	9,559	5.95%	569	2038	Monthly
Mortgages	6,529	5.97%	390	2016	Monthly
Mortgages	5,169	5.65%	292	2015	Monthly
Mortgages	4,783	4.375%	209	2043	Monthly
Mortgages	4,641	5.81%	270	2015	Monthly
Mortgages	4,181	6.50%	272	2013	Monthly
Mortgages	3,578	6.25%	224	2033	Monthly
Mortgages	3,394	7.31%	248	2022	Monthly
Mortgages	2,912	5.88%	171	2015	Monthly
Mortgages	1,668	7.85%	131	2022	Monthly
Bonds	14,700	5.875%	864	2027	Semi-Annually
	<u>\$ 1,400,582</u>		<u>\$ 85,735</u>		

(1) Excludes \$350.0 million principal balance of our 5.625% senior notes due 2042 issued by us in July 2012.

(2) The principal balances and interest rates are the amounts stated in the contracts. In accordance with GAAP, our carrying values and recorded interest expense may be different because of market conditions at the time we assumed certain of these debts.

(3) Consists of fixed rate portion of our FNMA loan.

No principal payments are due under our unsecured notes or bonds until maturity. Our mortgages require principal and interest payments through maturity pursuant to amortization schedules. Because these debts bear interest at a fixed rate, changes in market interest rates during the term of these debts will not affect our operating results. However, if these debts are refinanced at interest rates which are 10% higher or lower than shown above, our annual interest cost would increase or decrease by approximately \$8.6 million.

Changes in market interest rates do affect the fair value of our fixed rate debt obligations; increases in market interest rates decrease the fair value of our fixed rate debt, while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balances outstanding at June 30, 2012, and

discounted cash flow analysis through the maturity date of our fixed rate debt obligations, a hypothetical immediate 10% change in interest rates would change the fair value of those obligations by approximately \$43.7 million.

Our unsecured senior notes and mortgages generally contain provisions that allow us to make repayments at par plus premiums which are generally designed to preserve stated yields to the debt holders. Also, as we have previously done, we occasionally have the opportunity to purchase our outstanding debt by open market purchases. These prepayment rights and purchases may afford us the opportunity to mitigate the risks arising from changes in interest rates.

Our unsecured revolving credit facility accrues interest at floating rates and matures in June 2015. At June 30, 2012, we had \$360.0 million outstanding and \$390.0 million available for borrowing under our revolving credit facility. In July 2012, we repaid all \$360.0 million outstanding under our revolving credit facility with proceeds from our July 2012 equity and debt offerings. We may make repayments and drawings under our revolving credit facility at any time without penalty. We borrow in U.S. dollars and borrowings under our revolving credit facility accrue interest at LIBOR plus 160 basis points, subject to adjustments based on our credit ratings. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. In addition, we are vulnerable to increases in credit spreads due to market conditions. Generally, a change in interest rates would not affect the value of our floating rate debt but would affect our operating results. For example, the interest rate payable on our outstanding revolving indebtedness of \$360.0 million at June 30, 2012 was 1.80%. The following table presents the impact a 10% change in interest rates would have on our annual floating rate interest expense at June 30, 2012 (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate	Outstanding Debt	Total Interest Expense Per Year
At June 30, 2012	1.80%	\$ 360,000	\$ 6,480
10% reduction	1.62%	\$ 360,000	\$ 5,832
10% increase	1.98%	\$ 360,000	\$ 7,128

The following table presents the impact a 10% change in interest rates would have on our annual floating rate interest expense at June 30, 2012 if we had fully drawn our revolving credit facility (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate	Outstanding Debt	Total Interest Expense Per Year
At June 30, 2012	1.80%	\$ 750,000	\$ 13,500
10% reduction	1.62%	\$ 750,000	\$ 12,150
10% increase	1.98%	\$ 750,000	\$ 14,850

The foregoing tables show the impact of an immediate change in floating interest rates. If interest rates were to change gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount under our revolving credit facility or other floating rate debt.

In 2009, we closed the FNMA loan financing for approximately \$512.9 million. A part of this borrowing is at a fixed interest rate, with a balance of \$299.0 million at June 30, 2012, and a part is at a floating rate calculated as a spread above LIBOR, with a balance of \$198.9 million at June 30, 2012. We expect to apply a part of the net proceeds from our July 2012 debt offering to prepay the variable portion of this loan.

Generally, a change in market interest rates will not change the value of the floating rate part of this loan but will change the interest expense on the floating rate part of this loan. For example, at June 30, 2012, our effective weighted average annual interest rate payable on the outstanding variable amount of this loan was 6.38%. If interest rates change by 10% of current rates, the impact upon us would be to change our interest expense as shown in the following table (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate ⁽¹⁾	Outstanding Debt	Total Interest Expense Per Year
At June 30, 2012	6.38%	\$ 198,854	\$ 12,687
10% reduction	6.36%	\$ 198,854	\$ 12,647
10% increase	6.40%	\$ 198,854	\$ 12,727

⁽¹⁾ Our variable rate at June 30, 2012 consists of the one month LIBOR rate of 0.20% at June 30, 2012 plus a fixed premium. This table assumes a 10% interest rate change on the one month LIBOR rate.

Also, we have arranged with FNMA to cap, or limit, the interest rate increases which will impact the interest expense we will pay on the floating rate part of this loan. The net effect of this arrangement is that the maximum effective interest rate we may be required to pay on the full amount of this loan is 7.79% per annum.

We also have the option to prepay our FNMA obligations in order to mitigate the risks of refinancing or for other reasons. The fixed rate portion of this loan may be prepaid during the first 96 months of the loan term subject to our paying a standard make whole premium and thereafter for a declining fixed percent premium of the amount prepaid which is reduced to zero in the last six months of this ten year loan. The floating rate portion may be prepaid after one year for a fixed premium percent of the amount prepaid which is also reduced to zero in the last six months of this ten year loan. We may exercise these prepayment options to mitigate the risks inherent in this FNMA loan arising from changes in interest rates. As described above, we expect to apply a part of the net proceeds from our July 2012 debt offering to prepay the variable portion of this loan.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934, as amended, Rules 13a-15 and 15d-15. Based upon that evaluation, our Managing Trustees, President and Chief Operating Officer and Treasurer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS STATEMENTS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER SECURITIES LAWS. ALSO, WHENEVER WE USE WORDS SUCH AS “BELIEVE”, “EXPECT”, “ANTICIPATE”, “INTEND”, “PLAN”, “ESTIMATE”, OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. FORWARD LOOKING STATEMENTS IN THIS REPORT RELATE TO VARIOUS ASPECTS OF OUR BUSINESS, INCLUDING :

- OUR ACQUISITIONS AND SALES OF PROPERTIES,
- OUR ABILITY TO RAISE EQUITY OR DEBT CAPITAL,
- OUR ABILITY TO PAY INTEREST ON AND PRINCIPAL OF OUR DEBT,
- OUR ABILITY TO PAY DISTRIBUTIONS AND THE AMOUNT OF SUCH DISTRIBUTIONS,
- OUR ABILITY TO RETAIN OUR EXISTING TENANTS, ATTRACT NEW TENANTS AND MAINTAIN OR INCREASE CURRENT RENTAL RATES,
- OUR POLICIES AND PLANS REGARDING INVESTMENTS AND FINANCINGS,
- THE FUTURE AVAILABILITY OF BORROWINGS UNDER OUR REVOLVING CREDIT FACILITY,
- OUR TAX STATUS AS A REIT,
- OUR BELIEF THAT FIVE STAR, OUR FORMER SUBSIDIARY, WHICH IS OUR LARGEST TENANT AND WHICH MANAGES CERTAIN COMMUNITIES FOR OUR ACCOUNT, HAS ADEQUATE FINANCIAL RESOURCES AND LIQUIDITY TO MEET ITS OBLIGATIONS TO US AND TO MANAGE OUR MANAGED COMMUNITIES SUCCESSFULLY,
- OUR EXPECTATION THAT WE WILL BENEFIT FINANCIALLY BY PARTICIPATING IN AIC WITH RMR AND COMPANIES TO WHICH RMR PROVIDES MANAGEMENT SERVICES, AND
- OTHER MATTERS.

OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FORWARD LOOKING STATEMENTS AND UPON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION, FFO, NORMALIZED FFO, NOI, CASH AVAILABLE FOR DISTRIBUTION, CASH FLOWS, LIQUIDITY AND PROSPECTS INCLUDE, BUT ARE NOT LIMITED TO:

- THE IMPACT OF CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS ON US AND OUR TENANTS,

- THE IMPACT OF THE PPACA AND OTHER RECENTLY ENACTED, ADOPTED OR PROPOSED LEGISLATION OR REGULATIONS ON US AND ON OUR TENANTS AND THEIR ABILITY TO PAY OUR RENTS,
- ACTUAL AND POTENTIAL CONFLICTS OF INTEREST WITH OUR MANAGING TRUSTEES, FIVE STAR, CWH, AND RMR AND THEIR RELATED PERSONS AND ENTITIES,
- COMPLIANCE WITH, AND CHANGES TO, FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS, ACCOUNTING RULES, TAX RATES AND SIMILAR MATTERS,
- LIMITATIONS IMPOSED ON OUR BUSINESS AND OUR ABILITY TO SATISFY COMPLEX RULES IN ORDER FOR US TO QUALIFY AS A REIT FOR U.S. FEDERAL INCOME TAX PURPOSES,
- COMPETITION WITHIN THE HEALTHCARE AND REAL ESTATE INDUSTRIES, AND
- ACTS OF TERRORISM, OUTBREAKS OF SO CALLED PANDEMICS OR OTHER MANMADE OR NATURAL DISASTERS BEYOND OUR CONTROL.

FOR EXAMPLE:

- FIVE STAR IS OUR LARGEST TENANT AND MANAGES SEVERAL OF OUR SENIOR LIVING COMMUNITIES FOR OUR ACCOUNT AND FIVE STAR MAY EXPERIENCE FINANCIAL DIFFICULTIES AS A RESULT OF A NUMBER OF FACTORS, INCLUDING, BUT NOT LIMITED TO:
 - CHANGES IN MEDICARE AND MEDICAID PAYMENTS, INCLUDING THOSE THAT MAY RESULT FROM PPACA AND OTHER RECENTLY ENACTED OR PROPOSED LEGISLATION OR REGULATIONS, WHICH COULD RESULT IN REDUCED RATES OR A FAILURE OF SUCH RATES TO COVER FIVE STAR'S COSTS,
 - CHANGES IN REGULATIONS AFFECTING FIVE STAR'S OPERATIONS,
 - CHANGES IN THE ECONOMY GENERALLY OR GOVERNMENTAL POLICIES WHICH REDUCE THE DEMAND FOR THE SERVICES FIVE STAR OFFERS,
 - INCREASES IN INSURANCE AND TORT LIABILITY COSTS, AND
 - INEFFECTIVE INTEGRATION OF NEW ACQUISITIONS,
- IF FIVE STAR'S OPERATIONS BECOME UNPROFITABLE, FIVE STAR MAY BECOME UNABLE TO PAY OUR RENTS AND WE MAY NOT RECEIVE OUR CONTRACTED RETURN ON OUR INVESTED CAPITAL OR ADDITIONAL AMOUNTS FROM OUR SENIOR LIVING COMMUNITIES THAT ARE MANAGED BY FIVE STAR,
- OUR OTHER TENANTS MAY EXPERIENCE LOSSES AND BECOME UNABLE TO PAY OUR RENTS,
- CONTINUED AVAILABILITY OF BORROWINGS UNDER OUR REVOLVING CREDIT FACILITY IS SUBJECT TO OUR SATISFYING CERTAIN FINANCIAL COVENANTS AND MEETING OTHER CUSTOMARY CONDITIONS,

- ACTUAL ANNUAL COSTS UNDER OUR REVOLVING CREDIT FACILITY WILL BE HIGHER THAN LIBOR PLUS A PREMIUM BECAUSE OF OTHER FEES AND EXPENSES ASSOCIATED WITH OUR REVOLVING CREDIT FACILITY,
- INCREASING THE MAXIMUM BORROWINGS UNDER OUR REVOLVING CREDIT FACILITY IS SUBJECT TO OBTAINING ADDITIONAL COMMITMENTS FROM LENDERS, WHICH MAY NOT OCCUR,
- THIS QUARTERLY REPORT ON FORM 10-Q STATES THAT WE EXPECT TO USE A PART OF THE NET PROCEEDS OF OUR RECENT DEBT OFFERING TO PREPAY THE VARIABLE PORTION OF OUR FNMA SECURED TERM LOAN. WE MAY ELECT TO DELAY THE PREPAYMENT OF, OR ELECT NOT TO PREPAY, ANY OR ALL OF SUCH MORTGAGE LOAN. ACCORDINGLY, THIS MORTGAGE LOAN MAY NOT BE PAID PRIOR TO ITS MATURITY DATE IN SEPTEMBER 2019,
- OUR PENDING ACQUISITIONS AND SALES OF SENIOR LIVING COMMUNITIES AND MOBS, AND CERTAIN RELATED MANAGEMENT ARRANGEMENTS, ARE CONTINGENT UPON VARIOUS CONDITIONS, INCLUDING IN SOME CASES, COMPLETION OF DILIGENCE AND / OR REGULATORY, LENDER OR OTHER THIRD PARTY APPROVALS. ACCORDINGLY, SOME OR ALL OF THESE PURCHASES AND SALES, AND ANY RELATED MANAGEMENT ARRANGEMENTS, MAY BE DELAYED OR MAY NOT OCCUR,
- THIS QUARTERLY REPORT ON FORM 10-Q STATES THAT WE EXPECT THE SUNRISE LEASE TERMINATIONS, THE NEW TRS LEASES AND THE FIVE STAR MANAGEMENT AGREEMENTS REGARDING THE 10 COMMUNITIES TO BE COMPLETED DURING THE REMAINDER OF 2012. ALL OF THE 10 COMMUNITIES AFFECTED BY THE EXPECTED SUNRISE LEASE TERMINATIONS ARE OWNED BY US FREE AND CLEAR OF MORTGAGE DEBTS, AND NO LENDER APPROVALS WILL BE REQUIRED FOR THE LEASE TERMINATIONS, THE NEW TRS LEASES OR THE NEW MANAGEMENT AGREEMENTS. HOWEVER, THE TRANSFERS OF OPERATING CONTROL OF THESE 10 COMMUNITIES ARE SUBJECT TO HEALTH REGULATORY APPROVALS IN THE STATES WHERE THESE COMMUNITIES ARE LOCATED AS WELL AS SOME APPROVALS FROM CERTAIN THIRD PARTY PAYORS FOR RESIDENT SERVICES. WE CANNOT CONTROL THE RESULTS OR TIMING OF THESE APPROVAL PROCESSES. ACCORDINGLY, SOME OF THESE APPROVALS MAY BE DELAYED OR MAY NOT OCCUR AND THE CANCELLATION OF THE SUNRISE LEASES AND TRANSFER OF OPERATIONS TO OUR TRSs MAY BE DELAYED OR MAY NOT OCCUR,
- THIS QUARTERLY REPORT ON FORM 10-Q STATES THAT WE HAVE CERTAIN PROPERTIES CLASSIFIED AS HELD FOR SALE. WE MAY NOT BE ABLE TO SELL THESE PROPERTIES ON TERMS ACCEPTABLE TO US OR OTHERWISE,
- WE MAY BE UNABLE TO REPAY OUR DEBT OBLIGATIONS WHEN THEY BECOME DUE,
- OUR ABILITY TO MAKE FUTURE DISTRIBUTIONS DEPENDS UPON A NUMBER OF FACTORS, INCLUDING OUR FUTURE EARNINGS. WE MAY BE UNABLE TO MAINTAIN OUR CURRENT RATE OF DISTRIBUTIONS ON OUR SHARES AND FUTURE DISTRIBUTIONS MAY BE SUSPENDED OR PAID AT A LESSER RATE THAN THE DISTRIBUTIONS WE NOW PAY,
- OUR ABILITY TO GROW OUR BUSINESS AND INCREASE OUR DISTRIBUTIONS DEPENDS IN LARGE PART UPON OUR ABILITY TO BUY PROPERTIES AND ARRANGE FOR THEIR

PROFITABLE OPERATION OR LEASE THEM FOR RENTS THAT EXCEED OUR CAPITAL COSTS. WE MAY BE UNABLE TO IDENTIFY PROPERTIES THAT WE WANT TO ACQUIRE OR TO NEGOTIATE ACCEPTABLE PURCHASE PRICES, ACQUISITION FINANCING, MANAGEMENT CONTRACTS OR LEASE TERMS FOR NEW PROPERTIES,

- SOME OF OUR TENANTS MAY NOT RENEW EXPIRING LEASES, AND WE MAY BE UNABLE TO LOCATE NEW TENANTS TO MAINTAIN THE HISTORICAL OCCUPANCY RATES OF, OR RENTS FROM, OUR PROPERTIES,
- RENTS THAT WE CAN CHARGE AT OUR PROPERTIES MAY DECLINE BECAUSE OF CHANGING MARKET CONDITIONS OR OTHERWISE, AND
- THIS QUARTERLY REPORT ON FORM 10-Q STATES THAT WE BELIEVE THAT OUR CONTINUING RELATIONSHIPS WITH FIVE STAR, CWH, RMR, AIC AND THEIR AFFILIATED AND RELATED PERSONS AND ENTITIES MAY BENEFIT US AND PROVIDE US WITH ADVANTAGES IN OPERATING AND GROWING OUR BUSINESS. IN FACT, THE ADVANTAGES WE BELIEVE WE MAY REALIZE FROM THESE RELATIONSHIPS MAY NOT MATERIALIZE.

THESE RESULTS COULD OCCUR DUE TO MANY DIFFERENT CIRCUMSTANCES, SOME OF WHICH ARE BEYOND OUR CONTROL, SUCH AS CHANGED MEDICARE AND MEDICAID RATES, NEW LEGISLATION AFFECTING OUR BUSINESS OR THE BUSINESSES OF OUR TENANTS, NATURAL DISASTERS OR CHANGES IN OUR TENANTS' REVENUES OR COSTS, OR CHANGES IN CAPITAL MARKETS OR THE ECONOMY GENERALLY.

THE INFORMATION CONTAINED ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q OR IN OUR ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2011 AS FILED WITH THE SEC, INCLUDING UNDER THE CAPTION "RISK FACTORS", OR INCORPORATED THEREIN IDENTIFIES OTHER IMPORTANT FACTORS THAT COULD CAUSE DIFFERENCES FROM OUR FORWARD LOOKING STATEMENTS. OUR FILINGS WITH THE SEC ARE AVAILABLE AT THE SEC'S WEBSITE AT WWW.SEC.GOV.

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

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

STATEMENT CONCERNING LIMITED LIABILITY

THE AMENDED AND RESTATED DECLARATION OF TRUST ESTABLISHING SENIOR HOUSING PROPERTIES TRUST, DATED SEPTEMBER 20, 1999, AS AMENDED AND SUPPLEMENTED, AS FILED WITH THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND, PROVIDES THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF SENIOR HOUSING PROPERTIES TRUST SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, SENIOR HOUSING PROPERTIES TRUST. ALL PERSONS DEALING WITH SENIOR HOUSING PROPERTIES TRUST IN ANY WAY SHALL LOOK ONLY TO THE ASSETS OF SENIOR HOUSING PROPERTIES TRUST FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

PART II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

As previously reported, on May 17, 2012, we granted 2,000 common shares of beneficial interest, par value \$.01 per share, valued at \$20.48 per share, the closing price of our common shares on the NYSE on that day, to each of our five Trustees. We made these grants pursuant to an exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits.

- 3.1 Composite Copy of Amended and Restated Declaration of Trust, dated September 20, 1999, as amended to date. (*Filed herewith*)
- 3.2 Composite Copy of Amended and Restated Declaration of Trust, dated September 20, 1999, as amended to date (marked copy). (*Filed herewith*)
- 3.3 Articles Supplementary dated May 11, 2000. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.)
- 3.4 Articles Supplementary dated March 10, 2004. (Incorporated by reference to the Company's Registration Statement on Form 8-A dated March 18, 2004.)
- 3.5 Certificate of Correction dated March 29, 2004. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
- 3.6 Amended and Restated Bylaws of the Company, adopted February 14, 2012. (Incorporated by reference to the Company's Current Report on Form 8-K dated June 29, 2012.)
- 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 Indenture, dated as of December 20, 2001, between the Company and State Street Bank and Trust Company. (Incorporated by reference to the Company's Registration Statement on Form S-3, File No. 333-76588.)
- 4.3 Supplemental Indenture No. 1, dated as of December 20, 2001, between the Company and State Street Bank and Trust Company, relating to 8 ⁵/₈% Senior Notes due 2012, including form thereof. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 13, 2002.)
- 4.4 Supplemental Indenture No. 2, dated as of December 28, 2001, between the Company and State Street Bank and Trust Company, relating to 8 ⁵/₈% Senior Notes due 2012. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 13, 2002.)
- 4.5 Supplemental Indenture No. 4, dated as of April 9, 2010, between the Company and U.S. Bank National Association, relating to 6.75% Senior Notes due 2020, including form thereof. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.)
- 4.6 Supplemental Indenture No. 5, dated as of January 13, 2011, between the Company and U.S. Bank National Association, relating to 4.30% Senior Notes due 2016, including form thereof.

(Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.)

- 4.7 Supplemental Indenture No. 6, dated as of December 8, 2011, between the Company and U.S. Bank National Association, relating to 6.75% Senior Notes due 2021, including form thereof. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.)
- 4.8 Supplemental Indenture No. 7, dated as of July 20, 2012, between the Company and U.S. Bank National Association, relating to 5.625% Senior Notes due 2042, including form thereof. (*Filed herewith*)
- 4.9 Rights Agreement, dated as of March 10, 2004, between the Company and EquiServe Trust Company, N.A. (Incorporated by reference to the Company's Current Report on Form 8-K dated March 10, 2004.)
- 4.10 Appointment of Successor Rights Agent, dated as of December 13, 2004, between the Company and Wells Fargo Bank, National Association. (Incorporated by reference to the Company's Current Report on Form 8-K dated December 13, 2004.)
- 10.1 Form of Indemnification Agreement. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 17, 2012.)
- 10.2 Senior Housing Properties Trust 2012 Equity Compensation Plan. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 17, 2012.)
- 10.3 Summary of Trustee Compensation. (Incorporated by reference to the Company's Current Report on Form 8-K dated May 17, 2012.)
- 10.4 Representative Form of Accession Agreement. (*Filed herewith*)
- 10.5 Amended and Restated Shareholders Agreement, dated May 21, 2012, by and among Affiliates Insurance Company, Five Star Quality Care, Inc., Hospitality Properties Trust, CommonWealth REIT, Senior Housing Properties Trust, TravelCenters of America LLC, Reit Management & Research LLC, Government Properties Income Trust and Select Income REIT. (*Filed herewith*)
- 12.1 Computation of Ratios of Earnings to Fixed Charges. (*Filed herewith*)
- 31.1 Rule 13a-14(a) Certification. (*Filed herewith*)
- 31.2 Rule 13a-14(a) Certification. (*Filed herewith*)
- 31.3 Rule 13a-14(a) Certification. (*Filed herewith*)
- 31.4 Rule 13a-14(a) Certification. (*Filed herewith*)
- 32.1 Section 1350 Certification. (*Furnished herewith*)
- 101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash

Flows, and (iv) related notes to these financial statements, tagged as blocks of text and in detail. *(Filed herewith)*

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: August 1, 2012

By: /s/ Richard A. Doyle
Richard A. Doyle
Treasurer and Chief Financial Officer
(principal financial and accounting officer)

Dated: August 1, 2012

SENIOR HOUSING PROPERTIES TRUST

Articles of Amendment and Restatement

September 20, 1999
 As Amended February 13, 2002
 and Amended January 21, 2004
 and Amended February 7, 2007
 and Amended June 1, 2007
 and Amended December 12, 2007
 and Amended February 21, 2008
 and Amended June 3, 2008
 and Amended June 28, 2011
 and Amended July 10, 2012

SENIOR HOUSING PROPERTIES TRUST**ARTICLE S OF AMENDMENT AND RESTATEMENT**

FIRST: Senior Housing Properties Trust, a Maryland real estate investment trust (the “Trust”) formed under Title 8 of the Corporations and Associations Article of the Annotated Code of Maryland (as amended and in effect from time to time, and including any successor title thereto, “Title 8”), desires to amend and restate its Declaration of Trust as currently in effect and as hereinafter amended. All references in the Declaration of Trust to specific sections of Title 8 shall include applicable successor provisions.

SECOND: The following provisions are all the provisions of the Declaration of Trust currently in effect and as hereinafter amended:

ARTICLE I**FORMATION**

The Trust is a real estate investment trust within the meaning of Title 8. It is also intended that the Trust shall carry on a business as a “qualified REIT subsidiary” as described in the REIT provisions of the Code (as defined in Article VII below), for so long as it is wholly owned by HRPT Properties Trust and thereafter shall qualify and carry on business as a “real estate investment trust” as described therein. The Trust shall not be deemed to be a general partnership, limited partnership, joint venture, joint stock company or a corporation, but nothing herein shall preclude the Trust from being treated for tax purposes as an association under the Code; nor shall the Trustees or shareholders or any of them for any purpose be, nor be deemed to be, nor be treated in any way whatsoever as, liable or responsible hereunder as partners or joint venturers.

ARTICLE II**NAME**

The name of the Trust is:

Senior Housing Properties Trust

Under circumstances in which the Board of Trustees of the Trust (the “Board of Trustees” or “Board”) determines that the use of the name of the Trust is not practicable, the Trust may use any other designation or name for the Trust. To the extent permitted by Maryland law, the Board of Trustees may amend the Declaration of Trust to change the name of the Trust without any action by the shareholders.

ARTICLE III

PURPOSES AND POWERS

Section 3.1 Purposes. The purposes for which the Trust is formed are to invest in and to acquire, hold, manage, administer, control and dispose of property and interests in property, including, without limitation or obligation, engaging in business as a real estate investment trust under the Code.

Section 3.2 Powers. The Trust shall have all of the powers granted to real estate investment trusts by Title 8 and all other powers set forth in the Declaration of Trust which are not inconsistent with law and are appropriate to promote and attain the purposes set forth in the Declaration of Trust.

ARTICLE IV

RESIDENT AGENT

The name of the resident agent of the Trust in the State of Maryland is James J. Hanks, Jr., whose post office address is c/o Ballard Spahr Andrews & Ingersoll, LLP, 300 East Lombard Street, Baltimore, Maryland 21202. The resident agent is a citizen of and resides in the State of Maryland. The Trust may change such resident agent from time to time as the Board of Trustees shall determine. The Trust may have such offices or places of business within or outside the State of Maryland as the Board of Trustees may from time to time determine.

ARTICLE V

BOARD OF TRUSTEES

Section 5.1 Powers. Subject to any express limitations contained in the Declaration of Trust or in the Bylaws, (a) the business and affairs of the Trust shall be managed under the direction of the Board of Trustees and (b) the Board shall have full, exclusive and absolute power, control and authority over any and all property of the Trust. The Board may take any action as in its sole judgment and discretion is necessary or appropriate to conduct the business and affairs of the Trust. The Declaration of Trust shall be construed with the presumption in favor of the grant of power and authority to the Board. Any construction of the Declaration of Trust or determination made in good faith by the Board concerning its powers and authority hereunder shall be conclusive. The enumeration and definition of particular powers of the Trustees included in the Declaration of Trust or in the Bylaws shall in no way be construed or deemed by inference or otherwise in any manner to exclude or limit the powers conferred upon the Board or the Trustees under the general laws of the State of Maryland or any other applicable laws.

The Board, without any action by the shareholders of the Trust, shall have and may exercise, on behalf of the Trust, without limitation, the power to terminate the status of the Trust as a real estate investment trust under the Code; to determine that compliance with any restriction or limitations on ownership and transfers of shares of the Trust’s beneficial interest set forth in Article VII of the Declaration of Trust is no longer required in order for the Trust to qualify as a real estate investment trust; to adopt, amend and repeal Bylaws not

inconsistent with law or this Declaration of Trust; to elect officers in the manner prescribed in the Bylaws; to solicit proxies from holders of shares of beneficial interest of the Trust; and to do any other acts and deliver any other documents necessary or appropriate to the foregoing powers.

Section 5.2 Number and Classification.

Section 5.2.1 The number of trustees of the Trust (hereinafter the “Trustees”) initially shall be two (2). On the first date on which the Trust shall have more than one shareholder of record, the number of the Trustees shall automatically and without further action by the Board of Trustees increase to five (5), which number may thereafter be increased or decreased pursuant to the Bylaws of the Trust; provided, however, that no such increase or decrease shall result in the Trust having fewer than three (3) or more than seven (7) Trustees. Any vacancies in the Board of Trustees shall be filled by a majority of the Trustees then in office, except that a majority of the entire Board of Trustees must fill a vacancy resulting from an increase in the number of Trustees.

Section 5.2.2 On the first date on which the Trust shall have more than one shareholder of record, the Board of Trustees shall be classified into three groups: Group I, Group II and Group III. The number of Trustees in each group shall be determined by the Board in accordance with the Bylaws; provided that the number of Trustees in any one group shall not exceed the number of Trustees in any other group by more than one. The Trustees in Group I shall serve for a term ending at the first annual meeting of shareholders following the end of the Trust’s fiscal year ending December 31, 1999, each Trustee in Group II shall serve for a term ending at the following annual meeting of shareholders and the Trustee in Group III shall serve for a term ending at the second following annual meeting of shareholders. After the respective terms of the groups indicated, each such group of Trustees shall be elected for successive terms ending at the annual meeting of shareholders held during the third year after election.

Section 5.2.3 The names and business addresses of the initial Trustees who shall serve as Trustees are as follows:

Name	Address
Gerard M. Martin	c/o Reit Management & Research, Inc. 400 Centre Street Newton, Massachusetts 02458
Barry M. Portnoy	c/o Reit Management & Research, Inc. 400 Centre Street Newton, Massachusetts 02458

Section 5.2.4 The Trustees may fill any vacancy, whether resulting from an increase in the number of Trustees or otherwise, on the Board in the manner provided in the Bylaws. It shall not be necessary to list in the Declaration of Trust the names and addresses of any Trustees hereinafter elected. No reduction in the number of Trustees shall have the effect of removing any Trustee from office prior to the expiration of his or her term. Subject to the provisions of Section 5.3 each Trustee shall hold office until the election and qualification of his or her successor. There shall be no cumulative voting in the election of Trustees.

Section 5.3 Resignation or Removal. Any Trustee may resign by written notice to the Board, effective upon execution and delivery to the Trust of such written notice or upon any future date specified in the notice. A Trustee may be removed at any time with or without cause, at a meeting of the shareholders, by the

affirmative vote of the holders of not less than two-thirds (2/3) of the Shares (as defined in Section 6.1 below) then outstanding and entitled to vote generally in the election of Trustees. A Trustee judged incompetent or for whom a guardian or conservator has been appointed shall be deemed to have resigned as of the date of such adjudication or appointment.

ARTICLE VI

SHARES OF BENEFICIAL INTEREST

Section 6.1 Authorized Shares. The beneficial interest of the Trust shall be divided into shares of beneficial interest (the “Shares”). The Trust has authority to issue 200,000 Shares, consisting of 199,700,000 common shares of beneficial interest, \$.01 par value per share (“Common Shares”), and 300,000 Junior Participating Preferred Shares, \$.01 par value per share. If shares of one class are classified or reclassified into shares of another class of shares pursuant to this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of beneficial interest of all classes that the Trust has authority to issue shall not be more than the total number of shares of beneficial interest set forth in the second sentence of this paragraph. The Board of Trustees, without any action by the shareholders of the Trust, may amend the Declaration of Trust from time to time to increase or decrease the aggregate number of Shares or the number of Shares of any class or series, including preferred shares of beneficial interest (“Preferred Shares”), that the Trust has authority to issue.

Section 6.2 Common Shares. Subject to the provisions of Article VII, each Common Share shall entitle the holder thereof to one vote on each matter upon which holders of Common Shares are entitled to vote. The Board of Trustees may reclassify any unissued Common Shares from time to time in one or more classes or series of Shares.

Section 6.3 Preferred Shares. The Board of Trustees may classify any unissued Preferred Shares and reclassify any previously classified but unissued Preferred Shares of any series from time to time, in one or more series of Shares.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified Shares of any class or series, the Board of Trustees by resolution shall (a) designate that class or series; (b) specify the number of Shares to be included in the class or series; (c) set, subject to the provisions of Article VII, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Trust to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the “SDAT”). Any of the terms of any class or series of Shares set pursuant to clause (c) of this Section 6.4 may be made dependent upon facts ascertainable outside the Declaration of Trust (including the occurrence of any event, determination or action by the Trust or any other person or body) and may vary among holders thereof, provided that the manner in which such facts or variations shall operate upon the terms of such class or series of Shares is clearly and expressly set forth in the articles supplementary filed with the SDAT.

Section 6.5 Authorization by Board of Share Issuance. The Board of Trustees may authorize the issuance from time to time of Shares of any class or series, whether now or hereafter authorized, or securities or rights convertible into Shares of any class or series, whether now or hereafter authorized, for such consideration (whether in cash, property, past or future services, obligation for future payment or otherwise) as the Board of Trustees may deem advisable (or without consideration), subject to such restrictions or limitations, if any, as may be set forth in this Declaration of Trust or the Bylaws of the Trust.

Section 6.6 Dividends and Distributions. The Board of Trustees may from time to time authorize and declare to shareholders such dividends or distributions, in cash or other assets of the Trust or in securities of the Trust or from any other source as the Board of Trustees in its discretion shall determine. Shareholders shall have no right to any dividend or distribution unless and until authorized and declared by the Board. The exercise of the powers and rights of the Board of Trustees pursuant to this Section 6.6 shall be subject to the provisions of any class or series of Shares at the time outstanding.

Section 6.7 General Nature of Shares. All Shares shall be personal property entitling the shareholders only to those rights provided in the Declaration of Trust. The shareholders shall have no interest in the property of the Trust and shall have no right to compel any partition, division, dividend or distribution of the Trust or of the property of the Trust. The death of a shareholder shall not terminate the Trust or affect its continuity nor give his or her legal representative any rights whatsoever, whether against or in respect of other shareholders, the Trustees or the trust estate or otherwise, except the sole right to demand and, subject to the provisions of the Declaration of Trust, the Bylaws and any requirements of law, to receive a new certificate for Shares registered in the name of such legal representative, in exchange for the certificate held by such shareholder. The Trust is entitled to treat as shareholders only those persons in whose names Shares are registered as holders of Shares on the beneficial interest ledger of the Trust.

Section 6.8 Fractional Shares. The Trust may, without the consent or approval of any shareholder, issue fractional Shares, eliminate a fraction of a Share by rounding up or down to a full Share, arrange for the disposition of a fraction of a Share by the person entitled to it or pay cash for the fair value of a fraction of a Share.

Section 6.9 Declaration and Bylaws. All shareholders are subject to the provisions of the Declaration of Trust and the Bylaws of the Trust.

Section 6.10 Divisions and Combinations of Shares. Subject to an express provision to the contrary in the terms of any class or series of beneficial interest hereafter authorized, the Board of Trustees shall have the power to divide or combine the outstanding shares of any class or series of beneficial interest, without a vote of shareholders.

ARTICLE VII

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Affiliate. The term “Affiliate” shall mean, with respect to any Person, another Person controlled by, controlling or under common control with such Person.

Aggregate Share Ownership Limit. The term “Aggregate Share Ownership Limit” shall mean 9.8 percent in value or in number of the aggregate of the outstanding Equity Shares. The value of the outstanding Equity Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes hereof.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include, but not be limited to, interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code. If the Code shall cease to define a charitable organization, “Charitable Beneficiary” shall mean an entity organized to do work for charitable purposes and not for profit.

Charitable Trust. The term “Charitable Trust” shall mean any trust provided for in Section 7.3.1.

Code. The term “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. All references to specific sections of the Code shall include applicable successor provisions.

Common Share Ownership Limit. The term “Common Share Ownership Limit” shall mean 9.8 percent (in value or in number of shares, whichever is more restrictive) of the aggregate outstanding Common Shares. The number and value of outstanding Common Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include, but not be limited to, interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Declaration of Trust. The term “Declaration of Trust” shall mean these Articles of Amendment and Restatement as accepted for record by the SDAT, and any amendments thereto.

Equity Shares. The term “Equity Shares” shall mean Shares of all classes or series, including, without limitation, Common Shares and Preferred Shares.

Excepted Holder. The term “Excepted Holder” shall mean a shareholder of the Trust for whom an Excepted Holder Limit is created by this Article VII or by the Board of Trustees pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Trustees pursuant to Section 7.2.7, and subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Trustees pursuant to Section 7.2.7.

HRPT. The term “HRPT” shall mean HRPT Properties Trust, a Maryland real estate investment trust, or any successor thereto by merger or consolidation, or any transferee of all or substantially all of its assets.

Initial Date. The term “Initial Date” shall mean the date upon which these Articles of Amendment and Restatement containing this Article VII is accepted for record by the SDAT.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding Equity Shares, the Closing Price for such Equity Shares on such date. The “Closing Price” on any date shall mean the last sale price for such Equity Shares, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Equity Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to

trading on the NYSE or, if such Equity Shares are not listed or admitted to trading on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Equity Shares are listed or admitted to trading or, if such Equity Shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Equity Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Equity Shares selected by the Board of Trustees or, in the event that no trading price is available for such Equity Shares, the fair market value of Equity Shares, as determined in good faith by the Board of Trustees.

NYSE. The term “NYSE” shall mean the New York Stock Exchange.

Person. The term “Person” shall mean an individual, corporation, partnership, estate, trust (including, but not limited to, a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and a group to which an Excepted Holder Limit applies.

Prohibited Owner. The term “Prohibited Owner” shall mean, with respect to any purported Transfer, any Person who, but for the provisions of Section 7.2.1, would Beneficially Own or Constructively Own Equity Shares, and if appropriate in the context, shall also mean any Person who would have been the record owner of Equity Shares that the Prohibited Owner would have so owned.

REIT. The term “REIT” shall mean a real estate investment trust within the meaning of Section 856 of the Code.

Restriction Termination Date. The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Trustees determines that it is no longer in the best interests of the Trust for the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of Equity Shares set forth herein to apply.

RMR. The term “RMR” shall mean REIT Management & Research, Inc., the Trust’s investment advisor, or any successor investment advisor to the Trust.

SDAT. The term “SDAT” shall mean the State Department of Assessments and Taxation of Maryland.

Transfer. The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Equity Shares or the right to vote or receive dividends on Equity Shares, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable for Equity Shares or any interest in Equity Shares or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Equity Shares; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms “Transferring” and “Transferred” shall have the correlative meanings.

Trustee. The term “Trustee” shall mean the Person unaffiliated with the Trust and a Prohibited Owner, that is appointed by the Trust to serve as trustee of the Charitable Trust.

Section 7.2 Equity Shares.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder and other than HRPT, RMR and their affiliates, shall Beneficially Own or Constructively Own Equity Shares in excess of the Aggregate Share Ownership Limit, (2) no Person, other than an Excepted Holder and other than HRPT, RMR and their affiliates, shall Beneficially Own or Constructively Own Common Shares in excess of the Common Share Ownership Limit and (3) no Excepted Holder shall Beneficially Own or Constructively Own Equity Shares in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own Equity Shares to the extent that such Beneficial or Constructive Ownership of Equity Shares would result in the Trust being “closely held” within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Trust owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Trust from such tenant would cause the Trust to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Subject to Section 7.4, notwithstanding any other provisions contained herein, any Transfer of Equity Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) that, if effective, would result in Equity Shares being beneficially owned by less than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

(b) Transfer in Trust. If any Transfer of Equity Shares occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning Equity Shares in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of Equity Shares the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded up to the nearest whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such Equity Shares; or

(ii) if the transfer to the Charitable Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of Equity Shares that otherwise would cause any Person to violate Section 7.2.2 or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

Section 7.2.2 Remedies for Breach. If the Board of Trustees or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or

Constructive Ownership of any Equity Shares in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Trustees or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Trust to redeem Equity Shares, refusing to give effect to such Transfer on the books of the Trust or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfers or attempted Transfers or other events in violation of Section 7.2.1 shall automatically result in the transfer to the Charitable Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Trustees or a committee thereof.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of Equity Shares that will or may violate Section 7.2.1(a), or any Person who would have owned Equity Shares that resulted in a transfer to the Charitable Trust pursuant to the provisions of Section 7.2.1(b), shall immediately give written notice to the Trust of such event, or in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Trust such other information as the Trust may request in order to determine the effect, if any, of such Transfer.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding Equity Shares, within 30 days after the end of each taxable year, shall give written notice to the Trust stating the name and address of such owner, the number of Equity Shares and other Equity Shares Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Trust such additional information as the Trust may request in order to determine the effect, if any, of such Beneficial Ownership on the Trust's status as a REIT and to ensure compliance with the Aggregate Share Ownership Limit.

(b) each Person who is a Beneficial or Constructive Owner of Equity Shares and each Person (including the shareholder of record) who is holding Equity Shares for a Beneficial or Constructive Owner shall provide to the Trust such information as the Trust may request, in good faith, in order to determine the Trust's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.1 of the Declaration of Trust, nothing contained in this Section 7.2 shall limit the authority of the Board of Trustees to take such other action as it deems necessary or advisable to protect the Trust and the interests of its shareholders in preserving the Trust's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3 or any definition contained in Section 7.1, the Board of Trustees shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 with respect to any situation based on the facts known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Trustees and the Declaration of Trust fails to provide specific guidance with respect to such action, the Board of Trustees shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3.

Section 7.2.7 Exceptions.

(a) Subject to Section 7.2.1(a)(ii), the Board of Trustees, in its sole discretion, may exempt a Person from the Aggregate Share Ownership Limit and the Common Share Ownership Limit, as the case may be, and may (but is not required to) establish or increase an Excepted Holder Limit for such Person if:

(i) the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such Equity Shares will violate Section 7.2.1(a)(ii);

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Trust (or a tenant of any entity owned or controlled by the Trust) that would cause the Trust to own, actually or Constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Trust (or an entity owned or controlled by the Trust) derives (and is expected to continue to derive) a sufficiently small amount of revenue such that, in the opinion of the Board of Trustees, rent from such tenant would not adversely affect the Trust's ability to qualify as a REIT, shall not be treated as a tenant of the Trust); and

(iii) such Person agrees that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such Equity Shares being automatically transferred to a Charitable Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Trustees may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Trustees in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Trust's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Trustees may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) In determining whether to grant any exemption pursuant to Section 7.2.7(a), the Board of Trustees may consider, among other factors, (i) the general reputation and moral character of the person requesting an exemption, (ii) whether ownership of shares would be direct or through ownership attribution, (iii) whether the person's ownership of shares would adversely affect the Trust's ability to acquire additional properties or engage in other business and (iv) whether granting an exemption for the person requesting an exemption would adversely affect any of the Trust's existing contractual arrangements.

(d) Subject to Section 7.2.1(a)(ii), an underwriter which participates in a public offering or a private placement of Equity Shares (or securities convertible into or exchangeable for Equity Shares) may Beneficially Own or Constructively Own Equity Shares (or securities convertible into or exchangeable for Equity Shares) in excess of the Aggregate Share Ownership Limit, the Common Share Ownership Limit or both such limits, but only to the extent necessary to facilitate such public offering or private placement.

(e) The Board of Trustees may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the Common Share Ownership Limit for an Excepted Holder without the written consent of such Excepted Holder.

Section 7.2.8 Increase in Aggregate Share Ownership and Common Share Ownership Limits. The Board of Trustees may from time to time increase the Common Share Ownership Limit and the Aggregate Share Ownership Limit.

Section 7.2.9 Legend. Each certificate for Equity Shares shall bear substantially the following legend:

The shares evidenced by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose, among others, of the Trust's maintenance of its status as a Real Estate Investment Trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Trust's Declaration of Trust, (i) no Person may Beneficially or Constructively Own Common Shares of the Trust in excess of 9.8 percent (in value or number of shares) of the outstanding Common Shares of the Trust unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially or Constructively Own Equity Shares of the Trust in excess of 9.8 percent of the value of the total outstanding Equity Shares of the Trust, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (iii) no Person may Beneficially or Constructively Own Equity Shares that would result in the Trust being "closely held" under Section 856(h) of the Code or otherwise cause the Trust to fail to qualify as a REIT; and (iv) no Person may Transfer Equity Shares if such Transfer would result in Equity Shares of the Trust being owned by fewer than 100 Persons. Any Person who Beneficially or Constructively Owns or attempts to Beneficially or Constructively Own Equity Shares which cause or will cause a Person to Beneficially or Constructively Own Equity Shares in excess or in violation of the above limitations must immediately notify the Trust. If any of the restrictions on transfer or ownership are violated, the Equity Shares represented hereby will be automatically transferred to a Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries. In addition, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Trust's Declaration of Trust, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Equity Shares of the Trust on request and without charge.

Instead of the foregoing legend, the certificate may state that the Trust will furnish a full statement about certain restrictions on transferability to a shareholder on request and without charge.

Section 7.3 Transfer of Equity Shares in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of Equity Shares to a Charitable Trust, such Equity Shares shall be deemed to have been transferred to the Trustee as trustee of a Charitable Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Trust and shall be a Person unaffiliated with the Trust and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Trust as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Equity Shares held by the Trustee shall be issued and outstanding Equity Shares of the Trust. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust

by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Charitable Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to Equity Shares held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee shall be paid with respect to such Equity Shares to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Charitable Trust and, subject to Maryland law, effective as of the date that Equity Shares have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Trust has already taken irreversible trust action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Trust has received notification that Equity Shares have been transferred into a Charitable Trust, the Trust shall be entitled to rely on its share transfer and other shareholder records for purposes of preparing lists of shareholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of shareholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Trust that Equity Shares have been transferred to the Charitable Trust, the Trustee of the Charitable Trust shall sell the shares held in the Charitable Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Charitable Trust (e.g., in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Charitable Trust and (2) the price per share received by the Trustee from the sale or other disposition of the shares held in the Charitable Trust. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Charitable Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Shares Transferred to the Trustee. Equity Shares transferred to the Trustee shall be deemed to have been offered for sale to the Trust, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Trust, or its designee, accepts such offer. The Trust shall have the right to accept such offer until the Trustee has sold the shares held in the Charitable Trust pursuant to Section 7.3.4. Upon such a sale to the Trust, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Trust shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the

Charitable Trust such that Equity Shares held in the Charitable Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Trust is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Trust or the Board of Trustees in exercising any right hereunder shall operate as a waiver of any right of the Trust or the Board of Trustees, as the case may be, except to the extent specifically waived in writing.

ARTICLE VIII

SHAREHOLDERS

Section 8.1 Meetings. There shall be an annual meeting of the shareholders, to be held on proper notice at such time (after the delivery of the annual report) and convenient location as shall be determined by or in the manner prescribed in the Bylaws, for the election of the Trustees, if required, and for the transaction of any other business within the powers of the Trust. Except as otherwise provided in the Declaration of Trust, special meetings of shareholders may be called in the manner provided in the Bylaws. Shareholders meetings, including the annual meeting and any special meetings, may be called only by the Board of Trustees. If there are no Trustees, the officers of the Trust shall promptly call a special meeting of the shareholders entitled to vote for the election of successor Trustees. Any meeting may be adjourned and reconvened as the Trustees determine or as provided in the Bylaws.

Section 8.2 Voting Rights. Subject to the provisions of any class or series of Shares then outstanding, the shareholders shall be entitled to vote only on the following matters: (a) election of Trustees as provided in Section 5.2 and the removal of Trustees as provided in Section 5.3; (b) amendment of the Declaration of Trust as provided in Article X; (c) termination of the Trust as provided in Section 12.2; (d) merger or consolidation of the Trust to the extent required by Title 8, or the sale or disposition of substantially all of the Trust Property, as provided in Article XI; and (e) such other matters with respect to which the Board of Trustees has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the shareholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the shareholders at any meeting shall in any way bind the Board of Trustees.

Section 8.3 Preemptive and Appraisal Rights. Except as may be provided by the Board of Trustees in setting the terms of classified or reclassified Shares pursuant to Section 6.4, or as may otherwise be provided by contract, no holder of Shares shall, as such holder, (a) have any preemptive right to purchase or subscribe for any additional Shares of the Trust or any other security of the Trust which it may issue or sell or (b) have any right to require the Trust to pay him the fair value of his Shares in an appraisal or similar proceeding.

Section 8.4 Extraordinary Actions. Except as specifically provided in Section 5.3 (relating to removal of Trustees) and subject to Section 8.5, notwithstanding any provision of law permitting or requiring any action to be taken or authorized by the affirmative vote of the holders of a greater number of votes, any such action shall be effective and valid if taken or approved by (i) the affirmative vote of holders of Shares entitled to cast a majority of all the votes entitled to be cast on the matter, or (ii) if Maryland law hereafter

permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter.

Section 8.5 Board Approval. The submission of any action to the shareholders for their consideration shall first be approved or advised by the Board of Trustees, and the shareholders shall not otherwise be entitled to act thereon.

Section 8.6 Action By Shareholders Without a Meeting. To the extent, if any, permitted by the Bylaws of the Trust, any action required or permitted to be taken by the shareholders may be taken without a meeting by the written consent of the shareholders entitled to cast a sufficient number of votes to approve the matter as required by statute, the Declaration of Trust or the Bylaws of the Trust, as the case may be.

Section 8.7 Indemnification of the Trust. Each shareholder will indemnify and hold harmless the Trust from and against all costs, expenses, penalties, fines and other amounts, including, without limitation, attorneys' and other professional fees, whether third party or internal, arising from such shareholder's violation of any provision of this Declaration of Trust or the Bylaws, including, without limitation, Article VII, and shall pay such sums to the Trust upon demand, together with interest on such amounts, which interest will accrue at the lesser of 15% per annum and the maximum amount permitted by law, from the date such costs or the like are incurred until the receipt of repayment by the Trust. Nothing in this Section shall create or increase the liability of any shareholders, trustees, officers, employees or agents of the Trust for actions taken on behalf of the Trust.

ARTICLE IX

LIABILITY LIMITATION, INDEMNIFICATION AND TRANSACTIONS WITH THE TRUST

Section 9.1 Limitation of Shareholder Liability. No shareholder shall be liable for any debt, claim, demand, judgment or obligation of any kind of, against or with respect to the Trust by reason of his being a shareholder, nor shall any shareholder be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the property or the affairs of the Trust by reason of his being a shareholder.

Section 9.2 Limitation of Trustee and Officer Liability. To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of trustees and officers of a real estate investment trust, no current or former Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages. Neither the amendment nor repeal of this Section 9.2, nor the adoption or amendment of any other provision of the Declaration of Trust inconsistent with this Section 9.2, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption. In the absence of any Maryland statute limiting the liability of trustees and officers of a Maryland real estate investment trust for money damages in a suit by or on behalf of the Trust or by any shareholder, or arising by reason of his or her action on behalf of the Trust, no Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages except to the extent that (a) the Trustee or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property or services actually received, or (b) a judgment or other final adjudication adverse to the Trustee or officer is entered in a proceeding based on a finding in the proceeding that the Trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Section 9.3 Express Exculpatory Clauses and Instruments. Any written instrument creating an obligation of the Trust shall, to the extent practicable, include a reference to this Declaration and provide that

neither the shareholders nor the Trustees nor any officers, employees or agents (including the Trust's advisor, the "Advisor") of the Trust shall be liable thereunder and that all persons shall look solely to the trust estate for the payment of any claim thereunder or for the performance thereof; however, the omission of such provision from any such instrument shall not render the shareholders, any Trustee, or any officer, employee or agent (including the Advisor) of the Trust liable, nor shall the shareholders, any Trustee or any officer, employee or agent (including the Advisor) of the Trust be liable to anyone for such omission.

Section 9.4 Indemnification. The Trust shall, to the maximum extent permitted by Maryland law in effect from time to time, indemnify, and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former shareholder, Trustee or officer of the Trust or (b) any individual who, while a Trustee of the Trust and at the request of the Trust, serves or has served as a trustee, director, officer, partner, employee or agent of another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his status as a present or former shareholder, Trustee or officer of the Trust. The Trust shall have the power, with the approval of its Board of Trustees, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust.

Section 9.5 Transactions Between the Trust and its Trustees, Officers, Employees and Agents. (a) Subject to any express restrictions adopted by the Trustees in the Bylaws or by resolution, the Trust may enter into any contract or transaction of any kind, whether or not any of its Trustees, officers, employees or agents has a financial interest in such transaction, with any person, including any Trustee, officer, employee or agent of the Trust or any person affiliated with a Trustee, officer, employee or agent of the Trust or in which a Trustee, officer, employee or agent of the Trust has a material financial interest.

(b) To the extent permitted by Maryland law, a contract or other transaction between the Trust and any Trustee or between the Trust and RMR or any other corporation, trust, firm, or other entity in which any Trustee is a director or trustee or has a material financial interest shall not be void or voidable if:

(i) The fact of the common directorship, trusteeship or interest is disclosed or known to:

(A) The Board of Trustees or a proper committee thereof, and the Board of Trustees or such Committee authorizes, approves or ratifies the contract or transaction by the affirmative vote of a majority of disinterested Trustees, even if the disinterested Trustees constitute less than a quorum; or

(B) The shareholders entitled to vote, and the contract or transaction is authorized, approved, or ratified by a majority of the votes cast by the shareholders entitled to vote other than the votes of shares owned of record or beneficially by the interested trustee, corporation, trust, firm or other entity; or

(C) The contract or transaction is fair and reasonable to the Trust.

(ii) Common or interested trustees or the shares owned by them or by an interested corporation, trust, firm or other entity may be counted in determining the presence of a quorum at a meeting of the Board of Trustees or a committee thereof or at a meeting of the shareholders, as the case may be, at which the contract or transaction is authorized, approved or ratified.

(c) The failure of a contract or other transaction between the Trust and any Trustee or between the Trust and RMR or any other corporation, trust, firm, or other entity in which any Trustee is a director or trustee or has a material financial interest to satisfy the criteria set forth in Section 9.5(b) shall not create any presumption that such contract or other transaction is void, voidable or otherwise invalid, and any such contract or other transaction shall be valid to the fullest extent permitted by Maryland law. To the fullest extent permitted by Maryland law, (i) the fixing by the Board of Trustees of compensation for a Trustee (whether as a Trustee or in any other capacity) and (ii) Section 9.4 of this Declaration of Trust or any provision of the Bylaws or any contract or transaction requiring or permitting indemnification (including advancing of expenses) in accordance with terms and procedures not materially less favorable to the Trust than those described in Section 2-418 (or any successor section thereto) of the Maryland General Corporation Law (as in effect at the time such provision was adopted or such contract or transaction was entered into or as it may thereafter be in effect) shall be deemed to have satisfied the criteria set forth in Section 9.5(b).

Section 9.6 Right of Trustees, Officers, Employees and Agents to Own Shares or Other Property and to Engage in Other Business. Subject to any restrictions which may be adopted by the Trustees in the Bylaws or otherwise: Any Trustee or officer, employee or agent of the Trust may acquire, own, hold and dispose of Shares in the Trust, for his or her individual account, and may exercise all rights of a shareholder to the same extent and in the same manner as if he or she were not a Trustee or officer, employee or agent of the Trust. Any Trustee or officer, employee or agent of the Trust may, in his or her personal capacity or in the capacity of trustee, officer, director, stockholder, partner, member, advisor or employee of any Person or otherwise, have business interests and engage in business activities similar to or in addition to those relating to the Trust, which interests and activities may be similar to and competitive with those of the Trust and may include the acquisition, syndication, holding, management, development, operation or disposition, for his own account, or for the account of such Person or others, of interests in mortgages, interests in real property, or interests in Persons engaged in the real estate business. Each Trustee, officer, employee and agent of the Trust shall be free of any obligation to present to the Trust any investment opportunity which comes to him or her in any capacity other than solely as Trustee, officer, employee or agent of the Trust even if such opportunity is of a character which, if presented to the Trust, could be taken by the Trust. Any Trustee or officer, employee or agent of the Trust may be interested as trustee, officer, director, stockholder, partner, member, advisor or employee of, or otherwise have a direct or indirect interest in, any Person who may be engaged to render advice or services to the Trust, and may receive compensation from such Person as well as compensation as Trustee, officer, employee or agent or otherwise hereunder. None of these activities shall be deemed to conflict with his or her duties and powers as Trustee or officer, employee or agent of the Trust.

Section 9.7 Persons Dealing with Trustees, Officers, Employees or Agents. Any act of the Trustees or of the officers, employees or agents of the Trust purporting to be done in their capacity as such, shall, as to any Persons dealing with such Trustees, officers, employees or agents, be conclusively deemed to be within the purposes of this Trust and within the powers of such Trustees or officers, employees or agents. No Person dealing with the Board or any of the Trustees or with the officers, employees or agents of the Trust shall be bound to see to the application of any funds or property passing into their hands or control. The receipt of the Board or any of the Trustees, or of authorized officers, employees or agents of the Trust, for moneys or other consideration, shall be binding upon the Trust.

Section 9.8 Reliance. The Trustees and the officers, employees and agents of the Trust may consult with counsel and the advice or opinion of such counsel shall be full and complete personal protection to all the Trustees and the officers, employees and agents of the Trust in respect of any action taken or suffered by them in good faith and in reliance on or in accordance with such advice or opinion. In discharging their duties, Trustees or officers, employees or agents of the Trust, when acting in good faith, may rely upon financial statements of the Trust represented to them to fairly present the financial position or results of operations of the

Trust by the chief financial officer of the Trust or the officer of the Trust having charge of its books of account, or stated in a written report by an independent certified public accountant fairly to present the financial position or results of operations of the Trust. The Trustees and the officers, employees and agents of the Trust may rely, and shall be personally protected in acting, upon any instrument or other document believed by them to be genuine.

ARTICLE X

AMENDMENTS

Section 10.1 General. The Trust reserves the right from time to time to make any amendment to the Declaration of Trust, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Declaration of Trust, of any Shares, except that the provisions governing the personal liability of the shareholders, Trustees and of the officers, employees and agents of the Trust and the prohibition of assessments upon shareholders may not be amended in any respect that could increase the personal liability of such shareholders, Trustees or officers, employees and agents of the Trust. All rights and powers conferred by the Declaration of Trust on shareholders, Trustees and officers are granted subject to this reservation. An amendment to the Declaration of Trust (a) shall be signed and acknowledged by at least a majority of the Trustees, or an officer duly authorized by at least a majority of the Trustees, (b) shall be filed for record as provided in Section 13.5 and (c) shall become effective as of the later of the time the SDAT accepts the amendment for record or the time established in the amendment, not to exceed thirty (30) days after the amendment is accepted for record. All references to the Declaration of Trust shall include all amendments thereto.

Section 10.2 By Trustees. The Trustees may amend this Declaration of Trust from time to time, in the manner provided by Title 8, without any action by the shareholders, to qualify as a real estate investment trust under the Code or under Title 8 and as otherwise provided in Section 8-501(e) of Title 8 and the Declaration of Trust. If permitted by Maryland law as in effect from time to time, the Trustees may amend this Declaration of Trust from time to time in any other respect, in accordance with such law, without any action by the shareholders.

Section 10.3 By Shareholders. Except as otherwise provided in Section 10.2 and subject to the following sentence, any amendment to this Declaration of Trust must first be advised by the Board of Trustees and then shall be valid only if approved by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) if Maryland law hereafter permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter. Any amendment to Section 5.2.2 or 5.3 or to this sentence of the Declaration of Trust shall be valid only if approved by the Board of Trustees and then by the affirmative vote of two-thirds (2/3) of all votes entitled to be cast on the matter.

ARTICLE XI

MERGER, CONSOLIDATION OR SALE OF TRUST PROPERTY

Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may (a) merge with or into another entity, (b) consolidate with one or more other entities into a new entity or (c) sell, lease, exchange or otherwise transfer all or substantially all of the trust property. Any such action must first be approved by the Board of Trustees and, after notice to all shareholders entitled to vote on the matter, by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) if Maryland law hereafter permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter

ARTICLE XII

DURATION AND TERMINATION OF TRUST

Section 12.1 Duration. The Trust shall continue perpetually unless terminated pursuant to Section 12.2.

Section 12.2 Termination.

(a) Subject to the provisions of any class or series of Shares at the time outstanding, after approval by a majority of the entire Board of Trustees, the Trust may be terminated at any meeting of shareholders by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) or if hereafter expressly authorized by Title 8, the affirmative vote of a majority of the votes cast on the matter. Upon the termination of the Trust:

(i) The Trust shall carry on no business except for the purpose of winding up its affairs.

(ii) The Trustees shall proceed to wind up the affairs of the Trust and all of the powers of the Trustees under the Declaration of Trust shall continue, including the powers to fulfill or discharge the Trust's contracts, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining property of the Trust to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities and do all other acts appropriate to liquidate its business.

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and agreements as they deem necessary for their protection, the Trust may distribute the remaining property of the Trust among the shareholders so that after payment in full or the setting apart for payment of such preferential amounts, if any, to which the holders of any Shares at the time outstanding shall be entitled, the remaining property of the Trust shall, subject to any participating or similar rights of Shares at the time outstanding, be distributed ratably among the holders of Common Shares at the time outstanding.

(b) After termination of the Trust, the liquidation of its business and the distribution to the shareholders as herein provided, a majority of the Trustees shall execute and file with the Trust's records a document certifying that the Trust has been duly terminated and the Trustees shall be discharged from all liabilities and duties hereunder, and the rights and interests of all shareholders shall cease.

ARTICLE XIII

MISCELLANEOUS

Section 13.1 Governing Law. The Declaration of Trust is executed and delivered with reference to the laws of the State of Maryland, and the rights of all parties and the validity, construction and effect of every provision hereof shall be subject to and construed according to the laws of the State of Maryland.

Section 13.2 Reliance by Third Parties. Any certificate shall be final and conclusive as to any person dealing with the Trust if executed by the Secretary or an Assistant Secretary of the Trust or a Trustee, and if certifying to: (a) the number or identity of Trustees, officers of the Trust or shareholders; (b) the due authorization of the execution of any document; (c) the action or vote taken, and the existence of a quorum, at a meeting of the Board of Trustees or shareholders; (d) a copy of the Declaration of Trust or of the Bylaws as a

true and complete copy as then in force; (e) an amendment to the Declaration of Trust; (f) the termination of the Trust; or (g) the existence of any fact relating to the affairs of the Trust. No purchaser, lender, transfer agent or other person shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trust on its behalf or by any officer, employee or agent of the Trust.

Section 13.3 Severability.

(a) The provisions of the Declaration of Trust are severable, and if the Board of Trustees shall determine, with the advice of counsel, that any one or more of such provisions (the "Conflicting Provisions") are in conflict with the Code, Title 8 or other applicable federal or state laws, the Conflicting Provisions, to the extent of the conflict, shall be deemed never to have constituted a part of the Declaration of Trust, even without any amendment of the Declaration of Trust pursuant to Article X and without affecting or impairing any of the remaining provisions of the Declaration of Trust or rendering invalid or improper any action taken or omitted (including but not limited to the election of Trustees) prior to such determination. No Trustee shall be liable for making or failing to make such a determination. In the event of any such determination by the Board of Trustees, the Board shall amend the Declaration of Trust in the manner provided in Section 10.2.

(b) If any provision of the Declaration of Trust shall be held invalid or unenforceable in any jurisdiction, such holding shall apply only to the extent of any such invalidity or unenforceability and shall not in any manner affect, impair or render invalid or unenforceable such provision in any other jurisdiction or any other provision of the Declaration of Trust in any jurisdiction.

Section 13.4 Construction. In the Declaration of Trust, unless the context otherwise requires, words used in the singular or in the plural include both the plural and singular and words denoting any gender include all genders. The title and headings of different parts are inserted for convenience and shall not affect the meaning, construction or effect of the Declaration of Trust. In defining or interpreting the powers and duties of the Trust and its Trustees and officers, reference may be made by the Trustees or officers, to the extent appropriate and not inconsistent with the Code or Title 8, to Titles 1 through 3 of the Corporations and Associations Article of the Annotated Code of Maryland. In furtherance and not in limitation of the foregoing, in accordance with the provisions of Title 3, Subtitles 6 and 7, of the Corporations and Associations Article of the Annotated Code of Maryland, the Trust shall be included within the definition of "corporation" for purposes of such provisions.

Section 13.5 Recordation. The Declaration of Trust and any amendment hereto shall be filed for record with the SDAT and may also be filed or recorded in such other places as the Trustees deem appropriate, but failure to file for record the Declaration of Trust or any amendment hereto in any office other than in the State of Maryland shall not affect or impair the validity or effectiveness of the Declaration of Trust or any amendment hereto. A restated Declaration of Trust shall, upon filing, be conclusive evidence of all amendments contained therein and may thereafter be referred to in lieu of the original Declaration of Trust and the various amendments thereto.

THIRD: The amendment to and restatement of the Declaration of Trust of the Trust as hereinabove set forth have been duly advised by the Board of Trustees and approved by the shareholders of the Trust as required by law.

FOURTH: The total number of shares of beneficial interest which the Trust has authority to issue has not been amended by this amendment and restatement.

SENIOR HOUSING PROPERTIES TRUST

Articles of Amendment and Restatement

September 20, 1999
 As Amended February 13, 2002
 and Amended January 21, 2004
 and Amended February 7, 2007
 and Amended June 1, 2007
 and Amended December 12, 2007
 and Amended February 21, 2008
 and Amended June 3, 2008
 and Amended June 28, 2011
and Amended June 10, 2012

SENIOR HOUSING PROPERTIES TRUST**ARTICLE S OF AMENDMENT AND RESTATEMENT**

FIRST: Senior Housing Properties Trust, a Maryland real estate investment trust (the “Trust”) formed under Title 8 of the Corporations and Associations Article of the Annotated Code of Maryland (as amended and in effect from time to time, and including any successor title thereto, “Title 8”), desires to amend and restate its Declaration of Trust as currently in effect and as hereinafter amended. All references in the Declaration of Trust to specific sections of Title 8 shall include applicable successor provisions.

SECOND: The following provisions are all the provisions of the Declaration of Trust currently in effect and as hereinafter amended:

ARTICLE I**FORMATION**

The Trust is a real estate investment trust within the meaning of Title 8. It is also intended that the Trust shall carry on a business as a “qualified REIT subsidiary” as described in the REIT provisions of the Code (as defined in Article VII below), for so long as it is wholly owned by HRPT Properties Trust and thereafter shall qualify and carry on business as a “real estate investment trust” as described therein. The Trust shall not be deemed to be a general partnership, limited partnership, joint venture, joint stock company or a corporation, but nothing herein shall preclude the Trust from being treated for tax purposes as an association under the Code; nor shall the Trustees or shareholders or any of them for any purpose be, nor be deemed to be, nor be treated in any way whatsoever as, liable or responsible hereunder as partners or joint venturers.

ARTICLE II**NAME**

The name of the Trust is:

Senior Housing Properties Trust

Under circumstances in which the Board of Trustees of the Trust (the “Board of Trustees” or “Board”) determines that the use of the name of the Trust is not practicable, the Trust may use any other designation or name for the Trust. To the extent permitted by Maryland law, the Board of Trustees may amend the Declaration of Trust to change the name of the Trust without any action by the shareholders.

ARTICLE III

PURPOSES AND POWERS

Section 3.1 Purposes. The purposes for which the Trust is formed are to invest in and to acquire, hold, manage, administer, control and dispose of property and interests in property, including, without limitation or obligation, engaging in business as a real estate investment trust under the Code.

Section 3.2 Powers. The Trust shall have all of the powers granted to real estate investment trusts by Title 8 and all other powers set forth in the Declaration of Trust which are not inconsistent with law and are appropriate to promote and attain the purposes set forth in the Declaration of Trust.

ARTICLE IV

RESIDENT AGENT

The name of the resident agent of the Trust in the State of Maryland is James J. Hanks, Jr., whose post office address is c/o Ballard Spahr Andrews & Ingersoll, LLP, 300 East Lombard Street, Baltimore, Maryland 21202. The resident agent is a citizen of and resides in the State of Maryland. The Trust may change such resident agent from time to time as the Board of Trustees shall determine. The Trust may have such offices or places of business within or outside the State of Maryland as the Board of Trustees may from time to time determine.

ARTICLE V

BOARD OF TRUSTEES

Section 5.1 Powers. Subject to any express limitations contained in the Declaration of Trust or in the Bylaws, (a) the business and affairs of the Trust shall be managed under the direction of the Board of Trustees and (b) the Board shall have full, exclusive and absolute power, control and authority over any and all property of the Trust. The Board may take any action as in its sole judgment and discretion is necessary or appropriate to conduct the business and affairs of the Trust. The Declaration of Trust shall be construed with the presumption in favor of the grant of power and authority to the Board. Any construction of the Declaration of Trust or determination made in good faith by the Board concerning its powers and authority hereunder shall be conclusive. The enumeration and definition of particular powers of the Trustees included in the Declaration of Trust or in the Bylaws shall in no way be construed or deemed by inference or otherwise in any manner to exclude or limit the powers conferred upon the Board or the Trustees under the general laws of the State of Maryland or any other applicable laws.

The Board, without any action by the shareholders of the Trust, shall have and may exercise, on behalf of the Trust, without limitation, the power to terminate the status of the Trust as a real estate investment trust under the Code; to determine that compliance with any restriction or limitations on ownership and transfers of shares of the Trust’s beneficial interest set forth in Article VII of the Declaration of Trust is no longer required in order for the Trust to qualify as a real estate investment trust; to adopt, amend and repeal Bylaws not

inconsistent with law or this Declaration of Trust; to elect officers in the manner prescribed in the Bylaws; to solicit proxies from holders of shares of beneficial interest of the Trust; and to do any other acts and deliver any other documents necessary or appropriate to the foregoing powers.

Section 5.2 Number and Classification.

Section 5.2.1 The number of trustees of the Trust (hereinafter the “Trustees”) initially shall be two (2). On the first date on which the Trust shall have more than one shareholder of record, the number of the Trustees shall automatically and without further action by the Board of Trustees increase to five (5), which number may thereafter be increased or decreased pursuant to the Bylaws of the Trust; provided, however, that no such increase or decrease shall result in the Trust having fewer than three (3) or more than seven (7) Trustees. Any vacancies in the Board of Trustees shall be filled by a majority of the Trustees then in office, except that a majority of the entire Board of Trustees must fill a vacancy resulting from an increase in the number of Trustees.

Section 5.2.2 On the first date on which the Trust shall have more than one shareholder of record, the Board of Trustees shall be classified into three groups: Group I, Group II and Group III. The number of Trustees in each group shall be determined by the Board in accordance with the Bylaws; provided that the number of Trustees in any one group shall not exceed the number of Trustees in any other group by more than one. The Trustees in Group I shall serve for a term ending at the first annual meeting of shareholders following the end of the Trust’s fiscal year ending December 31, 1999, each Trustee in Group II shall serve for a term ending at the following annual meeting of shareholders and the Trustee in Group III shall serve for a term ending at the second following annual meeting of shareholders. After the respective terms of the groups indicated, each such group of Trustees shall be elected for successive terms ending at the annual meeting of shareholders held during the third year after election.

Section 5.2.3 The names and business addresses of the initial Trustees who shall serve as Trustees are as follows:

Name	Address
Gerard M. Martin	c/o Reit Management & Research, Inc. 400 Centre Street Newton, Massachusetts 02458
Barry M. Portnoy	c/o Reit Management & Research, Inc. 400 Centre Street Newton, Massachusetts 02458

Section 5.2.4 The Trustees may fill any vacancy, whether resulting from an increase in the number of Trustees or otherwise, on the Board in the manner provided in the Bylaws. It shall not be necessary to list in the Declaration of Trust the names and addresses of any Trustees hereinafter elected. No reduction in the number of Trustees shall have the effect of removing any Trustee from office prior to the expiration of his or her term. Subject to the provisions of Section 5.3 each Trustee shall hold office until the election and qualification of his or her successor. There shall be no cumulative voting in the election of Trustees.

Section 5.3 Resignation or Removal. Any Trustee may resign by written notice to the Board, effective upon execution and delivery to the Trust of such written notice or upon any future date specified in the notice. A Trustee may be removed at any time with or without cause, at a meeting of the shareholders, by the

affirmative vote of the holders of not less than two-thirds (2/3) of the Shares (as defined in Section 6.1 below) then outstanding and entitled to vote generally in the election of Trustees. A Trustee judged incompetent or for whom a guardian or conservator has been appointed shall be deemed to have resigned as of the date of such adjudication or appointment.

ARTICLE VI

SHARES OF BENEFICIAL INTEREST

Section 6.1 Authorized Shares. The beneficial interest of the Trust shall be divided into shares of beneficial interest (the "Shares"). The Trust has authority to issue ~~175,000,000~~ 200,000,000 Shares, consisting of ~~174,700,000~~ 199,700,000 common shares of beneficial interest, \$.01 par value per share ("Common Shares"), and 300,000 Junior Participating Preferred Shares, \$.01 par value per share. If shares of one class are classified or reclassified into shares of another class of shares pursuant to this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of beneficial interest of all classes that the Trust has authority to issue shall not be more than the total number of shares of beneficial interest set forth in the second sentence of this paragraph. The Board of Trustees, without any action by the shareholders of the Trust, may amend the Declaration of Trust from time to time to increase or decrease the aggregate number of Shares or the number of Shares of any class or series, including preferred shares of beneficial interest ("Preferred Shares"), that the Trust has authority to issue.

Section 6.2 Common Shares. Subject to the provisions of Article VII, each Common Share shall entitle the holder thereof to one vote on each matter upon which holders of Common Shares are entitled to vote. The Board of Trustees may reclassify any unissued Common Shares from time to time in one or more classes or series of Shares.

Section 6.3 Preferred Shares. The Board of Trustees may classify any unissued Preferred Shares and reclassify any previously classified but unissued Preferred Shares of any series from time to time, in one or more series of Shares.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified Shares of any class or series, the Board of Trustees by resolution shall (a) designate that class or series; (b) specify the number of Shares to be included in the class or series; (c) set, subject to the provisions of Article VII, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Trust to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the "SDAT"). Any of the terms of any class or series of Shares set pursuant to clause (c) of this Section 6.4 may be made dependent upon facts ascertainable outside the Declaration of Trust (including the occurrence of any event, determination or action by the Trust or any other person or body) and may vary among holders thereof, provided that the manner in which such facts or variations shall operate upon the terms of such class or series of Shares is clearly and expressly set forth in the articles supplementary filed with the SDAT.

Section 6.5 Authorization by Board of Share Issuance. The Board of Trustees may authorize the issuance from time to time of Shares of any class or series, whether now or hereafter authorized, or securities or rights convertible into Shares of any class or series, whether now or hereafter authorized, for such consideration (whether in cash, property, past or future services, obligation for future payment or otherwise) as the Board of Trustees may deem advisable (or without consideration), subject to such restrictions or limitations, if any, as may be set forth in this Declaration of Trust or the Bylaws of the Trust.

Section 6.6 Dividends and Distributions. The Board of Trustees may from time to time authorize and declare to shareholders such dividends or distributions, in cash or other assets of the Trust or in securities of the Trust or from any other source as the Board of Trustees in its discretion shall determine. Shareholders shall have no right to any dividend or distribution unless and until authorized and declared by the Board. The exercise of the powers and rights of the Board of Trustees pursuant to this Section 6.6 shall be subject to the provisions of any class or series of Shares at the time outstanding.

Section 6.7 General Nature of Shares. All Shares shall be personal property entitling the shareholders only to those rights provided in the Declaration of Trust. The shareholders shall have no interest in the property of the Trust and shall have no right to compel any partition, division, dividend or distribution of the Trust or of the property of the Trust. The death of a shareholder shall not terminate the Trust or affect its continuity nor give his or her legal representative any rights whatsoever, whether against or in respect of other shareholders, the Trustees or the trust estate or otherwise, except the sole right to demand and, subject to the provisions of the Declaration of Trust, the Bylaws and any requirements of law, to receive a new certificate for Shares registered in the name of such legal representative, in exchange for the certificate held by such shareholder. The Trust is entitled to treat as shareholders only those persons in whose names Shares are registered as holders of Shares on the beneficial interest ledger of the Trust.

Section 6.8 Fractional Shares. The Trust may, without the consent or approval of any shareholder, issue fractional Shares, eliminate a fraction of a Share by rounding up or down to a full Share, arrange for the disposition of a fraction of a Share by the person entitled to it or pay cash for the fair value of a fraction of a Share.

Section 6.9 Declaration and Bylaws. All shareholders are subject to the provisions of the Declaration of Trust and the Bylaws of the Trust.

Section 6.10 Divisions and Combinations of Shares. Subject to an express provision to the contrary in the terms of any class or series of beneficial interest hereafter authorized, the Board of Trustees shall have the power to divide or combine the outstanding shares of any class or series of beneficial interest, without a vote of shareholders.

ARTICLE VII

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Affiliate. The term “Affiliate” shall mean, with respect to any Person, another Person controlled by, controlling or under common control with such Person.

Aggregate Share Ownership Limit. The term “Aggregate Share Ownership Limit” shall mean 9.8 percent in value or in number of the aggregate of the outstanding Equity Shares. The value of the outstanding Equity Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes hereof.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include, but not be limited to, interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code. If the Code shall cease to define a charitable organization, “Charitable Beneficiary” shall mean an entity organized to do work for charitable purposes and not for profit.

Charitable Trust. The term “Charitable Trust” shall mean any trust provided for in Section 7.3.1.

Code. The term “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. All references to specific sections of the Code shall include applicable successor provisions.

Common Share Ownership Limit. The term “Common Share Ownership Limit” shall mean 9.8 percent (in value or in number of shares, whichever is more restrictive) of the aggregate outstanding Common Shares. The number and value of outstanding Common Shares shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Equity Shares by a Person, whether the interest in Equity Shares is held directly or indirectly (including by a nominee), and shall include, but not be limited to, interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Declaration of Trust. The term “Declaration of Trust” shall mean these Articles of Amendment and Restatement as accepted for record by the SDAT, and any amendments thereto.

Equity Shares. The term “Equity Shares” shall mean Shares of all classes or series, including, without limitation, Common Shares and Preferred Shares.

Excepted Holder. The term “Excepted Holder” shall mean a shareholder of the Trust for whom an Excepted Holder Limit is created by this Article VII or by the Board of Trustees pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Trustees pursuant to Section 7.2.7, and subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Trustees pursuant to Section 7.2.7.

HRPT. The term “HRPT” shall mean HRPT Properties Trust, a Maryland real estate investment trust, or any successor thereto by merger or consolidation, or any transferee of all or substantially all of its assets.

Initial Date. The term “Initial Date” shall mean the date upon which these Articles of Amendment and Restatement containing this Article VII is accepted for record by the SDAT.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding Equity Shares, the Closing Price for such Equity Shares on such date. The “Closing Price” on any date shall mean the last sale price for such Equity Shares, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Equity Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to

trading on the NYSE or, if such Equity Shares are not listed or admitted to trading on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Equity Shares are listed or admitted to trading or, if such Equity Shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Equity Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Equity Shares selected by the Board of Trustees or, in the event that no trading price is available for such Equity Shares, the fair market value of Equity Shares, as determined in good faith by the Board of Trustees.

NYSE. The term “NYSE” shall mean the New York Stock Exchange.

Person. The term “Person” shall mean an individual, corporation, partnership, estate, trust (including, but not limited to, a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and a group to which an Excepted Holder Limit applies.

Prohibited Owner. The term “Prohibited Owner” shall mean, with respect to any purported Transfer, any Person who, but for the provisions of Section 7.2.1, would Beneficially Own or Constructively Own Equity Shares, and if appropriate in the context, shall also mean any Person who would have been the record owner of Equity Shares that the Prohibited Owner would have so owned.

REIT. The term “REIT” shall mean a real estate investment trust within the meaning of Section 856 of the Code.

Restriction Termination Date. The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Trustees determines that it is no longer in the best interests of the Trust for the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of Equity Shares set forth herein to apply.

RMR. The term “RMR” shall mean REIT Management & Research, Inc., the Trust’s investment advisor, or any successor investment advisor to the Trust.

SDAT. The term “SDAT” shall mean the State Department of Assessments and Taxation of Maryland.

Transfer. The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Equity Shares or the right to vote or receive dividends on Equity Shares, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable for Equity Shares or any interest in Equity Shares or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Equity Shares; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms “Transferring” and “Transferred” shall have the correlative meanings.

Trustee. The term “Trustee” shall mean the Person unaffiliated with the Trust and a Prohibited Owner, that is appointed by the Trust to serve as trustee of the Charitable Trust.

Section 7.2 Equity Shares.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder and other than HRPT, RMR and their affiliates, shall Beneficially Own or Constructively Own Equity Shares in excess of the Aggregate Share Ownership Limit, (2) no Person, other than an Excepted Holder and other than HRPT, RMR and their affiliates, shall Beneficially Own or Constructively Own Common Shares in excess of the Common Share Ownership Limit and (3) no Excepted Holder shall Beneficially Own or Constructively Own Equity Shares in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own Equity Shares to the extent that such Beneficial or Constructive Ownership of Equity Shares would result in the Trust being “closely held” within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Trust owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Trust from such tenant would cause the Trust to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Subject to Section 7.4, notwithstanding any other provisions contained herein, any Transfer of Equity Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) that, if effective, would result in Equity Shares being beneficially owned by less than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

(b) Transfer in Trust. If any Transfer of Equity Shares occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning Equity Shares in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of Equity Shares the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded up to the nearest whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such Equity Shares; or

(ii) if the transfer to the Charitable Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of Equity Shares that otherwise would cause any Person to violate Section 7.2.2 or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such Equity Shares.

Section 7.2.2 Remedies for Breach. If the Board of Trustees or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or

Constructive Ownership of any Equity Shares in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Trustees or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Trust to redeem Equity Shares, refusing to give effect to such Transfer on the books of the Trust or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfers or attempted Transfers or other events in violation of Section 7.2.1 shall automatically result in the transfer to the Charitable Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Trustees or a committee thereof.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of Equity Shares that will or may violate Section 7.2.1(a), or any Person who would have owned Equity Shares that resulted in a transfer to the Charitable Trust pursuant to the provisions of Section 7.2.1(b), shall immediately give written notice to the Trust of such event, or in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Trust such other information as the Trust may request in order to determine the effect, if any, of such Transfer.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding Equity Shares, within 30 days after the end of each taxable year, shall give written notice to the Trust stating the name and address of such owner, the number of Equity Shares and other Equity Shares Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Trust such additional information as the Trust may request in order to determine the effect, if any, of such Beneficial Ownership on the Trust's status as a REIT and to ensure compliance with the Aggregate Share Ownership Limit.

(b) each Person who is a Beneficial or Constructive Owner of Equity Shares and each Person (including the shareholder of record) who is holding Equity Shares for a Beneficial or Constructive Owner shall provide to the Trust such information as the Trust may request, in good faith, in order to determine the Trust's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.1 of the Declaration of Trust, nothing contained in this Section 7.2 shall limit the authority of the Board of Trustees to take such other action as it deems necessary or advisable to protect the Trust and the interests of its shareholders in preserving the Trust's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3 or any definition contained in Section 7.1, the Board of Trustees shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 with respect to any situation based on the facts known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Trustees and the Declaration of Trust fails to provide specific guidance with respect to such action, the Board of Trustees shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3.

Section 7.2.7 Exceptions.

(a) Subject to Section 7.2.1(a)(ii), the Board of Trustees, in its sole discretion, may exempt a Person from the Aggregate Share Ownership Limit and the Common Share Ownership Limit, as the case may be, and may (but is not required to) establish or increase an Excepted Holder Limit for such Person if:

(i) the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such Equity Shares will violate Section 7.2.1(a)(ii);

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Trust (or a tenant of any entity owned or controlled by the Trust) that would cause the Trust to own, actually or Constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Board of Trustees obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Trust (or an entity owned or controlled by the Trust) derives (and is expected to continue to derive) a sufficiently small amount of revenue such that, in the opinion of the Board of Trustees, rent from such tenant would not adversely affect the Trust's ability to qualify as a REIT, shall not be treated as a tenant of the Trust); and

(iii) such Person agrees that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such Equity Shares being automatically transferred to a Charitable Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Trustees may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Trustees in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Trust's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Trustees may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) In determining whether to grant any exemption pursuant to Section 7.2.7(a), the Board of Trustees may consider, among other factors, (i) the general reputation and moral character of the person requesting an exemption, (ii) whether ownership of shares would be direct or through ownership attribution, (iii) whether the person's ownership of shares would adversely affect the Trust's ability to acquire additional properties or engage in other business and (iv) whether granting an exemption for the person requesting an exemption would adversely affect any of the Trust's existing contractual arrangements.

(d) Subject to Section 7.2.1(a)(ii), an underwriter which participates in a public offering or a private placement of Equity Shares (or securities convertible into or exchangeable for Equity Shares) may Beneficially Own or Constructively Own Equity Shares (or securities convertible into or exchangeable for Equity Shares) in excess of the Aggregate Share Ownership Limit, the Common Share Ownership Limit or both such limits, but only to the extent necessary to facilitate such public offering or private placement.

(e) The Board of Trustees may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the Common Share Ownership Limit for an Excepted Holder without the written consent of such Excepted Holder.

Section 7.2.8 Increase in Aggregate Share Ownership and Common Share Ownership Limits . The Board of Trustees may from time to time increase the Common Share Ownership Limit and the Aggregate Share Ownership Limit.

Section 7.2.9 Legend . Each certificate for Equity Shares shall bear substantially the following legend:

The shares evidenced by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose, among others, of the Trust's maintenance of its status as a Real Estate Investment Trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Trust's Declaration of Trust, (i) no Person may Beneficially or Constructively Own Common Shares of the Trust in excess of 9.8 percent (in value or number of shares) of the outstanding Common Shares of the Trust unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially or Constructively Own Equity Shares of the Trust in excess of 9.8 percent of the value of the total outstanding Equity Shares of the Trust, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (iii) no Person may Beneficially or Constructively Own Equity Shares that would result in the Trust being "closely held" under Section 856(h) of the Code or otherwise cause the Trust to fail to qualify as a REIT; and (iv) no Person may Transfer Equity Shares if such Transfer would result in Equity Shares of the Trust being owned by fewer than 100 Persons. Any Person who Beneficially or Constructively Owns or attempts to Beneficially or Constructively Own Equity Shares which cause or will cause a Person to Beneficially or Constructively Own Equity Shares in excess or in violation of the above limitations must immediately notify the Trust. If any of the restrictions on transfer or ownership are violated, the Equity Shares represented hereby will be automatically transferred to a Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries. In addition, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Trust's Declaration of Trust, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Equity Shares of the Trust on request and without charge.

Instead of the foregoing legend, the certificate may state that the Trust will furnish a full statement about certain restrictions on transferability to a shareholder on request and without charge.

Section 7.3 Transfer of Equity Shares in Trust .

Section 7.3.1 Ownership in Trust . Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of Equity Shares to a Charitable Trust, such Equity Shares shall be deemed to have been transferred to the Trustee as trustee of a Charitable Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Trust and shall be a Person unaffiliated with the Trust and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Trust as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee . Equity Shares held by the Trustee shall be issued and outstanding Equity Shares of the Trust. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust

by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Charitable Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to Equity Shares held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee shall be paid with respect to such Equity Shares to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Charitable Trust and, subject to Maryland law, effective as of the date that Equity Shares have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Trust has already taken irreversible trust action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Trust has received notification that Equity Shares have been transferred into a Charitable Trust, the Trust shall be entitled to rely on its share transfer and other shareholder records for purposes of preparing lists of shareholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of shareholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Trust that Equity Shares have been transferred to the Charitable Trust, the Trustee of the Charitable Trust shall sell the shares held in the Charitable Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Charitable Trust (e.g., in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Charitable Trust and (2) the price per share received by the Trustee from the sale or other disposition of the shares held in the Charitable Trust. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Trust that Equity Shares have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Charitable Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Shares Transferred to the Trustee. Equity Shares transferred to the Trustee shall be deemed to have been offered for sale to the Trust, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Trust, or its designee, accepts such offer. The Trust shall have the right to accept such offer until the Trustee has sold the shares held in the Charitable Trust pursuant to Section 7.3.4. Upon such a sale to the Trust, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Trust shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the

Charitable Trust such that Equity Shares held in the Charitable Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Trust is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Trust or the Board of Trustees in exercising any right hereunder shall operate as a waiver of any right of the Trust or the Board of Trustees, as the case may be, except to the extent specifically waived in writing.

ARTICLE VIII

SHAREHOLDERS

Section 8.1 Meetings. There shall be an annual meeting of the shareholders, to be held on proper notice at such time (after the delivery of the annual report) and convenient location as shall be determined by or in the manner prescribed in the Bylaws, for the election of the Trustees, if required, and for the transaction of any other business within the powers of the Trust. Except as otherwise provided in the Declaration of Trust, special meetings of shareholders may be called in the manner provided in the Bylaws. Shareholders meetings, including the annual meeting and any special meetings, may be called only by the Board of Trustees. If there are no Trustees, the officers of the Trust shall promptly call a special meeting of the shareholders entitled to vote for the election of successor Trustees. Any meeting may be adjourned and reconvened as the Trustees determine or as provided in the Bylaws.

Section 8.2 Voting Rights. Subject to the provisions of any class or series of Shares then outstanding, the shareholders shall be entitled to vote only on the following matters: (a) election of Trustees as provided in Section 5.2 and the removal of Trustees as provided in Section 5.3; (b) amendment of the Declaration of Trust as provided in Article X; (c) termination of the Trust as provided in Section 12.2; (d) merger or consolidation of the Trust to the extent required by Title 8, or the sale or disposition of substantially all of the Trust Property, as provided in Article XI; and (e) such other matters with respect to which the Board of Trustees has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the shareholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the shareholders at any meeting shall in any way bind the Board of Trustees.

Section 8.3 Preemptive and Appraisal Rights. Except as may be provided by the Board of Trustees in setting the terms of classified or reclassified Shares pursuant to Section 6.4, or as may otherwise be provided by contract, no holder of Shares shall, as such holder, (a) have any preemptive right to purchase or subscribe for any additional Shares of the Trust or any other security of the Trust which it may issue or sell or (b) have any right to require the Trust to pay him the fair value of his Shares in an appraisal or similar proceeding.

Section 8.4 Extraordinary Actions. Except as specifically provided in Section 5.3 (relating to removal of Trustees) and subject to Section 8.5, notwithstanding any provision of law permitting or requiring any action to be taken or authorized by the affirmative vote of the holders of a greater number of votes, any such action shall be effective and valid if taken or approved by (i) the affirmative vote of holders of Shares entitled to cast a majority of all the votes entitled to be cast on the matter, or (ii) if Maryland law hereafter

permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter.

Section 8.5 Board Approval. The submission of any action to the shareholders for their consideration shall first be approved or advised by the Board of Trustees, and the shareholders shall not otherwise be entitled to act thereon.

Section 8.6 Action By Shareholders Without a Meeting. To the extent, if any, permitted by the Bylaws of the Trust, any action required or permitted to be taken by the shareholders may be taken without a meeting by the written consent of the shareholders entitled to cast a sufficient number of votes to approve the matter as required by statute, the Declaration of Trust or the Bylaws of the Trust, as the case may be.

Section 8.7 Indemnification of the Trust. Each shareholder will indemnify and hold harmless the Trust from and against all costs, expenses, penalties, fines and other amounts, including, without limitation, attorneys' and other professional fees, whether third party or internal, arising from such shareholder's violation of any provision of this Declaration of Trust or the Bylaws, including, without limitation, Article VII, and shall pay such sums to the Trust upon demand, together with interest on such amounts, which interest will accrue at the lesser of 15% per annum and the maximum amount permitted by law, from the date such costs or the like are incurred until the receipt of repayment by the Trust. Nothing in this Section shall create or increase the liability of any shareholders, trustees, officers, employees or agents of the Trust for actions taken on behalf of the Trust.

ARTICLE IX

LIABILITY LIMITATION, INDEMNIFICATION AND TRANSACTIONS WITH THE TRUST

Section 9.1 Limitation of Shareholder Liability. No shareholder shall be liable for any debt, claim, demand, judgment or obligation of any kind of, against or with respect to the Trust by reason of his being a shareholder, nor shall any shareholder be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the property or the affairs of the Trust by reason of his being a shareholder.

Section 9.2 Limitation of Trustee and Officer Liability. To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of trustees and officers of a real estate investment trust, no current or former Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages. Neither the amendment nor repeal of this Section 9.2, nor the adoption or amendment of any other provision of the Declaration of Trust inconsistent with this Section 9.2, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption. In the absence of any Maryland statute limiting the liability of trustees and officers of a Maryland real estate investment trust for money damages in a suit by or on behalf of the Trust or by any shareholder, or arising by reason of his or her action on behalf of the Trust, no Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages except to the extent that (a) the Trustee or officer actually received an improper benefit or profit in money, property or services, for the amount of the benefit or profit in money, property or services actually received, or (b) a judgment or other final adjudication adverse to the Trustee or officer is entered in a proceeding based on a finding in the proceeding that the Trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Section 9.3 Express Exculpatory Clauses and Instruments. Any written instrument creating an obligation of the Trust shall, to the extent practicable, include a reference to this Declaration and provide that

neither the shareholders nor the Trustees nor any officers, employees or agents (including the Trust's advisor, the "Advisor") of the Trust shall be liable thereunder and that all persons shall look solely to the trust estate for the payment of any claim thereunder or for the performance thereof; however, the omission of such provision from any such instrument shall not render the shareholders, any Trustee, or any officer, employee or agent (including the Advisor) of the Trust liable, nor shall the shareholders, any Trustee or any officer, employee or agent (including the Advisor) of the Trust be liable to anyone for such omission.

Section 9.4 Indemnification. The Trust shall, to the maximum extent permitted by Maryland law in effect from time to time, indemnify, and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former shareholder, Trustee or officer of the Trust or (b) any individual who, while a Trustee of the Trust and at the request of the Trust, serves or has served as a trustee, director, officer, partner, employee or agent of another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his status as a present or former shareholder, Trustee or officer of the Trust. The Trust shall have the power, with the approval of its Board of Trustees, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust.

Section 9.5 Transactions Between the Trust and its Trustees, Officers, Employees and Agents. (a) Subject to any express restrictions adopted by the Trustees in the Bylaws or by resolution, the Trust may enter into any contract or transaction of any kind, whether or not any of its Trustees, officers, employees or agents has a financial interest in such transaction, with any person, including any Trustee, officer, employee or agent of the Trust or any person affiliated with a Trustee, officer, employee or agent of the Trust or in which a Trustee, officer, employee or agent of the Trust has a material financial interest.

(b) To the extent permitted by Maryland law, a contract or other transaction between the Trust and any Trustee or between the Trust and RMR or any other corporation, trust, firm, or other entity in which any Trustee is a director or trustee or has a material financial interest shall not be void or voidable if:

(i) The fact of the common directorship, trusteeship or interest is disclosed or known to:

(A) The Board of Trustees or a proper committee thereof, and the Board of Trustees or such Committee authorizes, approves or ratifies the contract or transaction by the affirmative vote of a majority of disinterested Trustees, even if the disinterested Trustees constitute less than a quorum; or

(B) The shareholders entitled to vote, and the contract or transaction is authorized, approved, or ratified by a majority of the votes cast by the shareholders entitled to vote other than the votes of shares owned of record or beneficially by the interested trustee, corporation, trust, firm or other entity; or

(C) The contract or transaction is fair and reasonable to the Trust.

(ii) Common or interested trustees or the shares owned by them or by an interested corporation, trust, firm or other entity may be counted in determining the presence of a quorum at a meeting of the Board of Trustees or a committee thereof or at a meeting of the shareholders, as the case may be, at which the contract or transaction is authorized, approved or ratified.

(c) The failure of a contract or other transaction between the Trust and any Trustee or between the Trust and RMR or any other corporation, trust, firm, or other entity in which any Trustee is a director or trustee or has a material financial interest to satisfy the criteria set forth in Section 9.5(b) shall not create any presumption that such contract or other transaction is void, voidable or otherwise invalid, and any such contract or other transaction shall be valid to the fullest extent permitted by Maryland law. To the fullest extent permitted by Maryland law, (i) the fixing by the Board of Trustees of compensation for a Trustee (whether as a Trustee or in any other capacity) and (ii) Section 9.4 of this Declaration of Trust or any provision of the Bylaws or any contract or transaction requiring or permitting indemnification (including advancing of expenses) in accordance with terms and procedures not materially less favorable to the Trust than those described in Section 2-418 (or any successor section thereto) of the Maryland General Corporation Law (as in effect at the time such provision was adopted or such contract or transaction was entered into or as it may thereafter be in effect) shall be deemed to have satisfied the criteria set forth in Section 9.5(b).

Section 9.6 Right of Trustees, Officers, Employees and Agents to Own Shares or Other Property and to Engage in Other Business. Subject to any restrictions which may be adopted by the Trustees in the Bylaws or otherwise: Any Trustee or officer, employee or agent of the Trust may acquire, own, hold and dispose of Shares in the Trust, for his or her individual account, and may exercise all rights of a shareholder to the same extent and in the same manner as if he or she were not a Trustee or officer, employee or agent of the Trust. Any Trustee or officer, employee or agent of the Trust may, in his or her personal capacity or in the capacity of trustee, officer, director, stockholder, partner, member, advisor or employee of any Person or otherwise, have business interests and engage in business activities similar to or in addition to those relating to the Trust, which interests and activities may be similar to and competitive with those of the Trust and may include the acquisition, syndication, holding, management, development, operation or disposition, for his own account, or for the account of such Person or others, of interests in mortgages, interests in real property, or interests in Persons engaged in the real estate business. Each Trustee, officer, employee and agent of the Trust shall be free of any obligation to present to the Trust any investment opportunity which comes to him or her in any capacity other than solely as Trustee, officer, employee or agent of the Trust even if such opportunity is of a character which, if presented to the Trust, could be taken by the Trust. Any Trustee or officer, employee or agent of the Trust may be interested as trustee, officer, director, stockholder, partner, member, advisor or employee of, or otherwise have a direct or indirect interest in, any Person who may be engaged to render advice or services to the Trust, and may receive compensation from such Person as well as compensation as Trustee, officer, employee or agent or otherwise hereunder. None of these activities shall be deemed to conflict with his or her duties and powers as Trustee or officer, employee or agent of the Trust.

Section 9.7 Persons Dealing with Trustees, Officers, Employees or Agents. Any act of the Trustees or of the officers, employees or agents of the Trust purporting to be done in their capacity as such, shall, as to any Persons dealing with such Trustees, officers, employees or agents, be conclusively deemed to be within the purposes of this Trust and within the powers of such Trustees or officers, employees or agents. No Person dealing with the Board or any of the Trustees or with the officers, employees or agents of the Trust shall be bound to see to the application of any funds or property passing into their hands or control. The receipt of the Board or any of the Trustees, or of authorized officers, employees or agents of the Trust, for moneys or other consideration, shall be binding upon the Trust.

Section 9.8 Reliance. The Trustees and the officers, employees and agents of the Trust may consult with counsel and the advice or opinion of such counsel shall be full and complete personal protection to all the Trustees and the officers, employees and agents of the Trust in respect of any action taken or suffered by them in good faith and in reliance on or in accordance with such advice or opinion. In discharging their duties, Trustees or officers, employees or agents of the Trust, when acting in good faith, may rely upon financial statements of the Trust represented to them to fairly present the financial position or results of operations of the

Trust by the chief financial officer of the Trust or the officer of the Trust having charge of its books of account, or stated in a written report by an independent certified public accountant fairly to present the financial position or results of operations of the Trust. The Trustees and the officers, employees and agents of the Trust may rely, and shall be personally protected in acting, upon any instrument or other document believed by them to be genuine.

ARTICLE X

AMENDMENTS

Section 10.1 General. The Trust reserves the right from time to time to make any amendment to the Declaration of Trust, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Declaration of Trust, of any Shares, except that the provisions governing the personal liability of the shareholders, Trustees and of the officers, employees and agents of the Trust and the prohibition of assessments upon shareholders may not be amended in any respect that could increase the personal liability of such shareholders, Trustees or officers, employees and agents of the Trust. All rights and powers conferred by the Declaration of Trust on shareholders, Trustees and officers are granted subject to this reservation. An amendment to the Declaration of Trust (a) shall be signed and acknowledged by at least a majority of the Trustees, or an officer duly authorized by at least a majority of the Trustees, (b) shall be filed for record as provided in Section 13.5 and (c) shall become effective as of the later of the time the SDAT accepts the amendment for record or the time established in the amendment, not to exceed thirty (30) days after the amendment is accepted for record. All references to the Declaration of Trust shall include all amendments thereto.

Section 10.2 By Trustees. The Trustees may amend this Declaration of Trust from time to time, in the manner provided by Title 8, without any action by the shareholders, to qualify as a real estate investment trust under the Code or under Title 8 and as otherwise provided in Section 8-501(e) of Title 8 and the Declaration of Trust. If permitted by Maryland law as in effect from time to time, the Trustees may amend this Declaration of Trust from time to time in any other respect, in accordance with such law, without any action by the shareholders.

Section 10.3 By Shareholders. Except as otherwise provided in Section 10.2 and subject to the following sentence, any amendment to this Declaration of Trust must first be advised by the Board of Trustees and then shall be valid only if approved by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) if Maryland law hereafter permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter. Any amendment to Section 5.2.2 or 5.3 or to this sentence of the Declaration of Trust shall be valid only if approved by the Board of Trustees and then by the affirmative vote of two-thirds (2/3) of all votes entitled to be cast on the matter.

ARTICLE XI

MERGER, CONSOLIDATION OR SALE OF TRUST PROPERTY

Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may (a) merge with or into another entity, (b) consolidate with one or more other entities into a new entity or (c) sell, lease, exchange or otherwise transfer all or substantially all of the trust property. Any such action must first be approved by the Board of Trustees and, after notice to all shareholders entitled to vote on the matter, by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) if Maryland law hereafter permits the effectiveness of a vote described in this clause (ii), the affirmative vote of a majority of the votes cast on the matter

ARTICLE XII

DURATION AND TERMINATION OF TRUST

Section 12.1 Duration. The Trust shall continue perpetually unless terminated pursuant to Section 12.2.

Section 12.2 Termination.

(a) Subject to the provisions of any class or series of Shares at the time outstanding, after approval by a majority of the entire Board of Trustees, the Trust may be terminated at any meeting of shareholders by (i) the affirmative vote of a majority of all the votes entitled to be cast on the matter or (ii) or if hereafter expressly authorized by Title 8, the affirmative vote of a majority of the votes cast on the matter. Upon the termination of the Trust:

(i) The Trust shall carry on no business except for the purpose of winding up its affairs.

(ii) The Trustees shall proceed to wind up the affairs of the Trust and all of the powers of the Trustees under the Declaration of Trust shall continue, including the powers to fulfill or discharge the Trust's contracts, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining property of the Trust to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities and do all other acts appropriate to liquidate its business.

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and agreements as they deem necessary for their protection, the Trust may distribute the remaining property of the Trust among the shareholders so that after payment in full or the setting apart for payment of such preferential amounts, if any, to which the holders of any Shares at the time outstanding shall be entitled, the remaining property of the Trust shall, subject to any participating or similar rights of Shares at the time outstanding, be distributed ratably among the holders of Common Shares at the time outstanding.

(b) After termination of the Trust, the liquidation of its business and the distribution to the shareholders as herein provided, a majority of the Trustees shall execute and file with the Trust's records a document certifying that the Trust has been duly terminated and the Trustees shall be discharged from all liabilities and duties hereunder, and the rights and interests of all shareholders shall cease.

ARTICLE XIII

MISCELLANEOUS

Section 13.1 Governing Law. The Declaration of Trust is executed and delivered with reference to the laws of the State of Maryland, and the rights of all parties and the validity, construction and effect of every provision hereof shall be subject to and construed according to the laws of the State of Maryland.

Section 13.2 Reliance by Third Parties. Any certificate shall be final and conclusive as to any person dealing with the Trust if executed by the Secretary or an Assistant Secretary of the Trust or a Trustee, and if certifying to: (a) the number or identity of Trustees, officers of the Trust or shareholders; (b) the due authorization of the execution of any document; (c) the action or vote taken, and the existence of a quorum, at a meeting of the Board of Trustees or shareholders; (d) a copy of the Declaration of Trust or of the Bylaws as a

true and complete copy as then in force; (e) an amendment to the Declaration of Trust; (f) the termination of the Trust; or (g) the existence of any fact relating to the affairs of the Trust. No purchaser, lender, transfer agent or other person shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trust on its behalf or by any officer, employee or agent of the Trust.

Section 13.3 Severability.

(a) The provisions of the Declaration of Trust are severable, and if the Board of Trustees shall determine, with the advice of counsel, that any one or more of such provisions (the "Conflicting Provisions") are in conflict with the Code, Title 8 or other applicable federal or state laws, the Conflicting Provisions, to the extent of the conflict, shall be deemed never to have constituted a part of the Declaration of Trust, even without any amendment of the Declaration of Trust pursuant to Article X and without affecting or impairing any of the remaining provisions of the Declaration of Trust or rendering invalid or improper any action taken or omitted (including but not limited to the election of Trustees) prior to such determination. No Trustee shall be liable for making or failing to make such a determination. In the event of any such determination by the Board of Trustees, the Board shall amend the Declaration of Trust in the manner provided in Section 10.2.

(b) If any provision of the Declaration of Trust shall be held invalid or unenforceable in any jurisdiction, such holding shall apply only to the extent of any such invalidity or unenforceability and shall not in any manner affect, impair or render invalid or unenforceable such provision in any other jurisdiction or any other provision of the Declaration of Trust in any jurisdiction.

Section 13.4 Construction. In the Declaration of Trust, unless the context otherwise requires, words used in the singular or in the plural include both the plural and singular and words denoting any gender include all genders. The title and headings of different parts are inserted for convenience and shall not affect the meaning, construction or effect of the Declaration of Trust. In defining or interpreting the powers and duties of the Trust and its Trustees and officers, reference may be made by the Trustees or officers, to the extent appropriate and not inconsistent with the Code or Title 8, to Titles 1 through 3 of the Corporations and Associations Article of the Annotated Code of Maryland. In furtherance and not in limitation of the foregoing, in accordance with the provisions of Title 3, Subtitles 6 and 7, of the Corporations and Associations Article of the Annotated Code of Maryland, the Trust shall be included within the definition of "corporation" for purposes of such provisions.

Section 13.5 Recordation. The Declaration of Trust and any amendment hereto shall be filed for record with the SDAT and may also be filed or recorded in such other places as the Trustees deem appropriate, but failure to file for record the Declaration of Trust or any amendment hereto in any office other than in the State of Maryland shall not affect or impair the validity or effectiveness of the Declaration of Trust or any amendment hereto. A restated Declaration of Trust shall, upon filing, be conclusive evidence of all amendments contained therein and may thereafter be referred to in lieu of the original Declaration of Trust and the various amendments thereto.

THIRD: The amendment to and restatement of the Declaration of Trust of the Trust as hereinabove set forth have been duly advised by the Board of Trustees and approved by the shareholders of the Trust as required by law.

FOURTH: The total number of shares of beneficial interest which the Trust has authority to issue has not been amended by this amendment and restatement.

ACCESSION AGREEMENT

THIS ACCESSION AGREEMENT, dated as of December 1, 2011, is entered into by SNH CALI TENANT LLC, a Delaware limited liability company (the “Company”).

RECITALS :

The Company has entered into a Management Agreement (the “Management Agreement”) with FVE Managers, Inc., a Maryland corporation (“Manager”), dated as of December 1, 2011, with respect to the assisted living facility known as Tiffany Court and located at 1866 San Miguel Drive, Walnut Creek, California (“Tiffany Court”).

Manager and certain affiliates of the Company are parties to that certain Pooling Agreement, dated as of May 12, 2011, by and among the Manager and the parties listed on Schedule A thereto (the “Pooling Agreement”). Capitalized terms used in this Accession Agreement without definition shall have the meanings given to such terms in the Pooling Agreement.

The Company desires to become a party to the Pooling Agreement with respect to Tiffany Court.

NOW, THEREFORE:

The Company hereby accedes and becomes a party to the Pooling Agreement as an Additional TRS, agrees to be bound by the provisions of the Pooling Agreement with respect to Tiffany Court, and acknowledges that provisions of the Management Agreement will be superseded as provided therein, on and after the date first above written.

IN WITNESS WHEREOF, this Accession Agreement has been duly executed and delivered by the Company with the intention of creating an instrument under seal.

COMPANY:

SNH CALI TENANT LLC,
a Delaware limited liability company

By: /s/ Richard A. Doyle
Richard A. Doyle
President

ACCEPTED:

FVE MANAGERS, INC.,
a Maryland corporation

By: /s/ Bruce J. Mackey Jr.
Bruce J. Mackey Jr.
President

Schedule to Exhibit 10.4

There are 11 accession agreements to the Pooling Agreement with FVE Managers, Inc., a representative form of which is filed herewith. The other 10 accession agreements, with the respective parties and applicable to the respective communities listed below, are substantially identical in all material respects to the representative form of accession agreement filed herewith.

Entity	Facility	Date
SNH BRFL Tenant LLC	22601 Camino Del Mar, Boca Raton, Florida 33433	December 15, 2011
SNH CCMD Tenant LLC	8100 Connecticut Avenue, Chevy Chase, Maryland 20815	December 15, 2011
SNH PLFL Tenant LLC	8500 West Sunrise Boulevard, Plantation, Florida 33322	December 15, 2011
SNH Teaneck Tenant LLC	655 Pomander Walk, Teaneck, New Jersey 07666	December 15, 2011
SNH SE Tenant TRS, Inc.	1371 South Ocean Boulevard, Pompano Beach, Florida 33062	December 15, 2011
SNH SE Tenant TRS, Inc.	2480 North Park Road, Hollywood, Florida 33021	December 15, 2011
SNH SE Tenant TRS, Inc.	3201 Plumas Street, Reno, Nevada 89509	December 15, 2011
SNH SE Tenant TRS, Inc.	200 Terrace Lane, Priceville, Alabama 35603	February 1, 2012
SNH SE Daniel Island Tenant LLC	320 Seven Farms Drive, Charleston, South Carolina 29492	May 29, 2012
SNH SE SG Tenant LLC	1010 Lake Hunter Circle, Mount Pleasant, South Carolina 29464 937 Bowman Road, Mount Pleasant, South Carolina 29464	July 1, 2012

**AMENDED AND RESTATED
SHAREHOLDERS AGREEMENT**

by and among

**AFFILIATES INSURANCE COMPANY,
FIVE STAR QUALITY CARE, INC.,
HOSPITALITY PROPERTIES TRUST,
COMMONWEALTH REIT,
SENIOR HOUSING PROPERTIES TRUST,
TRAVELCENTERS OF AMERICA LLC,
REIT MANAGEMENT & RESEARCH LLC,
GOVERNMENT PROPERTIES INCOME TRUST**

and

SELECT INCOME REIT

May 21, 2012

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**AMENDED AND RESTATED
SHAREHOLDERS AGREEMENT**

AFFILIATES INSURANCE COMPANY

This Amended and Restated Shareholders Agreement (this “Agreement”), dated May 21, 2012, by and among Affiliates Insurance Company, an Indiana insurance corporation (the “Company”), Five Star Quality Care, Inc., a Maryland corporation (“FVE”), Hospitality Properties Trust, a Maryland real estate investment trust (“HPT”), CommonWealth REIT, a Maryland real estate investment trust (“CWH”), Senior Housing Properties Trust, a Maryland real estate investment trust (“SNH”), TravelCenters of America LLC, a Delaware limited liability company (“TA”), Reit Management & Research LLC, a Delaware limited liability company (“RMR”), and Government Properties Income Trust, a Maryland real estate investment trust (“GOV”, and together with FVE, HPT, CWH, SNH, TA and RMR, the “Current Shareholders”), and Select Income REIT, a Maryland real estate investment trust (“SIR”, and together with the Current Shareholders, the “Shareholders”), amends and restates the Amended and Restated Shareholders Agreement (the “Shareholders Agreement”), dated December 16, 2009, by and among the Company and the Current Shareholders, effective as of the date first set forth above.

RECITALS

WHEREAS, the Company has been formed and licensed as an insurance corporation domiciled in the State of Indiana;

WHEREAS, the Current Shareholders previously made the capital contributions to the Company contemplated by Section 1.1 of this Agreement;

WHEREAS, in connection with the purchase by SIR from the Company of 20,000 shares of common stock, par value of \$10.00 per share, of the Company (the “Shares”) pursuant to a Subscription Agreement (the “SIR Subscription Agreement”) to be entered into by the Company and SIR, concurrently with the execution and delivery of this Agreement, the Company, the Current Shareholders and SIR desire to enter into this Agreement to, among other things, add SIR as a Shareholder hereunder; and

WHEREAS, the Shareholders and the Company desire to enter into this Agreement in order to set forth certain agreements and understandings relating to the business and governance of the Company, the Shares held by the Shareholders and certain other matters.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I

INVESTMENT IN THE COMPANY; FORMATION AND LICENSING EXPENSES

1.1 Share Issuances to Current Shareholders. The Company previously issued and sold to each of the Current Shareholders, and each of the Current Shareholders purchased from the Company, 20,000 Shares.

1.2 Share Issuance to SIR. As described in the recitals, concurrently with the execution and delivery of this Agreement, SIR is purchasing 20,000 Shares from the Company pursuant to the SIR Subscription Agreement and, upon such purchase, SIR shall then become a Shareholder effective as of such purchase.

1.3 Future Share Issuances. No Shareholder shall be obligated to purchase additional Shares or any other securities of the Company and any future proposed issuance and sale of Shares or any other securities of the Company shall be subject to Section 3.2, except to the extent otherwise provided under this Agreement; provided, however, that the parties hereto acknowledge that the Company may need to seek additional capital in the future and that it is the intention of the Shareholders that they each may, but shall not be obligated to, contribute to the Company up to an additional \$5 million of capital during the period between February 27, 2011 and February 27, 2014.

1.4 Formation and Licensing Expenses. The Company shall pay for all costs, fees and expenses in connection with the formation and licensing of the Company as an Indiana insurance company. The Current Shareholders shall reimburse the Company for such amounts paid by the Company prior to the date hereof in equal proportion. The Shareholders shall reimburse the Company for such amounts paid by the Company on or after the date hereof in equal proportion.

ARTICLE II

BOARD COMPOSITION

2.1 Board Composition.

(a) For as long as the Shareholders collectively own a majority of the issued and outstanding Shares, the board of directors of the Company (the “Board”) shall consist of not less than five nor more than seventeen members, with the actual number determined in accordance with the Bylaws of the Company, as in effect from time to time, and subject in all instances to this Section 2.1. As of the date of this Agreement, the Board shall consist of fourteen members. For so long as required by applicable Indiana law, at least one member of the

Board shall be an Indiana resident. Except as otherwise provided in Section 2.1(c), no Shareholder having a right to designate any director pursuant to this Article II shall be required to designate an Indiana resident as a director pursuant to such right; provided, however, that this sentence shall in no way limit the application of the immediately preceding sentence.

(b) For so long as a Shareholder (other than RMR) owns not less than 10% of the issued and outstanding Shares, such Shareholder shall have the right to designate two directors for election to the Board.

(c) For so long as RMR owns not less than 10% of the issued and outstanding Shares, RMR shall have the right to designate three directors for election to the Board. For so long as RMR has the right to designate directors pursuant to the immediately preceding sentence, Indiana law requires the Board to include an Indiana resident as a director of the Company and no other Shareholder designates an Indiana resident as a director of the Company, RMR shall designate at least one Indiana resident to be a director.

(d) Each Shareholder will vote, execute and deliver written consents and take all other necessary action (including, if necessary, causing the Company to call a special meeting of shareholders of the Company) in favor of the election of each director designated by a Shareholder in accordance with this Article II and otherwise to ensure that the composition of the Board is at all times as set forth in this Article II. Each Shareholder agrees that it will not vote any of its Shares in favor of removal of any director designated by another Shareholder unless such other Shareholder shall have consented to such removal in writing. Each Shareholder agrees to cause to be called, if necessary, a special meeting of shareholders of the Company and to vote all the Shares owned by such Shareholder for, or to take all actions in lieu of any such meeting necessary to cause, the removal of any director designated by such Shareholder if the Shareholder entitled to designate such director requests in writing, signed by such Shareholder, such director's removal for any reason or no reason.

(e) If, as a result of death, disability, retirement, resignation, removal or otherwise, there shall exist or occur any vacancy with respect to any director previously designated by a Shareholder in accordance with such Shareholder's right under this Article II to so designate such director, such Shareholder shall have the right to designate a replacement director. Upon such designation, the Shareholders shall promptly take all action necessary to ensure the election of such replacement director to fill the unexpired term of the director whom such new director is replacing, including, if necessary, calling a special meeting of shareholders of the Company and voting their Shares, or executing any written consent in lieu thereof, in favor of the election of such director.

ARTICLE III

TRANSFER OF SHARES; PREEMPTIVE RIGHTS; CALL RIGHTS

3.1 Transfer of Shares; No Pledging of Shares.

(a) The Shareholders may not, directly or indirectly, transfer any Shares, except that a Shareholder may transfer Shares owned by it to a wholly owned subsidiary of such Shareholder, to another Shareholder or to a wholly owned subsidiary of another Shareholder. Any purported transfer of Shares in contravention of this Section 3.1 shall be null and void and of no force or effect.

(b) The Shareholders may not pledge their Shares (other than pledges arising from the operation of law and not as a result of the Shareholder's express granting of a pledge); provided, however, that any pledge or other lien, charge or encumbrance which may arise by application of the terms of any agreement, contract, license, permit or instrument existing, for any of the Shareholders (an "Existing Pledge"), on a Shareholder's Shares shall not be a violation of this Section 3.1(b); and provided further, however, any transfer which results from exercise of rights under a permitted lien, charge or encumbrance shall be subject to the call rights of the Company and the other Shareholders set forth in Section 3.3 to the fullest extent permitted by applicable law and existing contracts as if such a transfer constitutes a "Change of Control". Any Shareholder whose Shares would be subject to an Existing Pledge shall use best efforts to cause the pledgee under an Existing Pledge, prior to any exercise by the pledgee of its rights on the Shareholder's Shares, to take all actions under applicable law which are required to be taken prior to any such exercise, including obtaining any necessary approvals from the Indiana Department of Insurance and Indiana Insurance Commissioner.

3.2 Preemptive Rights.

(a) If, at any time after the date hereof, the Company wishes to issue any capital stock of the Company or any other securities convertible into or exchangeable or exercisable for capital stock of the Company (collectively, "New Securities") to any person or entity (the "Subject Purchaser"), then the Company shall first offer the Appropriate Percentage (as defined herein) of the New Securities (the "Allocated Shares") to each Shareholder (each, a "Preemptive Rightholder" and collectively, the "Preemptive Rightholders") by sending written notice (the "New Issuance Notice") to each of the Preemptive Rightholders, which New Issuance Notice shall state the terms of such proposed issuance, including the number of New Securities proposed to be issued and the proposed purchase price per security of the New Securities (the "Proposed Price"). Upon delivery of the New Issuance Notice, such offer shall be irrevocable unless and until the Company shall have terminated the contemplated issuance of New Securities in its entirety at which time the rights set forth herein shall be applicable to any proposed issuance subsequent to any such termination. For purposes of this Section 3.2, "Appropriate Percentage" shall mean that percentage of the New Securities determined by dividing (i) the total

number of Shares then owned by a Preemptive Rightholder by (ii) the total number of Shares owned by all the Preemptive Rightholders.

(b) For a period of 20 days after the giving of the New Issuance Notice pursuant to Section 3.2(a) (the “Initial Preemptive Subscription Period”), each of the Preemptive Rightholders shall have the right to purchase, in whole or in part, the Allocated Shares offered to such Preemptive Rightholder as determined pursuant to Section 3.2(a) at a purchase price equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice.

(c) The right of each Preemptive Rightholder to purchase the New Securities so offered under Section 3.2(b) shall be exercisable by delivering written notice of the exercise thereof, prior to the expiration of the Initial Preemptive Subscription Period, to the Company, which notice shall state the amount of New Securities that such Preemptive Rightholder elects to purchase pursuant to Section 3.2(a). The failure of a Preemptive Rightholder to respond prior to the expiration of the Initial Preemptive Subscription Period shall be deemed to be a waiver of such Preemptive Rightholder’s rights under this Agreement solely with respect to its right to purchase the New Securities referenced in the New Issuance Notice; provided that each Preemptive Rightholder may waive its rights under Section 3.2(b) prior to the expiration of the Initial Preemptive Subscription Period by giving written notice of such waiver to the Company.

(d) If as of the expiration of the Initial Preemptive Subscription Period, some but not all of the Preemptive Rightholders have exercised their right to purchase the full amount of New Securities to which they are entitled to purchase pursuant to Sections 3.2(b) and (c) (any such Preemptive Rightholder which has exercised in full its rights to purchase such New Securities, a “Fully Exercising Preemptive Rightholder”), the Fully Exercising Preemptive Rightholders shall have the right to purchase, in whole or in part, their Oversubscription Appropriate Percentage (as defined herein) of the New Securities which the Preemptive Rightholders did not exercise their right to purchase pursuant to Sections 3.2(b) and (c) (the “Undersubscribed Shares”) at a purchase price equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice. The right of the Fully Exercising Preemptive Rightholders to purchase the Undersubscribed Shares may be exercised for a period of ten days following the earlier of the expiration of the Initial Preemptive Subscription Period or the date on which notice is given by the Company to such Fully Exercising Preemptive Rightholders that all the Preemptive Rightholders have either exercised their right to purchase the New Securities pursuant to Sections 3.2(b) and (c) or waived their rights to purchase any of such New Securities pursuant to Section 3.2(c) (the “Oversubscription Period”). For purposes of this Section 3.2, “Oversubscription Appropriate Percentage” shall mean that percentage of the Undersubscribed Shares determined by dividing (i) the total number of Shares then owned by a Fully Exercising Preemptive Rightholder by (ii) the total number of Shares owned by all the Fully Exercising Preemptive Rightholders.

(e) The right of each Fully Exercising Preemptive Rightholder to purchase Undersubscribed Shares pursuant to Section 3.2(d) shall be exercisable by delivering written notice of the exercise thereof, prior to the expiration of the Oversubscription Period, to the Company, which notice shall state the amount of Undersubscribed Shares that such Fully Exercising Preemptive Rightholder elects to purchase pursuant to Section 3.2(d). The failure of

a Fully Exercising Preemptive Rightholder to respond prior to the expiration of the Oversubscription Period shall be deemed to be a waiver of such Fully Exercising Preemptive Rightholder's rights under this Agreement solely with respect to its right to purchase the Undersubscribed Shares included in the New Securities referenced in the New Issuance Notice; provided that each Fully Exercising Preemptive Rightholder may waive its rights under Section 3.2(d) prior to the expiration of the Oversubscription Period by giving written notice of such waiver to the Company.

(f) The closing of the purchase of New Securities subscribed for by the Preemptive Rightholders, including the Fully Exercising Preemptive Rightholders, pursuant to this Section 3.2 shall be held at such time and place as the parties to the transaction may reasonably agree. At such closing, the New Securities subscribed for shall be issued by the Company free and clear of all liens, charges or encumbrances (other than those arising hereunder and those attributable to actions by the purchasers thereof). Each Preemptive Rightholder, including each Fully Exercising Preemptive Rightholder, purchasing the New Securities shall deliver at the closing payment in full in immediately available funds for the New Securities purchased by it. At such closing, all of the parties to the transaction shall execute such additional documents as are otherwise necessary, appropriate or customary for similar financing transactions. If any Preemptive Rightholder, including any Fully Exercising Preemptive Rightholder, fails to purchase any New Securities for which it exercised its right to purchase pursuant to Sections 3.2(b) and (c) or 3.2(d) and (e), such New Securities may be purchased by the Fully Exercising Preemptive Rightholders which did purchase all the New Securities for which they exercised their rights to purchase pursuant to Sections 3.2(b), (c), (d) and (e) in the same manner provided in this Section 3.2 with respect to Undersubscribed Shares and the resulting Oversubscription Period with respect to such right to purchase shall be an "Oversubscription Period" for all instances such term is used in this Section 3.2. Notwithstanding the preceding sentence, the obligations and liability of any Preemptive Rightholder, including any Fully Exercising Preemptive Rightholder, which fails to purchase any New Securities for which it exercised its right to purchase pursuant to Sections 3.2(b) and (c) or 3.2(d) and (e) shall not be relieved as a result of any Fully Exercising Preemptive Rightholder's right to purchase, or any actual purchase by any Fully Exercising Preemptive Rightholder of, any such New Securities.

(g) Following the expiration of the later of the Initial Preemptive Subscription Period and, if applicable, the Oversubscription Period, if the Preemptive Rightholders, including any Fully Exercising Preemptive Rightholders, did not exercise their right to purchase any of the New Securities, including the Undersubscribed Shares, which were originally the subject of the New Issuance Notice, then the Company may sell the remaining New Securities to the Subject Purchaser on terms and conditions that are no more favorable to the Subject Purchaser than those set forth in the New Issuance Notice; provided, however, that such sale is bona fide and made pursuant to a contract entered into between the Company and the Subject Purchaser and that such sale is consummated by not later than 90 days following the earlier to occur of (i) receipt by the Company of written waivers pursuant to Section 3.2(c) from all the Preemptive Rightholders of their rights to purchase the Appropriate Percentage of New Securities and, if applicable, written waivers pursuant to Section 3.2(e) from all the Fully Exercising Preemptive Rightholders of their rights to purchase the Oversubscription Appropriate Percentage of New Securities, and (ii) the expiration of the Oversubscription Period, if

applicable, and if not applicable, the expiration of the Initial Preemptive Subscription Period. If the sale of any of the New Securities is not consummated by the expiration of such 90 day period, then the preemptive rights afforded to the Shareholders under this Section 3.2 shall again become effective, and no issuance and sale of New Securities may be made thereafter by the Company without again offering the same in accordance with this Section 3.2.

3.3 Change of Control Call Option.

(a) By not later than five days following a Change of Control (as defined herein or in Section 3.1(b)) of any Shareholder, such Shareholder shall give the Company and each other Shareholder notice of such Change of Control and shall disclose the number of Shares and any other securities of the Company which were owned by the Shareholder as of immediately prior to such Change of Control of such Shareholder (the “Change of Control Securities”). If the Shareholder fails to give the notice required by the preceding sentence by the time required thereby, and another Shareholder or the Company is or becomes aware that such Shareholder underwent a Change of Control, then (i) if it is a Shareholder that is or becomes aware of such Change of Control, that Shareholder shall reasonably promptly inform the Company of such Change of Control and upon the Company being of the reasonable belief that such a Change of Control has occurred, the Company shall reasonably promptly provide the notice to the Shareholders that such Shareholder which underwent the Change of Control failed to provide, or (ii) if it is the Company that is or becomes aware of such Change of Control, the Company shall reasonably promptly provide the notice that such Shareholder which underwent the Change of Control failed to provide. Any liability of a Shareholder which undergoes a Change of Control for failure to give the notice required by the first sentence of this Section 3.3(a) shall not be relieved as a result of the Company or any other Shareholder being obligated to give, or giving, the notice required by the second sentence of this Section 3.3(a).

(b) For a period of 20 days following the receipt of a notice given pursuant to Section 3.3(a), the Company shall have the right to purchase from such Shareholder (or its successor, as applicable), in whole or in part, the Change of Control Securities. The purchase price for the Change of Control Securities shall be the book value, as determined in accordance with the statutory accounting principles applicable to the Company, of the Change of Control Securities as of the time such Shareholder underwent the Change of Control (the “Call Option Purchase Price”). To exercise its right to purchase the Change of Control Securities, the Company shall deliver written notice of such exercise to the Shareholder which underwent the Change of Control and the other Shareholders prior to the expiration of such 20 day call exercise period. The closing for any such exercised call option shall occur on the fifth business day (or such longer period as may be required by applicable law or in order to obtain applicable regulatory approval) following receipt of the Company’s notice of exercise of its call option by the Shareholder which underwent the Change of Control, or on such other date as may be agreed by the Company and such Shareholder. At its option, the Company may pay in cash the entire amount of the Call Option Purchase Price at such closing or it may elect to defer any amount of the Call Option Purchase Price. Any amounts so deferred shall bear interest at the Deferred Interest Rate (as defined herein). The Company may pay any such deferred amounts and accrued interest thereon at any time and from time to time; provided, however, that all such deferred

amounts and accrued but unpaid interest, shall be due and payable on the fifth anniversary of the closing of the applicable call option exercise.

(c) Shareholders other than the Shareholder which underwent the Change of Control shall have the right to purchase, in whole or in part, any Change of Control Securities not elected to be purchased by the Company pursuant to Section 3.3(b) at a price equal to the Call Option Purchase Price. To exercise its right to purchase the Change of Control Securities, the applicable Shareholder shall deliver written notice of such exercise to the Shareholder which underwent the Change of Control, the Company and the other Shareholders by not later than the 20 days following the earlier of (i) the expiration of the 20 day period during which the Company has the right to exercise its call option for the Change of Control Securities pursuant to Section 3.3(b) and (ii) the date the Company waives its right to purchase such Change of Control Securities and has given notice of the same to all the Shareholders (such deadline for exercising a right to purchase Change of Control Securities referred to as the “Call Option Exercise Deadline”). The notice of exercise shall indicate the number of Change of Control Securities that the Shareholder seeks to purchase. If the aggregate number of Change of Control Securities sought to be purchased by the exercising Shareholders (determined by adding all the eligible securities each Shareholder states it seeks to purchase in its notice of exercise) exceeds the actual number of Change of Control Securities eligible for purchase, the number of Change of Control Securities which may be purchased by a particular applicable Shareholder shall be reduced by an amount equal to the product of the aggregate number of such excess Change of Control Securities sought to be purchased by all the exercising Shareholders multiplied by the quotient of (x) the number of Shares owned by all eligible Shareholders which are exercising their call option rights minus the number of Shares owned by the particular applicable exercising Shareholder divided by (y) the number of Shares owned by all eligible Shareholders which are exercising their call option rights, with any such result rounded up or down to the nearest whole share as reasonably determined by the Company. The closing of any such exercised call option shall occur on the fifth business day (or such longer period as may be required by applicable law or in order to obtain applicable regulatory approval) following the Call Option Exercise Deadline, or on such other date as may be agreed by the exercising Shareholder, the Company and the Shareholder which underwent the Change of Control. At its option, the exercising Shareholder may pay in cash the entire amount of the Call Option Purchase Price at such closing or it may elect to defer any amount of the Call Option Purchase Price. Any amounts so deferred shall bear interest at the Deferred Interest Rate. The exercising Shareholder may pay any such deferred amounts and accrued interest thereon at any time and from time to time; provided, however, that all such deferred amounts and accrued but unpaid interest, shall be due and payable on the fifth anniversary of the closing of the applicable call option exercise.

(d) Definitions. For purposes of this Section 3.3, the following terms have the meanings set forth below:

(i) “Change of Control” means (A) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (such term, for purposes of this Section 3.3(d)(i), having the meaning provided such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of 9.8% or more, or rights, options or warrants to acquire 9.8% or more, or any combination

thereof, of the outstanding shares of voting stock or other voting interests of the Shareholder, including voting proxies for such shares, or the power to direct the management and policies of the Shareholder, directly or indirectly, excluding with respect to RMR, any person or entity, or two or more persons or entities acting in concert, beneficially owning 9.8% or more of RMR's outstanding voting interests as of the date of this Agreement, and excluding with respect to FVE, persons or entities that have rights to acquire 9.8% or more of FVE's shares of common stock by virtue of their holding convertible notes of FVE outstanding as of the date of this Agreement, (B) the merger or consolidation of the Shareholder with or into any other person or entity (other than the merger or consolidation of any person or entity into the Shareholder that does not result in a Change of Control of the Shareholder under clauses (A), (C), (D) or (E) of this definition), (C) any one or more sales or conveyances to any person or entity of all or any material portion of the assets (including capital stock or other equity interests) or business of the Shareholder, (D) the cessation, for any reason, of the individuals who at the beginning of any 38 consecutive month period constituted the board of directors (or analogous governing body) of the Shareholder (together with any new directors (or analogous position) whose election by such board or whose nomination for election by the shareholders of the Shareholder was approved by a vote of a majority of the directors (or analogous position) then still in office who were either directors (or analogous position) at the beginning of any such period or whose election or nomination for election was previously so approved) to constitute a majority of the board of directors (or analogous governing body) of the Shareholder then in office or (E) in respect of a Shareholder other than RMR, the termination (including by means of nonrenewal) of the Shareholder's management agreement with RMR by such Shareholder or, in response to a breach of such agreement by such Shareholder, by RMR; provided, however, a Change of Control shall not include: (1) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership of 9.8% or more of the outstanding shares of voting stock or other voting interests of a Shareholder if such acquisition is approved by the governing board of such Shareholder in accordance with the organizational documents of such Shareholder and if such acquisition is otherwise in compliance with applicable law; (2) the merger or consolidation of a Shareholder with one or more other Shareholders or wholly owned subsidiaries of any such Shareholders; or (3) a Change of Control which is approved by Shareholders owning 75% of the Shares owned by all Shareholders.

(ii) "Deferred Interest Rate" means the London Interbank Offered Rate (rounded upward, if necessary, to the nearest 1/100th of 1%) appearing on Reuters Screen LIBO Page (or any successor page) as the London interbank offered rate for three month deposits in U.S. dollars at approximately 11:00 a.m. (London time) two days prior to applicable closing date (provided that if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates), plus 100 basis points, and this rate shall be adjusted in three month intervals thereafter, in accordance with the foregoing, with such adjustment date being treated as an "applicable closing date" for purposes of determining the adjusted rate in accordance with the foregoing, for so long as any deferred amount pursuant to Sections 3.2(b) or 3.2(c) may be unpaid.

3.4 Permitted New Issuance of Shares. The prohibition on transfer of Shares, the preemptive rights and the change of control call options created by Sections 3.1, 3.2 and 3.3 of this Article III shall not apply to any sale of Shares by the Company, or by any Shareholder or Shareholders, if the Shares are sold to an entity which is managed by RMR that purchases insurance from the Company, provided that any such sale does not reduce the ownership of any Shareholder to less than ten percent (10%) of the Company's outstanding voting Shares. The prohibition on the preemptive rights and the change of control call options created by Sections 3.2 and 3.3, respectively, of this Article III shall not apply to the 20,000 Shares issued and sold by the Company to each of GOV and SIR, and each of the Shareholders waive any rights they may have or have had under Sections 3.2 and 3.3 of this Article III with respect to such transactions.

ARTICLE IV

SPECIAL SHAREHOLDER APPROVAL REQUIREMENTS.

4.1 Special Shareholder Approval Requirements. For so long as the Shareholders beneficially own a majority of the Company's issued and outstanding Shares, no action by the Company shall be taken with respect to any of the following matters without the prior affirmative approval of Shareholders owning 75% of the Shares owned by all the Shareholders:

- (a) any amendment to the articles of incorporation or bylaws of the Company;
- (b) any merger of the Company;
- (c) the sale of all or substantially all of the Company's assets;
- (d) any reorganization or recapitalization of the Company; or
- (e) any liquidation or dissolution of the Company.

If applicable law permits any of the foregoing actions to be taken by the Company without a shareholders vote, the vote of all directors of the Company designated by a Shareholder shall be considered the vote of the Shareholder for purposes of any such action.

ARTICLE V

OTHER COVENANTS AND AGREEMENTS

5.1 Organizational Documents. Subject to applicable law, each Shareholder shall vote its Shares or execute any consents necessary, and each Shareholder and the Company shall take all other actions necessary, to ensure that the Company's organizational documents facilitate, and do not at any time conflict with any provision of, this Agreement or any applicable law, and to ensure that the provisions hereof are implemented notwithstanding any inconsistent

provision in the Company's organizational documents. The parties hereto agree to amend, if necessary, the Company's organizational documents to conform to the provisions set forth in this Agreement, to the extent permitted by applicable law. In the event of any actual or apparent inconsistency between this Agreement and the organizational documents, then, as among the Shareholders, to the extent permitted by applicable law, this Agreement shall control.

5.2 Reports and Information Access. For so long as a Shareholder owns not less than 10% of all the issued and outstanding Shares, the Company shall provide periodically, through the director(s) designated by such Shareholder under Section 2.1, to the Shareholder financial information regarding the Company and its operations and the Company shall permit the Shareholder and its representatives reasonable access to the financial reports and records of the Company so that the Shareholder may comply with its financial reporting and tax reporting obligations and procedures, and disclosure obligations under the federal securities laws and other applicable laws.

5.3 Compliance with Laws. The Company shall comply in all material respects with all applicable laws governing its business and operations. Except as provided in Section 5.7, if a Shareholder, by virtue of such Shareholder's ownership interest in the Company or actions taken by the Shareholder affecting the Company, triggers the application of any requirement or regulation of any federal, state, municipal or other governmental or regulatory body on the Company or any subsidiary of the Company or any of their respective businesses, assets or operations, including any obligations to make any filing with or otherwise notifying or obtaining the consent, approval or other action of any federal, state, municipal or other governmental or regulatory body, such Shareholder shall promptly take all actions necessary and fully cooperate with the Company to ensure that such requirements or regulations are satisfied without restricting, imposing additional obligations on or in any way limiting the business, assets, operations or prospects of the Company or any subsidiary of the Company. Each Shareholder shall use best efforts to cause its shareholders, directors (or analogous position), nominees for director (or analogous position), officers, employees and agents to comply with any applicable laws impacting the Company or any of its subsidiaries or their respective businesses, assets or operations.

5.4 Cooperation; Further Assurances.

(a) The Shareholders shall cooperate with each other and the Company in furtherance of the Company's underwriting of insurance policies and coverage with respect to the Shareholders and their respective businesses, assets and properties as well as in furtherance of the development and execution of the Company's business as an insurer. The Shareholders intend to transition (but shall not be obligated to do so) their applicable insurance policies and coverage to the Company so that the Company or its third party agents or contracting parties shall become the underwriters of such current and future policies and coverage.

(b) Each of the parties shall execute such documents and perform such further acts (including obtaining any consents, exemptions, authorizations or other actions by, or giving any notices to, or making any filings with, any governmental authority) as may be reasonably required or desirable to carry out or to perform the provisions of this Agreement or

the transactions contemplated hereby, including in connection with any subsequent exercise by a party of a right afforded hereunder to such party.

5.5 Confidentiality. Except as may be required by applicable law or the rules of any national securities exchange upon which a party's shares are listed for trading, none of the parties hereto shall make any disclosure concerning this Agreement, the transactions contemplated hereby or the business, operations and financial affairs of the Company without prior approval by the other parties hereto; provided, however, that nothing in this Agreement shall restrict any of the parties from disclosing information (a) that is already publicly available, (b) that was known to such party on a non-confidential basis prior to any relevant disclosure, (c) that may be required or appropriate in response to any summons or subpoena or in connection with any litigation, provided that such party will use reasonable efforts to notify the other party in advance of such disclosure so as to permit the other party to seek a protective order or otherwise contest such disclosure, and such party will use reasonable efforts to cooperate, at the expense of the other party, with the other party in pursuing any such protective order, (d) to the extent that such party reasonably believes it appropriate in order to protect its investment in its Shares in order to comply with any applicable law, (e) to such party's officers, directors, trustees, advisors, employees, auditors or counsel or (f) as warranted pursuant to the parties' disclosure obligations under federal securities laws.

5.6 Required Regulatory Approvals. Certain transactions required, permitted or otherwise contemplated by this Agreement may under certain circumstances require prior filings with and approvals, or non-disapprovals, from the Indiana Department of Insurance or the Indiana Insurance Commissioner. Such transactions include: (a) issuance or purchase of any additional capital stock of the Company or other securities convertible into or exchangeable or exercisable for capital stock of the Company pursuant to Sections 1.2 or 3.4; (b) transfer of Shares to a wholly owned subsidiary of a Shareholder, to another Shareholder or to a wholly owned subsidiary of another Shareholder pursuant to Sections 3.1(a) or 3.4; (c) exercise of preemptive rights by a Shareholder pursuant to Section 3.2; and (d) exercise of call rights by the Company or a Shareholder pursuant to Section 3.3 (including pursuant to the two provisos in Section 3.1(b)). Notwithstanding anything to the contrary contained in this Agreement, any such transactions requiring filings with and approvals, or non-disapprovals, from the Indiana Department of Insurance or the Indiana Insurance Commissioner shall not, to the extent within the control of a party hereto, be entered into or consummated unless and until the required filings have been made and the required approvals (or non-disapprovals) have been obtained, and to the extent not within the control of an applicable party hereto, such party shall use best efforts to cause such transactions not to be entered into or consummated unless and until the required filings have been made and the required approvals (or non-disapprovals) have been obtained.

5.7 REIT Matters. At the request of any Shareholder that intends (for itself or for any of its affiliates) to qualify and be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall (a) join with such Shareholder (or, as applicable, such Shareholder's affiliate) in making a "taxable REIT subsidiary" election under Section 856(l) of the Code and (b) otherwise reasonably cooperate with any request of such Shareholder (or its affiliate) pertaining to such real estate investment trust status or taxation under the Code.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

6.1 The Company. The Company represents and warrants to each Shareholder, as of the date of this Agreement (unless any such representation or warranty speaks as of another date, in which case, as of such date), as follows:

(a) Organization, Existence, Good Standing and Power. The Company is an Indiana insurance corporation duly organized, validly existing and in good standing under the laws of the State of Indiana and has the power and authority to execute, deliver and perform its obligations under this Agreement.

(b) Capitalization; Subsidiaries.

(i) As of immediately prior to the execution and delivery of this Agreement, there are no securities of the Company issued and outstanding, except for the Shares previously issued pursuant to Section 1.1. Except as provided and contemplated by this Agreement, as of the date of this Agreement, the Company has no commitment or arrangement to issue securities of the Company to any person or entity.

(ii) As of the date of this Agreement, the Company has no subsidiaries.

(c) Valid Issuance of Shares. The Shares being purchased by the Shareholders hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and under applicable law.

(d) Binding Effect. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligations of the Company, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability (regardless of whether considered in a proceeding at law or in equity).

(e) No Contravention. The execution and delivery of this Agreement by the Company and the performance of its obligations hereunder and the consummation by the Company of the transactions contemplated by this Agreement and compliance by the Company with the provisions of this Agreement (i) have been duly authorized by all necessary company action, (ii) do not contravene the terms of the Company's organizational documents, (iii) do not materially violate, conflict with or result in any breach or contravention of, or the creation of any material lien, charge or encumbrance under, any material agreement, contract, license, permit or instrument to which the Company is a party or by which the Company or any of its assets or

properties are bound and (iv) do not materially violate any law, statute, regulation, order or decree applicable to, or binding upon, the Company or any of its assets or properties.

(f) Consents. No approval, consent, compliance, exemption, authorization or other action by, or notice to, or filing with, any local, state or federal governmental authority or any other person or entity (individually and collectively, a “Consent”), not already obtained or made, and no lapse of a waiting period under any applicable law, statute, regulation, order or decree, is necessary or required in connection with the execution, delivery or performance by the Company of this Agreement or the transactions contemplated hereby; provided, however, that the foregoing representation and warranty shall not apply to any Consent which may be required in the future as a result of the application of the rights and obligations provided for hereunder or the conducting of the Company’s business.

(g) Compliance with Laws. The Company is in compliance in all material respects with all applicable laws, statutes, regulations, orders or decrees applicable to, or binding upon, the Company or any of its assets or properties.

(h) Offering. Subject to the accuracy of the Shareholder’s representations and warranties set forth in Sections 6.2(f) through 6.2(i), the offer, sale and issuance of the Shares to be issued in conformity with the terms of this Agreement constitute transactions which are exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), and from all applicable state registration or qualification requirements. Neither the Company nor any person or entity acting on its behalf will take any action that would cause the loss of such exemption.

(i) No Integration. The Company has not, directly or through any agent, sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which is or will be integrated with the Shares sold pursuant to this Agreement in a manner that would require the registration of the Shares under the Securities Act.

6.2 The Shareholders. Each Shareholder represents and warrants to the Company and the other Shareholders, as of the date of this Agreement, as follows:

(a) Organization, Existence, Good Standing and Power. The Shareholder (i) is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation; (ii) has all requisite power and authority to conduct the business in which it is currently engaged; and (iii) has the power and authority to execute, deliver and perform its obligations under this Agreement.

(b) Binding Effect. This Agreement has been duly executed and delivered by the Shareholder and constitutes the legal, valid and binding obligations of the Shareholder, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting the enforcement of creditors’ rights generally or by equitable principles relating to enforceability (regardless of whether considered in a proceeding at law or in equity).

(c) No Contravention. The execution and delivery of this Agreement by the Shareholder and the performance of its obligations hereunder and the consummation by the Shareholder of the transactions contemplated by this Agreement and compliance by the Shareholder with the provisions of this Agreement (i) have been duly authorized by all necessary company action, (ii) do not contravene the terms of the Shareholder's organizational documents, (iii) do not materially violate, conflict with or result in any breach or contravention of, or, except with respect to any Existing Pledge which the Shareholder or any of its assets or properties may be subject, the creation of any material lien, charge or encumbrance under, any material agreement, contract, license, permit or instrument to which the Shareholder is a party or by which the Shareholder or any of its assets or properties are bound and (iv) do not materially violate any law, statute, regulation, order or decree applicable to, or binding upon, the Shareholder or any of its assets or properties.

(d) Consents. No Consent, not already obtained or made, and no lapse of a waiting period under any applicable law, statute, regulation, order or decree, is necessary or required in connection with the execution, delivery or performance by the Shareholder of this Agreement or the transactions contemplated hereby; provided, however, that the foregoing representation and warranty shall not apply to any Consent which may be required in the future as a result of the application of the rights and obligations provided for hereunder or the conducting of the Company's business.

(e) Compliance with Laws. The Shareholder is in compliance in all material respects with all applicable laws, statutes, regulations, orders or decrees applicable to, or binding upon, the Shareholder or any of its assets or properties.

(f) Purchase Entirely for Own Account. The Shares are being acquired for investment for the Shareholder's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and the Shareholder has no present intention of selling, granting any participation with respect to or otherwise distributing the Shares. Except as provided by this Agreement, the Shareholder does not have any contract, undertaking, agreement or arrangement with any person or entity to sell or transfer to any person or entity, or grant participation rights to any person or entity with respect to, any of the Shares.

(g) Disclosure of Information. The Shareholder has received all the information from the Company and its management that the Shareholder considers necessary or appropriate for deciding whether to purchase the Shares hereunder. The Shareholder further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the Company, its financial condition, results of operations and prospects and the terms and conditions of the offering of the Shares sufficient to enable it to evaluate its investment.

(h) Investment Experience and Accredited Investor Status. The Shareholder is an "accredited investor" (as defined in Regulation D under the Securities Act). The Shareholder has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Shares to be purchased hereunder.

(i) Restricted Securities. The Shareholder understands that the Shares, when issued, shall be “restricted securities” under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws the Shares may be resold without registration under the Securities Act only in certain limited circumstances.

ARTICLE VII

TERMINATION

7.1 Termination. This Agreement shall remain in full force and effect until the sooner of: (a) its termination pursuant to the next succeeding sentence of this Section 7.1 or (b) the dissolution of the Company; provided, however, that the dissolution of the Company, the merger of the Company with, or the transfer of all or substantially all the assets of the Company to, another entity which continues substantially all of the Company’s business shall not of itself terminate this Agreement. This Agreement may be terminated at any time by the Shareholders owning at least 75% of the issued and outstanding Shares owned by all Shareholders. Section 5.5 and Article VIII shall survive any termination or expiration of this Agreement.

ARTICLE VIII

MISCELLANEOUS

8.1 Notices. Any notices or other communications required or permitted under, or otherwise in connection with, this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person, upon confirmation of receipt when transmitted by facsimile transmission, on the next business day if transmitted by a nationally recognized overnight courier or on the third business day following mailing by first class mail, postage prepaid, in each case as follows (or at such other United States address or facsimile number for a party as shall be specified by like notice):

Notices to the Company:

Affiliates Insurance Company
101 West Washington Street, Suite 1100
Indianapolis, Indiana 46204
Attention: President/Vice President
Facsimile No.: (317) 632-2883

with a copy to:

Affiliates Insurance Company
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President/Vice President
Facsimile No.: (617) 928-1305

Notices to FVE:

Five Star Quality Care, Inc.
400 Centre Street
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 796-8385

Notices to HPT:

Hospitality Properties Trust
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 969-5730

Notices to CWH:

CommonWealth REIT
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 332-2261

Notices to SNH:

Senior Housing Properties Trust
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 796-8349

Notices to TA:

TravelCenters of America LLC
24601 Center Ridge Road, Suite 200
Westlake, Ohio 44145
Attention: President
Facsimile No.: (440) 808-3301

Notices to RMR:

Reit Management & Research LLC
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 928-1305

Notices to GOV:

Government Properties Income Trust
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 219-1441

and

Notices to SIR:

Select Income REIT
Two Newton Place
255 Washington Street
Suite 300
Newton, Massachusetts 02458
Attention: President
Facsimile No.: (617) 796-8335

8.2 Successors and Assigns; Third Party Beneficiaries . This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. Except as permitted by Section 3.1 and Section 3.4, no party may assign this Agreement or its rights hereunder or delegate its duties hereunder without the written consent of the other parties. Except as otherwise provided in Section 8.7, no person or entity other than the parties

hereto and their successors and permitted assigns is intended to be a beneficiary of this Agreement.

8.3 Amendment and Waiver.

(a) No failure or delay on the part of any party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to each party at law, in equity or otherwise. Any party hereto may waive in whole or in part any right afforded to such party hereunder.

(b) Any amendment, supplement or modification of or to any provision of this Agreement, shall be effective upon the written agreement of the Company and the Shareholders owning not less than 75% of all Shares owned by the Shareholders; provided, however, that any amendment, supplement or modification of Article I or Article II shall require the approval of any Shareholder which may be adversely affected by any such amendment, supplement or modification.

8.4 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

8.5 Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

8.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana without regard to the conflicts of laws rules thereof, which would require the application of the laws of another jurisdiction.

8.7 Dispute Resolution.

(a) Any disputes, claims or controversies between the parties (i) arising out of or relating to this Agreement, the Company, its business, assets or operations or any insurance policies or coverage underwritten by the Company or any of its third party agents in furtherance of the Company's insurance business or (ii) brought by or on behalf of any shareholder of the Company (which, for purposes of this Section 8.7, shall mean any shareholder of record or any beneficial owner of shares of the Company, or any former shareholder of record or beneficial owner of shares of the Company), either on his, her or its own behalf, on behalf of the Company or on behalf of any series or class of shares of the Company or shareholders of the Company against the Company or any director, officer, manager (including RMR or its successor), agent or employee of the Company, including disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of this Agreement or the articles of incorporation or bylaws of the Company (all of which are referred to as "Disputes"), or relating in any way to such a Dispute or Disputes shall, on the demand of any party to such Dispute, be resolved through binding and final arbitration in accordance with the

Commercial Arbitration Rules (the “Rules”) of the American Arbitration Association (“AAA”) then in effect, except as those Rules may be modified in this Section 8.7. For the avoidance of doubt, and not as a limitation, Disputes are intended to include derivative actions against directors, officers or managers of the Company and class actions by a shareholder against those individuals or entities and the Company. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against another party.

(b) There shall be three arbitrators. If there are only two parties to the Dispute, each party shall select one arbitrator within 15 days after receipt by respondent of a copy of the demand for arbitration. Such arbitrators may be affiliated or interested persons of such parties. If either party fails to timely select an arbitrator, the other party to the Dispute shall select the second arbitrator who shall be neutral and impartial and shall not be affiliated with or an interested person of either party. If there are more than two parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, shall each select, by the vote of a majority of the claimants or the respondents, as the case may be, one arbitrator. Such arbitrators may be affiliated or interested persons of the claimants or the respondents, as the case may be. If either all claimants or all respondents fail to timely select an arbitrator then such arbitrator (who shall be neutral, impartial and unaffiliated with any party) shall be appointed by the parties who have appointed the first arbitrator. The two arbitrators so appointed shall jointly appoint the third and presiding arbitrator (who shall be neutral, impartial and unaffiliated with any party) within 15 days of the appointment of the second arbitrator. If the third arbitrator has not been appointed within the time limit specified herein, then the AAA shall provide a list of proposed arbitrators in accordance with the Rules, and the arbitrator shall be appointed by the AAA in accordance with a listing, striking and ranking procedure, with each party having a limited number of strikes, excluding strikes for cause.

(c) The place of arbitration shall be Indianapolis, Indiana unless otherwise agreed by the parties.

(d) There shall be only limited documentary discovery of documents directly related to the issues in dispute, as may be ordered by the arbitrators.

(e) In rendering an award or decision (the “Award”), the arbitrators shall be required to follow the laws of the State of Indiana. Any arbitration proceedings or Award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. The Award shall be in writing and may, but shall not be required to, briefly state the findings of fact and conclusions of law on which it is based.

(f) Except to the extent otherwise agreed by the parties, each party involved in a Dispute shall bear its own costs and expenses (including attorneys’ fees), and the arbitrators shall not render an award that would include shifting of any such costs or expenses (including attorneys’ fees) or, in a derivative case or class action, award any portion of the Company’s award to the claimant or the claimant’s attorneys. Each party (or, if there are more than two parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, respectively) shall bear the costs and expenses of its (or their) selected arbitrator and the parties (or, if there are more than two parties to the Dispute, all claimants, on the one hand, and

all respondents, on the other hand) shall equally bear the costs and expenses of the third appointed arbitrator.

(g) An Award shall be final and binding upon the parties thereto and shall be the sole and exclusive remedy between such parties relating to the Dispute, including any claims, counterclaims, issues or accounting presented to the arbitrators. Judgment upon the Award may be entered in any court having jurisdiction. To the fullest extent permitted by law, no application or appeal to any court of competent jurisdiction may be made in connection with any question of law arising in the course of arbitration or with respect to any award made except for actions relating to enforcement of this agreement to arbitrate or any arbitral award issued hereunder and except for actions seeking interim or other provisional relief in aid of arbitration proceedings in any court of competent jurisdiction.

(h) Any monetary award shall be made and payable in U.S. dollars free of any tax, deduction or offset. Each party against which the Award assesses a monetary obligation shall pay that obligation on or before the 30th day following the date of the Award or such other date as the Award may provide.

(i) This Section 8.7 is intended to benefit and be enforceable by the shareholders, directors, officers, managers (including RMR or its successor), agents or employees of the Company and the Company and shall be binding on the shareholders of the Company and the Company, as applicable, and shall be in addition to, and not in substitution for, any other rights to indemnification or contribution that such individuals or entities may have by contract or otherwise.

8.8 Interpretation and Construction.

(a) The words “hereof”, “herein”, “hereby” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) Unless the context otherwise requires, references to sections, subsections or Articles refer to sections, subsections or Articles of this Agreement.

(c) Terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa.

(d) The words “include” and “including” and words of similar import shall be deemed to be followed by the words “without limitation”.

(e) Words importing gender include both genders.

(f) Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments

incorporated therein. In addition, references to any statute are to that statute and to the rules and regulations promulgated thereunder.

(g) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

8.9 Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

8.10 Entire Agreement. This Agreement and the SIR Subscription Agreement constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement.

8.11 Non-liability of Trustees and Directors.

(a) COPIES OF THE DECLARATIONS OF TRUST OF HPT, CWH, SNH, GOV AND SIR, AS IN EFFECT ON THE DATE HEREOF, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, IF ANY, ARE DULY FILED IN THE OFFICE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND. THE DECLARATIONS OF TRUST, AS AMENDED AND SUPPLEMENTED, OF HPT, CWH, SNH, GOV AND SIR, PROVIDE THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF HPT, CWH, SNH, GOV AND SIR, AS APPLICABLE, SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, HPT, CWH, SNH, GOV AND SIR. ALL PERSONS DEALING WITH HPT, CWH, SNH, GOV AND SIR IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF HPT, CWH, SNH, GOV AND SIR, AS APPLICABLE, FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

(b) A COPY OF THE ARTICLES OF INCORPORATION, AS IN EFFECT ON THE DATE HEREOF, OF FVE, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, IS DULY FILED IN THE OFFICE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND. NO DIRECTOR, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF FVE SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, FVE. ALL PERSONS DEALING WITH FVE, IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF FVE FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

(c) A COPY OF THE LIMITED LIABILITY COMPANY AGREEMENT, AS IN EFFECT ON THE DATE HEREOF, OF TA, TOGETHER WITH ALL AMENDMENTS THERETO, IS AVAILABLE TO A SHAREHOLDER PARTY HERETO UPON WRITTEN REQUEST MADE TO TA. NO DIRECTOR, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF TA SHALL BE HELD TO ANY PERSONAL LIABILITY, JOINTLY OR SEVERALLY, FOR ANY OBLIGATION OF, OR CLAIM AGAINST, TA. ALL PERSONS DEALING WITH TA, IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF TA FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

[The Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Amended and Restated Shareholders Agreement on the date first written above.

AFFILIATES INSURANCE COMPANY

By: /s/ Jennifer B. Clark
Name: Jennifer B. Clark
Title: President

FIVE STAR QUALITY CARE, INC.

By: /s/ Bruce J. Mackey Jr.
Name: Bruce J. Mackey Jr.
Title: President and Chief Executive Officer

HOSPITALITY PROPERTIES TRUST

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

COMMONWEALTH REIT

By: /s/ John C. Popeo
Name: John C. Popeo
Title: Treasurer and Chief Financial Officer

SENIOR HOUSING PROPERTIES TRUST

By: /s/ David J. Hegarty
Name: David J. Hegarty
Title: President and Chief Operating Officer

TRAVELCENTERS OF AMERICA LLC

By: /s/ Thomas M. O'Brien
Name: Thomas M. O'Brien
Title: President and Chief Executive Officer

REIT MANAGEMENT & RESEARCH LLC

By: /s/ Adam D. Portnoy
Name: Adam D. Portnoy
Title: President

GOVERNMENT PROPERTIES INCOME TRUST

By: /s/ Mark L. Kleifges
Name: Mark L. Kleifges
Title: Treasurer and Chief Financial Officer

SELECT INCOME REIT

By: /s/ David M. Blackman
Name: David M. Blackman
Title: President and Chief Operating Officer

Senior Housing Properties Trust
Computation of Ratios of Earnings to Fixed Charges
(dollars in thousands)

	<u>Six Months Ended June 30, 2012</u>	<u>Year Ended December 31,</u>				
		<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Earnings:						
Income before income tax expense	\$ 65,995	\$ 151,731	\$ 116,785	\$ 110,027	\$ 106,744	\$ 85,303
Fixed charges	57,009	98,262	80,017	56,404	40,154	37,755
Adjusted earnings	\$ 123,004	\$ 249,993	\$ 196,802	\$ 166,431	\$ 146,898	\$ 123,058
Fixed charges:						
Interest expense	\$ 57,009	\$ 98,262	\$ 80,017	\$ 56,404	\$ 40,154	\$ 37,755
Ratio of earnings to fixed charges	2.2x	2.5x	2.5x	2.9x	3.7x	3.3x

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Barry M. Portnoy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Senior Housing Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2012

/s/ Barry M. Portnoy

Barry M. Portnoy
Managing Trustee

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Adam D. Portnoy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Senior Housing Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2012

/s/ Adam D. Portnoy

Adam D. Portnoy
Managing Trustee

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, David J. Hegarty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Senior Housing Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2012

/s/ David J. Hegarty

David J. Hegarty

President and Chief Operating Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Richard A. Doyle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Senior Housing Properties Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2012

/s/ Richard A. Doyle

Richard A. Doyle

Treasurer and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SEC. 1350

In connection with the filing by Senior Housing Properties Trust (the “Company”) of the Quarterly Report on Form 10-Q for the period ended June 30, 2012 (the “Report”), each of the undersigned hereby certifies, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry M. Portnoy

Barry M. Portnoy
Managing Trustee

/s/ David J. Hegarty

David J. Hegarty
President and Chief Operating Officer

/s/ Adam D. Portnoy

Adam D. Portnoy
Managing Trustee

/s/ Richard A. Doyle

Richard A. Doyle
Treasurer and Chief Financial Officer

Date: August 1, 2012
