SENIOR HOUSING PROPERTIES TRUST
Form 10-K/A
February 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K/A

(Amendment No. 1)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-15319

SENIOR HOUSING PROPERTIES TRUST

Maryland	**04-3445278**
(State of Organization)	(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458
617-796-8350

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

Title of each class	**Name of each exchange on which registered**
Common Shares of Beneficial Interest	New York Stock Exchange
Trust Preferred Securities of SNH Capital Trust I	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ý Accelerated Filer o Non Accelerated Filer o

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

The aggregate market value of the voting shares of the registrant held by non-affiliates was $1.1 billion based on the $18.91 closing price per common share on the New York Stock Exchange on June 30, 2005. For purposes of this calculation, 8,660,738 common shares of beneficial interest, $0.01 par value per share, held by HRPT Properties Trust and an aggregate of 215,168 common shares held directly or by affiliates of the trustees and officers of the registrant have been included in the number of shares held by affiliates.

Number of the registrant s common shares outstanding as of March 6, 2006: 71,812,227.

In this Amendment No. 1 to our Annual Report on Form 10-K, the terms SNH , Senior Housing , the Company , we , us and our include Sen Housing Properties Trust, and its consolidated subsidiaries, unless the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 9, 2006, or our definitive Proxy Statement.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

OUR ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. THESE STATEMENTS REPRESENT OUR PRESENT BELIEFS AND EXPECTATIONS, BUT THEY MAY NOT OCCUR FOR VARIOUS REASONS. FOR EXAMPLE:

WE BELIEVE THAT FIVE STAR QUALITY CARE, INC., OR FIVE STAR, OUR FORMER SUBSIDIARY, WHICH IS RESPONSIBLE FOR 62% OF OUR RENTS, HAS ADEQUATE FINANCIAL RESOURCES AND LIQUIDITY TO MEET ITS OBLIGATIONS TO US. HOWEVER, FIVE STAR MAY EXPERIENCE FINANCIAL DIFFICULTIES AS A RESULT OF A NUMBER OF THINGS, INCLUDING, BUT NOT LIMITED TO:

INCREASES IN INSURANCE AND TORT LIABILITY COSTS;

INEFFECTIVE INTEGRATION OF NEW ACQUISITIONS;

EXTENSIVE REGULATION OF THE HEALTH CARE INDUSTRY;

SUNRISE SENIOR LIVING, INC. S INABILITY TO PROFITABLY OPERATE THE 17 COMMUNITIES MANAGED FOR FIVE STAR S ACCOUNT; AND

CHANGES IN MEDICARE AND MEDICAID PAYMENTS WHICH COULD RESULT IN A REDUCTION OF RATES OR A FAILURE OF THESE RATES TO MATCH FIVE STAR S COST INCREASES.

IF FIVE STAR S OPERATIONS BECOME UNPROFITABLE, FIVE STAR MAY BECOME UNABLE TO PAY OUR RENTS.

A MASSACHUSETTS TRIAL COURT HAS RULED THAT OUR TERMINATION OF HEALTHSOUTH CORPORATION S LEASE OF TWO HOSPITALS WAS PROPER, HEALTHSOUTH IS TO COOPERATE WITH US IN LICENSING A NEW TENANT AND HEALTHSOUTH IS TO PAY US THE NET PATIENT REVENUES, LESS A MANAGEMENT FEE AND OPERATING COSTS, SINCE OCTOBER 26, 2004. HOWEVER, HEALTHSOUTH HAS FILED A NOTICE OF APPEAL OF THESE DECISIONS AND HEALTHSOUTH S APPEAL MAY BE SUCCESSFUL.

THE COURT HAS ORDERED HEALTHSOUTH TO CONTINUE OPERATIONS OF OUR HOSPITALS DURING THE PERIOD OF TRANSITION TO A NEW TENANT. HEALTHSOUTH MAY BE UNWILLING OR UNABLE TO CONTINUE ITS OPERATIONS. IN SUCH CIRCUMSTANCES, WE MAY SEEK DAMAGES FROM HEALTHSOUTH AND TO CONTINUE THE HOSPITALS OPERATIONS WITH APPROPRIATE REGULATORY APPROVALS, BUT WE MAY BE UNABLE TO COLLECT SUCH DAMAGES FROM HEALTHSOUTH OR TO CONTINUE THE HOSPITALS OPERATIONS.

IN A SECOND LITIGATION, WE ARE SEEKING TO COLLECT INCREASED RENT FROM HEALTHSOUTH SINCE JANUARY 2002. THE FACT THAT WE HAVE RECEIVED A FAVORABLE RULING IN A SEPARATE LITIGATION MAY IMPLY THAT WE WILL ALSO SUCCEED IN THIS SECOND LITIGATION. HOWEVER, THE ISSUES IN THESE TWO LITIGATIONS ARE SOMEWHAT DIFFERENT AND ARE PENDING IN DIFFERENT COURTS. WE BELIEVE ALL OF OUR CLAIMS ARE VALID. HOWEVER, NOT ALL OF OUR CLAIMS HAVE BEEN FINALLY DETERMINED AND THE FACT THAT WE HAVE RECEIVED FAVORABLE RULINGS IN ONE CASE DOES NOT MEAN WE WILL SUCCEED IN THE OTHER CASE.

WE HAVE ENTERED AN AGREEMENT TO LEASE TO FIVE STAR THE TWO HOSPITALS INVOLVED IN THE HEALTHSOUTH LITIGATION, CONDITIONED UPON REGULATORY APPROVALS. THE IMPLICATION OF THIS STATEMENT IS THAT THE REGULATORY APPROVALS WILL BE FORTHCOMING AND THE LEASE WILL BECOME EFFECTIVE. HOWEVER, WE HAVE NO ABILITY TO ENSURE THAT REGULATORY APPROVALS WILL BE OBTAINED, AND THEY MAY NOT BE OBTAINED. IF SUCH APPROVALS ARE NOT OBTAINED, THE LEASE MAY NEVER BECOME EFFECTIVE.

IF THE HOSPITALS LEASE BECOMES EFFECTIVE, EITHER WE OR FIVE STAR MAY REQUEST THAT THE RENT BE RESET EFFECTIVE JULY 1, 2008, AFTER THE FINANCIAL OPERATIONS OF THESE HOSPITALS BECOME STABILIZED, ACCURATE FINANCIAL INFORMATION BECOMES KNOWN AND THE LITIGATION WITH HEALTHSOUTH IS CONCLUDED. THE IMPLICATION OF THIS STATEMENT IS THAT WE MAY BE ABLE TO RAISE THE RENT EFFECTIVE JULY 1, 2008. IN FACT, IT MAY TAKE LONGER TO STABILIZE THE FINANCIAL AFFAIRS AND ACCOUNTS OF THE HOSPITALS AND THE LITIGATION WITH HEALTHSOUTH MAY CONTINUE BEYOND JULY 1, 2008. MOREOVER, A RENT RESET MAY RESULT IN A RENT DECLINE. ALSO, IF WE AND FIVE STAR ARE UNABLE TO AGREE UPON A RESET RENT EFFECTIVE JULY 1, 2008, WE MAY DECIDE TO IDENTIFY A NEW TENANT FOR THESE HOSPITALS.

THE FORWARD LOOKING STATEMENTS REGARDING OUR LITIGATIONS WITH HEALTHSOUTH MAY IMPLY THAT WE WILL EVENTUALLY RECEIVE MORE INCOME FROM OUR OWNERSHIP OF THE TWO HOSPITALS THAN THE $8.7 MILLION PER YEAR PAID BY HEALTHSOUTH SINCE JANUARY 2002 AND THE $5.3 MILLION WHICH HEALTHSOUTH PAID TO US IN FEBRUARY 2006. HOWEVER, THIS IMPLICATION MAY NOT BE REALIZED FOR MANY DIFFERENT REASONS: HEALTHSOUTH MAY BECOME UNABLE TO PAY THE INCREASED AMOUNTS, IF ANY, DUE TO US. FIVE STAR MAY NOT RECEIVE ITS NECESSARY APPROVALS AND MAY NOT LEASE THESE HOSPITALS. WE MAY BE UNABLE TO IDENTIFY A SUBSTITUTE TENANT FOR FIVE STAR WHO OBTAINS APPROPRIATE LICENSES AND WHO IS WILLING OR ABLE TO PAY INCREASED RENTS. HEALTHSOUTH S APPEAL MAY BE SUCCESSFUL AND ITS LEASE MAY BE REINSTATED. THE FINANCIAL RESULTS OF THE HOSPITALS OPERATIONS MAY DECLINE AND THIS DECLINE MAY BE MATERIAL. HEALTHSOUTH MAY CEASE PAYING THE $8.7 MILLION PER YEAR WHICH IT HAS HISTORICALLY PAID TO US, OR OTHER AMOUNTS DUE TO US, UNTIL FIVE STAR OR ANOTHER NEW TENANT IS INSTALLED AT THE HOSPITALS.

LITIGATION IS EXPENSIVE. SINCE THE CURRENT LITIGATIONS BETWEEN US AND HEALTHSOUTH BEGAN IN APRIL 2003, WE HAVE SPENT OVER $2.3 MILLION IN LITIGATION COSTS. THE EXPENSE OF THESE LITIGATIONS HAS BEEN SOMEWHAT CONCENTRATED DURING THE PAST 12 MONTHS. WE EXPECT THAT THESE EXPENSES WILL CONTINUE AND MAY INCREASE SO LONG AS THE LITIGATIONS CONTINUE. MOREOVER, WE ARE UNABLE TO PROVIDE ANY PROJECTIONS AS TO WHEN THESE LITIGATIONS MAY END OR THE AMOUNTS OF FUTURE LITIGATION COSTS. WE HAVE RECENTLY REQUESTED THAT THE COURT ORDER HEALTHSOUTH TO PAY SOME OF OUR LITIGATION COSTS. HEALTHSOUTH HAS OPPOSED THIS REQUEST AND WE DO NOT KNOW HOW THE COURTS WILL RULE OR WHETHER HEALTHSOUTH WILL BE WILLING OR ABLE TO HONOR ANY AWARD WHICH MAY BE MADE.

OTHER RISKS MAY ADVERSELY IMPACT US, AS DESCRIBED MORE FULLY UNDER ITEM 1A. RISK FACTORS .

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

STATEMENT CONCERNING LIMITED LIABILITY

THE ARTICLES OF AMENDMENT AND RESTATEMENT OF THE DECLARATION OF TRUST ESTABLISHING SENIOR HOUSING PROPERTIES TRUST, DATED SEPTEMBER 20, 1999, A COPY OF WHICH, TOGETHER WITH ALL AMENDMENTS AND SUPPLEMENTS THERETO, IS DULY FILED IN THE OFFICE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND, PROVIDES THAT THE NAME SENIOR HOUSING PROPERTIES TRUST REFERS TO THE TRUSTEES UNDER THE DECLARATION OF TRUST AS TRUSTEES, BUT NOT INDIVIDUALLY OR PERSONALLY, AND 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.

SENIOR HOUSING PROPERTIES TRUST

2005 FORM 10-K/A ANNUAL REPORT

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* Incorporated by reference from our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Shareholders to be held on May 9, 2006.

Explanatory Note

Overview

We are filing this amendment to our Annual Report on Form 10-K for the year ended December 31, 2005, or the Original Filing, to amend and restate financial statements and other financial information for the year 2005, and for the fourth quarter of that year. In addition, we are filing amendments to our Quarterly Reports on Form 10-Q for each of the periods ended March 31, June 30 and September 30, 2006, to amend and restate financial statements for the first three quarters of 2006. The restatements reflect a correction resulting from a misapplication of U.S. generally accepted accounting principles applicable to the period in which debt extinguishment costs are recorded as an expense, as more fully discussed below. As a result of the correction, a $5.2 million loss on early extinguishment of debt, relating to our redemption of senior notes in January 2006, is being recognized in the first quarter of 2006 rather than in the fourth quarter of 2005.

The restatement affects only timing of the recognition of this loss, and has no effect on our consolidated balance sheets for any period except as of December 31, 2005, and the resulting increase in our consolidated net income for the fiscal year and quarter ended December 31, 2005 is fully offset by the resulting reduction of our consolidated net income in the first quarter of fiscal 2006. The restatement has no effect on our cash flows or liquidity, and its effects on our financial position at the ends of the respective restated periods are immaterial.

In light of the restatement, our previously filed financial statements and other financial information for our 2005 fiscal year, for the fourth quarter in that year and for each of the first three quarters of 2006 should not be relied upon.

Background

On January 22, 2007, we became aware of a likely error in the application of accounting principles used in connection with the preparation of the Company s audited financial statements for the fiscal year ended December 31, 2005. For the fiscal year and quarter ended that date, we recognized a $5.2 million loss on early extinguishment of debt relating to the redemption of $52.5 million of our senior notes in January 2006. The notes had been called for redemption in December 2005. The $5.2 million loss included a $4.1 million redemption premium and a $1.1 million non-cash write-off of deferred financing fees and unamortized discount relating to these notes. After studying the issue, our management concluded that under applicable U.S. generally accepted accounting principles, this loss should have been recognized in the first quarter of fiscal 2006, when the notes were redeemed, rather than in the fourth quarter of 2005, when the notes had been called for redemption.

We then recommended to the Audit Committee of our Board of Trustees that previously reported financial results be restated to reflect the recognition of this $5.2 million loss in the first quarter of 2006 rather than the fourth quarter of 2005, and that the year to date statements of income and cash flows for the second and third quarters of 2006 also be restated to reflect the first quarter restatement. The Audit Committee discussed and agreed with this recommendation. At a meeting on January 26, 2007, the Board of Trustees adopted the recommendation of the Audit Committee and determined that previously reported results for the Company should be restated and, therefore, that the previously filed financial statements and other financial information referred to above should not be relied upon. The restatement resulted from a material weakness in internal control over financial reporting, namely, that we did not maintain effective controls over the accuracy of our accounting for the early extinguishment of debt.

As of the date of this amended Annual Report on Form 10-K/A, we had implemented new control procedures to reduce the possibility that our future financial reporting may not reflect U.S. generally accepted accounting principles with regard to the early extinguishment of debt. As a result of these new procedures we have concluded that we maintain effective control over the accuracy of our accounting for the early extinguishment of debt as of the date of this amended Annual Report 10-K/A, or February 2, 2007.

Amendments to this Annual Report on Form 10-K

For convenience, this amended Annual Report on Form 10-K/A sets forth the Original Filing in its entirety, as amended where necessary, to reflect the restatement. The following sections of this amended Annual Report on Form 10-K/A have been revised to reflect the restatement: the amount of our outstanding debt described in Item 1.A Risk Factors, Item 6. Selected Financial Data, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 9A. Controls and Procedures, and Item 15. Exhibits and Financial Statement Schedules. Except to the extent relating to the restatement of our financial statements and other financial information described above, the financial statements and other disclosures in this amended Annual Report on Form 10-K/A do not reflect any events that have occurred after the Annual Report on Form 10-K was initially filed on March 13, 2006.

Effects of Restatement

The restatement affects only timing of the recognition of the loss resulting from early extinguishment of debt, and has no effect on the our consolidated balance sheets for any period except as of December 31, 2005, and the resulting increase in our consolidated net income for the fiscal year and quarter ended December 31, 2005 is fully offset by the resulting reduction of our consolidated net income in the first quarter of fiscal 2006.

The following table sets forth the effects of the restatement on affected line items within our previously reported consolidated balance sheet and statement of income for the year ended December 31, 2005:

	Year ended December 31, 2005 (As Previously Reported)	Year ended December 31, 2005 (Restated)
Income Statement Data:		
Total revenues	$ 163,187	$ 163,187
Income from continuing operations	52,774	57,981
Net income	58,705	63,912
Weighted average shares outstanding	68,757	68,757
Per Common Share Data:		
Income from continuing operations	$ 0.77	$ 0.84
Net income	0.85	0.93

	At December 31, 2005 (As Previously Reported)	At December 31, 2005 (Restated)
Balance Sheet Data:		
Total assets	$ 1,499,648	$ 1,500,641
Total indebtedness	556,400	556,320
Total shareholders equity	917,977	923,184

For additional information with respect to the effects of the restatement, see Item 6. Selected Financial Data, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 15. Exhibits and Financial Statement Schedules.

PART I

Item 1. Business

The Company.

We are a real estate investment trust, or REIT, which was organized under the laws of the state of Maryland in 1998 to continue the senior housing real estate business of HRPT Properties Trust, or HRPT, our former parent. As of December 31, 2005, we owned 188 properties located in 32 states. On that date, the undepreciated carrying value of our properties, net of impairment losses, was $1.7 billion. Our principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458, and our telephone number is (617) 796-8350.

We believe that the aging of the United States population will increase demand for existing senior apartments, independent living properties, assisted living properties and nursing homes and encourage development of new properties. Our business plan is to profit from this demand by purchasing additional properties and leasing them at initial rents that are greater than our costs of capital and by structuring leases that provide for periodic rental increases.

Our present business plan contemplates investments in age restricted apartment buildings, independent living properties, assisted living properties and nursing homes. Some properties combine more than one type of service in a single building or campus. Our investment, financing and disposition policies are established by our board of trustees and may be changed by our board of trustees at any time without shareholder approval.

Senior Apartments. Senior apartments are marketed to residents who are generally capable of caring for themselves. Residence is usually restricted on the basis of age. Purpose built properties may have special function rooms, concierge services, high levels of security and assistance call systems for emergency use. Residents at these properties who need healthcare or assistance with the activities of daily living are expected to contract independently for these services with homemakers or home healthcare companies.

Independent Living Properties. Independent living properties, or congregate care communities, also provide high levels of privacy to residents and require residents to be capable of relatively high degrees of independence. Unlike a senior apartment property, an independent living property usually bundles several services as part of a regular monthly charge. For example, one or two meals per day in a central dining room, weekly maid service or a social director may be included in the base charge. Additional services are generally available from staff employees on a fee for service basis. In some independent living properties, separate parts of the property are dedicated to assisted living or nursing services.

Assisted Living Properties. Assisted living properties are typically comprised of one bedroom units which include private bathrooms and efficiency kitchens. Services bundled within one charge usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24 hour availability of assistance with the activities of daily living such as dressing and bathing. Professional nursing and healthcare services are usually available at the property on call or at regularly scheduled times.

Nursing Homes. Nursing homes generally provide extensive nursing and healthcare services similar to those available in hospitals, without the high costs associated with operating theaters, emergency rooms or intensive care units. A typical purpose built nursing home includes mostly rooms with two beds, a separate bathroom and shared dining and bathing facilities. Some private rooms are often available for those residents who can afford to pay higher rates or for residents whose medical conditions require segregation. Nursing homes are staffed by licensed nursing professionals 24 hours per day.

Hospitals. We currently own two rehabilitation hospitals. These hospitals were acquired in a property exchange transaction for nursing homes which we previously owned and leased to HealthSouth Corporation, or HealthSouth. HealthSouth decided to cease operating the nursing homes and we exchanged the nursing homes for the hospitals. We are currently in litigation with HealthSouth regarding these hospitals. See Item 3. Legal Proceedings for a description of our HealthSouth litigation.

Other Types of Real Estate. In the past we have considered investing in real estate different from senior housing properties. To date we have not made any such investments, but we may again explore such alternative investments.

Tenants.

Each of our properties is included in one of 12 separate leases. The following chart presents a summary of these leases as of December 31, 2005 (dollars in thousands). This summary should be read in conjunction with the more detailed description of our leases set forth below.

Tenant	Number of Properties (units/beds)	Undepreciated Carrying Value of Properties	Net Book Value of Properties	Annual Rent	Lease Expiration	Renewal Options
Five Star Quality Care, Inc. /Sunrise Senior Living, Inc.(1)	30 (7,307)	$ 632,465	$ 571,050	$ 64,026	12/31/17	1 for 10 years. 1 for 5 years.
Five Star Quality Care, Inc.	106 (8,467)	486,817	433,732	39,434	12/31/20	1 for 15 years.
Sunrise Senior Living, Inc. /Marriott International, Inc.(2)	14 (4,091)	325,473	241,236	31,087	12/31/13	4 for 5 years each.
NewSeasons Assisted Living Communities, Inc./Independence Blue Cross(3)	10 (1,019)	87,641	83,617	9,287	4/30/17	2 for 15 years each.
HealthSouth Corporation	2 (364)	43,553	31,506	8,700(4)	(4)	(4)
Alterra Healthcare Corporation/Brookdale Senior Living, Inc.(5)	18 (894)	61,126	56,603	7,232	12/31/17	2 for 15 years each.
Genesis HealthCare Corporation	1 (156)	13,007	10,006	1,536	12/31/16	1 for 10 years. 1 for 5 years.
ABE Briarwood Corp	1 (140)	15,598	5,580	1,269	12/31/10	3 for 10 years each.
HealthQuest, Inc.	3 (361)	7,589	4,927	1,075	1/31/13	2 for 10 years each.
Covenant Care, Inc.	1 (180)	3,503	2,337	1,057	9/30/15	1 for 15 years.
Evergreen Washington Healthcare, LLC	1 (103)	5,193	3,340	949	12/31/15	1 for 10 years.
The MacIntosh Company	1 (200)	4,204	3,204	611	6/30/19	1 for 10 years.
	188 (23,282)	$ 1,686,169	$ 1,447,138	$ 166,262		

(1) These 30 properties are leased to Five Star Quality Care, Inc., or Five Star, and 18 were managed by Sunrise Senior Living, Inc., or Sunrise, on December 31, 2005. As of December 31, 2005, Five Star operated 12 of these 30 properties and began operating an additional property in February 2006. Sunrise does not guaranty Five Star s lease obligations.

(2) These properties are leased to Sunrise; this lease is guaranteed by Marriott International, Inc., or Marriott.

(3) This lease is guaranteed by Independence Blue Cross, a Pennsylvania health insurance company.

(4) As discussed further in Item 3. Legal Proceedings , we terminated our lease with HealthSouth for these hospitals on October 26, 2004. The termination of the lease is one of the subjects of litigation between us and HealthSouth. In September 2005, the court ruled that our termination was proper. In January 2006, the court ordered HealthSouth to cooperate with us in licensing a new tenant and pay us the net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004. HealthSouth has filed an appeal of the court s decisions; however, HealthSouth s motions for a stay of the court s decisions during the appeal have been denied by both the trial court and the appeals court. During the pendency of these disputes through January 2006, HealthSouth continued to pay us at the disputed rent amount of $725,000 per month. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. On February 28, 2006, we entered an agreement to lease these two hospitals to Five Star, conditioned upon Five Star s obtaining all health regulatory approvals required to operate the hospitals. When the new lease becomes effective, annual rent Five Star will pay to us will be $10.25 million per year. In 2008, when we believe accurate financial information based up on stabilized operations will be available and that the litigation with HealthSouth may be concluded, either we or Five Star may request that the rent be reset effective July 1, 2008.

(5) These properties are leased to Alterra Healthcare Corporation, or Alterra; this lease is guaranteed by Brookdale Senior Living, Inc., or Brookdale.

Sunrise Senior Living, Inc. Until 2003, Marriott Senior Living Services, Inc., or MSLS, was the operator of properties leased under two of our leases: (i) 14 properties leased to MSLS until 2013 for annual rent of $31.1 million; and (ii) 30 properties leased to Five Star until 2017 for annual rent of $64.0 million. In March 2003, Marriott, sold MSLS to Sunrise, and MSLS changed its name to Sunrise Senior Living Services, Inc., or SLS. SLS is a 100% owned

subsidiary of Sunrise. In November 2005 and February 2006, Five Star terminated the SLS management contracts for 13 of the 30 properties. Five Star now operates these 13 properties directly and SLS continues to operate the remaining 17 properties. Marriott continues to guaranty the lease for the 14 properties leased directly to SLS. Neither Sunrise nor Marriott has guaranteed Five Star s lease for the properties managed by SLS for Five Star.

The following table presents summary financial information reported by Marriott and Sunrise in their Annual Reports on Form 10-K for their three fiscal years ending in 2005 and 2004:

Summary Financial Information of Marriott International, Inc.
(in millions)

	As of or for the year ended		
	December 31, 2005	**December 31, 2004**	**January 2, 2004**
Sales	$ 11,550	$ 10,099	$ 9,014
Net income	669	596	502
Total assets	8,530	8,668	8,177
Long-term debt	1,681	836	1,391
Shareholders equity	3,252	4,081	3,838

Summary Financial Information of Sunrise Senior Living, Inc.
(in thousands)

	As of or for the year ended		
	December 31, 2005	**December 31, 2004**	**December 31, 2003**
Operating Revenue	$ 1,819,479	$ 1,446,471	$ 1,096,260
Net income	79,742	50,687	62,178
Total assets	1,328,276	1,105,756	1,009,798
Long-term debt	151,421	156,402	178,383
Shareholders equity	632,677	523,518	490,276

Five Star. We lease 30 senior living communities to Five Star until 2017 for annual rent of $64.0 million plus additional rent of 4% of the increase in revenues at these properties beginning in 2006. As discussed above, 17 of these communities are managed by SLS. Neither Marriott nor Sunrise has guaranteed the lease for these properties.

In addition to the lease with Five Star for 30 properties, we have three other leases with Five Star: one for 86 properties; one for 16 properties and one for four properties. The two smaller leases are on substantially similar terms to the larger lease. The properties in the two smaller leases secure mortgage debt payable to third parties and the leases provide that upon the repayment of the mortgaged debt, the properties will be added to the larger lease. For the purposes of this Annual Report on Form 10-K, we discuss these two leases as part of the larger lease. At December 31, 2005, this combined lease included 106 senior living properties consisting of 50 nursing homes and 56 independent and assisted living properties leased until 2020 for annual rent of $39.4 million. Beginning in 2006, Five Star will pay additional rent equal to 4% of the increase in revenues at 65 of the properties. Beginning in 2007, Five

Star will pay additional rent equal to 4% of the increase in revenues at the remaining 41 properties added to the combined lease since November 2004. All 106 of these properties are operated by Five Star.

Five Star was formerly our 100% owned subsidiary. We created Five Star in 2000 to operate nursing homes which we repossessed from former tenants who defaulted their leases. We distributed substantially all of our ownership of Five Star to our shareholders on December 31, 2001. Two of our trustees are currently directors of Five Star. Today, Five Star is a separate company listed on the American Stock Exchange under the symbol FVE and, as of December 31, 2005, is responsible for 62% of our annual rent. Since it became a separate public company by the spin off to our shareholders, Five Star has not been consistently

profitable. However, we believe Five Star has adequate financial resources and liquidity to continue its business and to meet its obligations to us. As of February 28, 2006, this tenant is current on its rent obligations to us.

On February 28, 2006, we entered an agreement to lease the two hospitals involved in the HealthSouth litigation, described in Item 3. Legal Proceedings below, to Five Star, conditioned upon Five Star s obtaining all health regulatory approvals required to operate the hospitals. When the new lease becomes effective, the annual rent Five Star will pay to us will be $10.25 million per year. In 2008, when we believe accurate financial information based upon stabilized operations will be available and that the litigation with HealthSouth may be concluded, either we or Five Star may request that the rent be reset effective July 1, 2008. The remainder of the lease will be on terms substantially similar to our existing leases with Five Star.

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

	As of or for the year ended		
	December 31, 2005	December 31, 2004	December 31, 2003
Total revenues	$ 757,527	$ 620,014	$ 567,465
Net (loss) income	(84,159)	3,291	(7,939)
Total assets	228,940	222,985	147,370
Long-term debt	45,329	42,581	10,435
Shareholders equity	68,804	95,904	64,427

NewSeasons Assisted Living Communities, Inc. We lease 10 assisted living properties to NewSeasons Assisted Living Communities, Inc., or NewSeasons, until 2017, plus renewal options. The rent payable to us will average approximately $9.3 million per year during the initial lease term, although it is currently $8.0 million per year and will increase at agreed times during the lease term. Substantially all of the revenues at these properties are paid by residents from their private resources. NewSeasons is a subsidiary of Independence Blue Cross, or IBC. IBC is a large regional health insurance company based in Philadelphia, Pennsylvania, with reported revenues of approximately $9.7 billion in 2004. IBC has guaranteed NewSeasons rent to us. As of February 28, 2006, this tenant is current on its rent obligations to us.

HealthSouth. We own two rehabilitation hospitals that we leased to HealthSouth. Effective January 2, 2002, we entered an amended lease with HealthSouth for these two hospitals. In April 2003, we commenced a lawsuit against HealthSouth seeking, among other matters, to reform the amended lease, based upon HealthSouth s fraud, by increasing the rent payable to us from January 2, 2002 until the termination or expiration of the amended lease. This litigation is pending at this time. On October 26, 2004, we terminated the amended lease for default because HealthSouth failed to deliver to us accurate and timely financial information as required by the amended lease. On November 2, 2004, HealthSouth brought a second lawsuit against us seeking to prevent our termination of the amended lease. On September 25, 2005, the court ruled that our lease termination was proper. On January 18, 2006, the court ordered HealthSouth to cooperate with us in licensing a new tenant for our two hospitals and pay us the hospitals net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004. We have entered an agreement with Five Star to lease these hospitals, conditioned upon Five Star s obtaining all health regulatory approvals required to operate the hospitals. HealthSouth has filed an appeal of the court s decisions; however, HealthSouth s motions for a stay of the court s decisions during the appeal have been denied by both the trial court and the appeals court. During the pendency of these disputes through January 2006, HealthSouth continued to pay us at the disputed rent amount of $725,000 per month. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. We are reviewing HealthSouth s calculations of amounts due to us and we may claim additional amounts. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K for the period ending December 31, 2003. In December 2005, HealthSouth filed late an Annual Report on Form 10-K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth Form 10-Ks show a substantial

negative net worth and a history of substantial operating losses. To date we have been unable to obtain reliable current financial information about the operations of HealthSouth or our hospitals. Accordingly, we do not know if we will be able to collect any additional amounts which the courts may determine to be owed to us by HealthSouth. For more information about this litigation, see Item 3. Legal Proceedings below.

Alterra Healthcare Corporation. We lease 18 assisted living properties to a subsidiary of Alterra until 2017, plus renewal options. The base rent payable to us under this lease is $7.0 million per year. Additional rent calculated as a percentage of increases in the revenues at these properties is also payable. A majority of the revenues at these Alterra operated properties are paid by residents from their private resources. Alterra has guaranteed the rent payable to us. During 2005, Alterra merged into a subsidiary of Brookdale Senior Living, Inc., or Brookdale. Brookdale completed an initial public offering in November 2005, and is currently listed on the New York Stock Exchange, or NYSE, under the listing BKD . In accordance with the terms of our lease, Brookdale became a guarantor of the rent payments to us for these properties. As of February 28, 2006, this tenant is current on its rent obligations to us.

Genesis HealthCare Corporation. We lease one nursing home to a subsidiary of Genesis HealthCare Corporation, or Genesis, for $1.5 million of annual rent. During 2005, Genesis exercised one of its renewal options to extend the lease until 2016. Genesis has two additional renewal options. Genesis has guaranteed the rent payable to us under this lease and we hold a cash security deposit of $235,000 to secure payment of this rent. Genesis is a public company listed on the NASDAQ under the symbol GHCI . As of February 28, 2006, this tenant is current on its rent obligations to us.

ABE Briarwood Corp. We lease one skilled nursing facility in Canonsburg, Pennsylvania to a subsidiary of ABE Briarwood Corp., a privately owned company, until 2010, plus renewal options. Our property is sub-leased to THI of Pennsylvania at Greenery of Canonsburg, LLC, a subsidiary of another private company, THI of Baltimore, Inc. Our lease is guaranteed by ABE Briarwood Corp., IHS Long Term Care, Inc. and THI of Baltimore, Inc. and secured by a cash security deposit of $600,000. As of February 28, 2006, this tenant is current on its rent obligations to us.

HealthQuest, Inc. We lease two skilled nursing facilities and one independent living facility located in Huron and Sioux Falls, South Dakota to HealthQuest, Inc., a privately owned company, until 2013, plus a renewal option. The lease is guaranteed by the sole shareholder of HealthQuest, Inc. We are currently reviewing the historical calculation of additional rent paid by this tenant; but as of February 28, 2006, this tenant appears to be current on its rent obligations to us.

Covenant Care, Inc. We lease one skilled nursing facility in Fresno, California to Covenant Care California, Inc. until 2015, plus a renewal option. The lease is guaranteed by our tenant s parent company, Covenant Care, Inc., a privately owned company, and secured by a cash security deposit of $900,000. As of February 28, 2006, this tenant is current on its rent obligations to us.

Evergreen Washington Healthcare, LLC. We lease one skilled nursing facility in Seattle, Washington to Evergreen Washington Healthcare Seattle, LLC until 2015, plus a renewal option. The rent payable to us will average $949,000 per year during the lease term, although it is currently $896,000 per year and will increase at agreed times during the lease term. This lease is guaranteed by our tenant s parent company, Evergreen Washington Healthcare, LLC, a privately owned company, and secured by a cash security deposit of $385,000. As of February 28, 2006, this tenant is

current on its rent obligations to us.

The MacIntosh Company. We lease one skilled nursing facility in Grove City, Ohio to The MacIntosh Company, a privately owned company, until 2019, plus a renewal option. This lease is guaranteed by a management company affiliate of our tenant and by the former and current majority shareholders of the tenant and the management company, which are privately owned. As of February 28, 2006, this tenant is current on its rent obligations to us.

Lease Terms.

Our leases are so-called triple net leases which require the tenants generally to indemnify us from liability which may arise by reason of our ownership of the properties. Our lease terms generally require our tenants to maintain

the leased properties, at their expense, to remove and dispose of hazardous substances in compliance with applicable law and to maintain insurance policies. In the event of partial damage, condemnation or taking, our tenants are required to rebuild with insurance or other proceeds, if any; in the case of total destruction, condemnation or taking, we receive all insurance or other proceeds and the tenants are required to pay any positive difference in the amount of proceeds and our historical investments in the affected properties; in the event of material destruction or condemnation, some tenants have a right to purchase the affected property for amounts at least equal to our historical investment in that property.

Events of Default. Under our leases events of default generally include:

failure of the tenant to pay rent or any other sum when due;

failure of the tenant to provide periodic financial reports when due;

failure of the tenant to perform other terms, covenants or conditions of its lease and the continuance thereof for a specified period after written notice;

failure of the tenant to maintain required insurance coverages; or

revocation of any material license necessary for the tenant s operation of our property.

Default Remedies. Upon the occurrence of any event of default, we may (subject to applicable law):

terminate the affected lease and accelerate the rent;

terminate the tenant s rights to occupy and use the affected property, rent the property and recover from the tenant the difference between the amount of rent which would have been due under the lease and the rent received under the reletting;

make any payment or perform any act required to be performed by the tenant under its lease;

exercise our rights with respect to any collateral securing the lease; and

require the defaulting tenant to reimburse us for all payments made and all costs and expenses incurred in connection with any exercise of the foregoing remedies.

However, the existence of triple net lease terms does not guaranty that our tenants will honor their obligations to us.

Investment Policies.

Acquisitions. Our present investment goals are to acquire additional real estate primarily for income and secondarily for appreciation potential. In implementing this acquisition strategy, we consider a range of factors relating to proposed acquisitions, including:

the use and size of the property;

proposed lease terms;

the availability and reputation of a financially qualified lessee or guarantor;

historical and projected cash flows from the operations of the property;

the estimated replacement cost and proposed acquisition price of the property;

the design, physical condition and age of the property;

the competitive market environment of the property;

the price segment and payment sources in which the property is operated; and

the level of permitted services and regulatory history of the property and its historical operators.

We have no policies which specifically limit the percentage of our assets which may be invested in any individual property, in any one type of property, in properties leased to any one tenant or in properties leased to an affiliated group of tenants.

Form of Investments. We prefer wholly-owned investments in fee interests. However, circumstances may arise in which we may invest in leaseholds, joint ventures, mortgages and other real estate interests. We may invest in real estate joint ventures if we conclude that by doing so we may benefit from the participation of co-venturers or that our opportunity to participate in the investment is contingent on the use of a joint venture structure. We may invest in participating, convertible or other types of mortgages if we conclude that by doing so, we may benefit from the cash flow or appreciation in the value of a property which is not available for purchase**.**

Mergers and Strategic Combinations.

In the past, we have considered the possibility of entering mergers or strategic combinations with other companies and we may again explore such possibilities in the future.

Disposition Policies.

From time to time we consider the sale of one or more properties or investments. Disposition decisions are made based on a number of factors including, but not limited to, the following:

our ability to lease the affected property;

our tenant s desire to purchase the affected property;

our tenant s desire to cease operating the affected property;

the proposed sale price;

the strategic fit of the property or investment with the rest of our portfolio; and

the existence of alternative sources, uses or needs for capital.

During 2005 and 2004, we sold two nursing homes and two assisted living facilities which had been leased to Five Star as part of combination leases which included many properties. Two were sold to an unaffiliated party and two were sold to Five Star. As a result of these sales, Five Star s rent for the combination lease which included these properties was reduced by a percentage of the net proceeds of sale which we realized. We are also planning to sell one nursing home property which is leased to Five Star; Five Star closed this facility because its historical operations were not economically viable.

Financing Policies.

There are no limitations in our organizational documents on the amount of indebtedness we may incur. Our revolving bank credit facility and our senior note indenture and its supplements contain financial covenants which, among other things, restrict our ability to incur indebtedness and require us to maintain financial ratios and a minimum net worth. However, our board of trustees may seek to amend these covenants or seek replacement financings with less restrictive covenants. Decisions to seek changes in the financial covenants which currently restrict our debt leverage will be made based upon then current economic conditions, the relative availability and costs of debt versus equity capital and our need for capital to take advantage of acquisition opportunities or otherwise.

Our board of trustees may determine to obtain replacements for our current credit facility or to seek additional capital through equity offerings, debt financings, retention of cash flows in excess of distributions to shareholders, or a combination of these methods. To the extent that the board of trustees decides to obtain additional debt financing, we may do so on an unsecured basis or a secured basis. We may seek to obtain lines of credit or to issue securities senior to our common shares, including preferred shares or debt securities, some of which may be convertible into common shares or be accompanied by warrants to purchase common shares. We may also finance acquisitions by assuming debt, through an exchange of properties or through the issuance of equity or other securities.

Manager.

Our day to day operations are conducted by Reit Management & Research LLC, or RMR. RMR originates and presents investment opportunities to our board of trustees. RMR is a Delaware limited liability company majority owned by Barry Portnoy, one of our managing trustees. The remainder of RMR is owned by Adam Portnoy, an executive officer of RMR and Executive Vice President of HRPT. RMR has a principal place of business at 400 Centre Street, Newton Massachusetts, 02458, and its telephone number is (617) 928-1300. RMR acts as the manager to HRPT, a NYSE listed real estate company which owns office buildings and is the holder of 7,710,738, or 10.7%, of our common shares. In addition, RMR has an agreement to provide certain shared services to Five Star, and RMR has other business interests. The directors of RMR are Gerard M. Martin, another of our managing trustees, Barry Portnoy and David J. Hegarty, our President. The executive officers of RMR are David J. Hegarty, President and Secretary; John G. Murray, Executive Vice President; Evrett W. Benton, Vice President; Ethan S. Bornstein, Vice President; Jennifer B. Clark, Vice President; John R. Hoadley, Vice President; Mark L. Kleifges, Vice President; David M. Lepore, Vice President; Bruce J. Mackey Jr., Vice President; John A. Mannix, Vice President; Thomas M. O Brien, Vice President; John C. Popeo, Vice President and Treasurer; and Adam Portnoy, Vice President. Messrs. Hegarty and Hoadley are also our officers. Other officers of RMR also serve as officers of other companies to which RMR provides management or other services, including Five Star and HRPT.

Employees.

We have no employees. Services which would otherwise be provided by employees are provided by RMR and by our managing trustees and officers. As of March 6, 2006, RMR had approximately 400 full-time employees.

Government Regulation and Reimbursement.

The regulatory environment of the senior living industry continues to intensify. Federal, state and local officials are increasingly focusing their efforts on enforcement, and private advocacy groups are increasing efforts to standardize statutes and regulations applicable to certain segments of the senior living industry, particularly assisted living. Some of the laws that impact our tenants include: state and local licensure laws, laws protecting consumers against deceptive practices, and laws generally affecting our tenants management of property and equipment and how our tenants otherwise conduct their operations, such as fire, health and safety laws and regulations and privacy laws; federal and state laws affecting assisted living facilities that participate in Medicaid and skilled nursing facilities that participate in both Medicaid and Medicare, mandating allowable costs, pricing, reimbursement procedures and limitations, quality of services and care, and quality of food service; resident rights (including abuse and neglect laws) and fraud laws; anti-kickback and physicians referral laws; the Americans with Disabilities Act; and safety and health standards set by the federal Occupational Safety and Health Administration. We are unable to predict the future course of federal, state and local legislation or regulation. Changes in the regulatory framework could have a material adverse effect on the abilities of our tenants to pay their rents.

Many senior living facilities are subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. In most states in which we own properties, our tenants are prohibited from providing certain levels of senior care services without first obtaining the appropriate licenses. In addition, a certificate of need is required in most states before a skilled nursing facility can be opened or the services at an existing facility can be expanded. In a few states certificate of need requirements also apply to assisted living facilities. Senior living facilities are also subject to state and local building, zoning, fire and food service codes and must be in compliance with applicable codes before licensing or Medicare/Medicaid certification may be granted. These laws and regulatory requirements could affect our ability to expand into new markets and our tenants ability to expand their facilities in existing markets. In addition, if any of our tenants facilities operates outside of the scope of its licensed authority, it could be subject to penalties, including closure of the facility.

The intensified regulatory and enforcement environment impacts our tenants because they are subject to increasing numbers of inspections or surveys and potential enforcement actions by governmental authorities. Unannounced surveys or inspections may occur annually or bi-annually, or following a state s receipt of a complaint about the facility. From time to time in the ordinary course of business, our tenants may receive deficiency reports from

state regulatory bodies resulting from such inspections or surveys. Most inspection deficiencies are resolved through an agreed plan of corrective action relating to the facility s operations, but the governmental agency typically has the authority to take further action against a licensed or certified facility, which could result in the imposition of civil money penalties or fines, suspension, modification, or revocation of a license or Medicare/Medicaid certification, suspension or denial of admissions, partial or full denial of payments, state oversight, or imposition of other sanctions, including criminal penalties. Loss, suspension or modification of a license or certification could adversely affect the abilities of our tenants to pay their rents. We or our tenants may also expend considerable resources to respond to federal and state investigations or other enforcement actions under applicable laws or regulations. Our tenants and their managers receive notices of potential sanctions and enforcement remedies from time to time, and such sanctions have been imposed from time to time on our facilities which they operate. If any of our tenants were to fail to comply with any applicable legal requirements, or be unable to cure deficiencies that have been identified or are identified in the future, such sanctions may be imposed and if imposed, may adversely affect these tenants abilities to pay their rents. State attorney generals typically enforce consumer protection laws relating to senior living services. Also, state Medicaid fraud and abuse agencies sometimes may investigate and prosecute assisted living and nursing facilities under fraud and patient abuse and neglect laws even if the facility and its residents do not receive federal or state funds.

Certain current state laws and regulations allow enforcement officials to make determinations on whether the care provided at one or more of our tenants facilities exceeds the level of care for which the facility is licensed. A finding that a facility is delivering care beyond the scope of its license might result in the immediate discharge and transfer of residents, which could adversely affect the abilities of our tenants to pay their rents. Furthermore, certain states and the federal government may allow citations in one facility to impact other facilities in the state or, in certain circumstances, in another state. Revocation of a license or certification at one facility could therefore impact a tenant s ability to obtain new licenses or certifications or to renew existing licenses at other facilities, which may adversely affect the ability of that tenant to pay its rents. In addition, an adverse finding by survey officials may serve as the basis for lawsuits by private plaintiffs and may lead to investigations under federal and state laws, which may result in civil and/or criminal penalties against the facility or individual.

Our tenants operate facilities in many states that participate in federal and state health care payment programs, including state Medicaid waiver programs for assisted living facilities, the Medicare and Medicaid skilled nursing facility benefit program, and other federal or state health care payment programs. Recent legislative and regulatory actions with respect to state Medicaid rates and federal Medicare rates are limiting the reimbursement levels for certain services provided at these facilities. Because of revenue shortfalls, budget deficits and cost containment measures in numerous states, and the current federal budget deficit and other federal priorities, we expect that Medicaid rate increases will be less than cost increases experienced by some of our tenants in 2006 and that in some instances Medicaid rates may decline, and we are unable to estimate how recent Medicare rate changes will affect certain tenants. This combination of events may make it increasingly difficult for some of our tenants to pay their rents.

Our tenants who operate facilities that participate in Medicare, Medicaid and other federal or state health care reimbursement programs are subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement that are false, fraudulent or are for items or services that were not provided as claimed. Fraud laws vary from state to state and these laws may not be interpreted consistently. Violation of any of these laws can result in loss of licensure, civil and criminal penalties and exclusion of health care providers or suppliers from federal and state health care payment programs. An adverse determination concerning any of our tenants licenses or eligibility for Medicare or Medicaid reimbursement or the costs of required compliance with applicable federal or state regulations could adversely affect these tenants abilities to pay their rent.

Our tenants are also subject to certain federal and state laws that regulate financial arrangements by health care providers relating to referrals, such as the federal Anti-Kickback Law, the federal physician referral laws known as the Stark Laws, and certain state referral laws. The federal Anti-Kickback Law makes it unlawful for any person to offer or pay or to solicit or receive any remuneration, directly or indirectly, overtly or covertly, in cash or in kind to induce or in return for referring or recommending for purchase any item or service which is eligible for payment under the Medicare or Medicaid program or other federally funded programs. Authorities have interpreted this statute very broadly to apply to many practices and relationships between health care providers and sources of patient referral. If a tenant were to violate the federal Anti-Kickback Law, it could face criminal penalties and civil sanctions, including fines and possible exclusion

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from government programs such as Medicare and Medicaid, which could adversely affect its ability to pay its rents. While we require our tenants to comply with all laws that regulate the licensure and operation of our senior living properties, it is difficult to predict how our properties or tenants ability to pay their rents could be affected if any of our tenants were subject to an action alleging such violations.

Our tenants are also subject to federal and state laws designed to protect the confidentiality and security of patient health information. The U.S. Department of Health and Human Services has issued rules pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, that govern our tenants use and disclosure of health information at certain HIPAA covered facilities. Additional costs to comply with these rules may adversely affect the abilities or our tenants to pay their rents.

If any of our tenants become unable to operate our properties or to pay our rents because it has violated government regulations or payment laws, we may have great difficulty finding a substitute tenant or selling the property for a fair price.

Competition.

We compete with other real estate investment trusts. We also compete with banks, non-bank finance companies, leasing companies and insurance companies which invest in real estate. Some of these competitors have resources that are greater than ours and have lower costs of capital.

Environmental Matters.

Under various laws, owners of real estate may be required to investigate and clean up hazardous substances present at a property, and may be held liable for property damage or personal injuries that result from such hazardous substances. These laws also expose us to the possibility that we become liable to reimburse the government for damages and costs it incurs in connection with hazardous substances at our properties. We reviewed environmental conditions surveys of the facilities we own prior to their purchase. Based upon those surveys we do not believe that any of our properties are subject to material environmental liabilities. However, no assurances can be given that environmental conditions for which we may be liable are not present in our properties or that costs we incur to remediate contamination will not have a material adverse effect on our business or financial condition.

Internet Website.

Our internet website address is www.snhreit.com. Copies of our governance guidelines, code of business conduct and ethics and the charters of our audit, compensation and nominating and governance committees may be obtained free of charge by writing to our Secretary, Senior Housing Properties Trust, 400 Centre Street, Newton, MA 02458 or at our website. We make available, free of charge, on our website, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such forms are filed with, or furnished to, the SEC. Any shareholder or other interested party who desires to communicate with our non-management trustees, individually or as a group, may do so by filling out a report on our website. Our board also provides a process for security holders to send communications to the entire board. Information about the

process for sending communications to our board can be found on our website. Our website address is included several times in this Annual Report on Form 10-K as a textual reference only and the information in the website is not incorporated by reference into this Annual Report on Form 10-K.

FEDERAL INCOME TAX CONSIDERATIONS

The following summary of federal income tax considerations is based on existing law, and is limited to investors who own our shares as investment assets rather than as inventory or as property used in a trade or business. The summary does not discuss the particular tax consequences that might be relevant to you if you are subject to special rules under federal income tax law, for example if you are:

a bank, life insurance company, regulated investment company, or other financial institution;

a broker or dealer in securities or foreign currency;

a person who has a functional currency other than the U.S. dollar;

a person who acquires our shares in connection with employment or other performance of services;

a person subject to alternative minimum tax;

a person who owns our shares as part of a straddle, hedging transaction, constructive sale transaction, constructive ownership transaction, or conversion transaction; or

except as specifically described in the following summary, a tax-exempt entity or a foreign person.

The Internal Revenue Code sections that govern federal income tax qualification and treatment of a REIT and its shareholders are complex. This presentation is a summary of applicable Internal Revenue Code provisions, related rules and regulations and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. The American Jobs Creation Act of 2004 or the 2004 Act, which subsequently received technical corrections as part of the Gulf Opportunity Zone Act of 2005, made a number of significant changes to these provisions, some of which have retroactive effect; we have summarized these changes in more detail below. Future legislative, judicial, or administrative actions or decisions could also affect the accuracy of statements made in this summary. We have not received a ruling from the IRS with respect to any matter described in this summary,and we cannot assure you that the IRS or a court will agree with the statements made in this summary. In addition, this summary is not exhaustive of all possible tax consequences, and does not discuss any estate, gift, state, local, or foreign tax consequences. For all these reasons, we urge you and any prospective acquiror of our shares to consult with a tax advisor about the federal income tax and other tax consequences of the acquisition, ownership and disposition of our shares. Our intentions and beliefs described in this summary are based upon our understanding of applicable laws and regulations that are in effect as of the date of this Annual Report on Form 10-K. If new laws or regulations are enacted which impact us directly or indirectly, we may change our intentions or beliefs.

Your federal income tax consequences may differ depending on whether or not you are a U.S. shareholder. For purposes of this summary, a U.S. shareholder for federal income tax purposes is:

a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under the federal income tax laws;

an entity treated as a corporation or partnership for federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, unless otherwise provided by Treasury regulations;

an estate the income of which is subject to federal income taxation regardless of its source; or

a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or electing trusts in existence on August 20, 1996, to the extent provided in Treasury regulations;

whose status as a U.S. shareholder is not overridden by an applicable tax treaty. Conversely, a non-U.S. shareholder is a beneficial owner of our shares who is not a U.S. shareholder.

Taxation as a REIT

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with our taxable year ending December 31,1999. Our REIT election, assuming continuing compliance with the then applicable qualification tests, continues in effect for subsequent taxable years. Although no assurance can be given, we

believe that we are organized, have operated, and will continue to operate in a manner that qualifies us to be taxed under the Internal Revenue Code as a REIT.

As a REIT, we generally are not subject to federal income tax on our net income distributed as dividends to our shareholders. Distributions to our shareholders generally are included in their income as dividends to the extent of our current or accumulated earnings and profits. Our dividends are not generally entitled to the favorable 15% rate on qualified dividend income, but a portion of our dividends may be treated as capital gain dividends, all as explained below. No portion of any of our dividends is eligible for the dividends received deduction for corporate shareholders. Distributions in excess of current or accumulated earnings and profits generally are treated for federal income tax purposes as return of capital to the extent of a recipient shareholder s basis in our shares, and will reduce this basis. Our current or accumulated earnings and profits are generally allocated first to distributions made on our preferred shares, if any,and thereafter to distributions made on our common shares.

Our counsel, Sullivan & Worcester LLP, has opined that we have been organized and have qualified as a REIT under the Internal Revenue Code for our 1999 through 2005 taxable years, and that our current investments and plan of operation enable us to continue to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. Our continued qualification and taxation as a REIT will depend upon our compliance with various qualification tests imposed under the Internal Revenue Code and summarized below. While we believe that we will satisfy these tests, our counsel has not reviewed and will not review compliance with these tests on a continuing basis. If we fail to qualify as a REIT, we will be subject to federal income taxation as if we were a C corporation and our shareholders will be taxed like shareholders of C corporations. In this event, we could be subject to significant tax liabilities, and the amount of cash available for distribution to our shareholders may be reduced or eliminated.

If we qualify as a REIT and meet the tests described below, we generally will not pay federal income tax on amounts we distribute to our shareholders. However, even if we qualify as a REIT, we may be subject to federal tax in the following circumstances:

We will be taxed at regular corporate rates on any undistributed real estate investment trust taxable income, including our undistributed net capital gains.

If our alternative minimum taxable income exceeds our taxable income, we may be subject to the corporate alternative minimum tax on our items of tax preference.

If we have net income from the disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business or from other nonqualifying income from foreclosure property, we will be subject to tax on this income at the highest regular corporate rate, currently 35%.

If we have net income from prohibited transactions, including dispositions of inventory or property held primarily for sale to customers in the ordinary course of business other than foreclosure property, we will be subject to tax on this income at a 100% rate.

If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT, we will be subject to tax at a 100% rate on the greater of the amount by which we fail the 75% or the 95% test, with adjustments, multiplied by a fraction intended to reflect our profitability.

If we fail to distribute for any calendar year at least the sum of 85% of our REIT ordinary income for that year, 95% of our REIT capital gain net income for that year, and any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the amounts actually distributed.

If we acquire an asset from a corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of a present or former C corporation, and if we subsequently recognize gain on the disposition of this asset during the ten year period beginning on

the date on which the asset ceased to be owned by the C corporation, then we will pay tax at the highest regular corporate tax rate, which is currently 35%, on the lesser of the excess of the fair market value of the asset over the C corporation s basis in the asset on the date the asset ceased to be owned by the C corporation, or the gain we recognize in the disposition.

If we acquire a corporation, to preserve our status as a REIT we must generally distribute all of the C corporation earnings and profits inherited in that acquisition, if any, not later than the end of the taxable year of the acquisition. However, if we fail to do so, relief provisions would allow us to maintain our status as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution. As discussed below, we acquired several C corporations on January 11, 2002 in connection with our acquisition of 31 senior living facilities. Our investigation of these C corporations indicated that they did not have undistributed earnings and profits. However, upon review or audit, the IRS may disagree with our conclusion.

As summarized below, REITs are permitted within limits to own stock and securities of a taxable REIT subsidiary. A taxable REIT subsidiary is separately taxed on its net income as a C corporation, and is subject to limitations on the deductibility of interest expense paid to its REIT parent. In addition, its REIT parent is subject to a 100% tax on the difference between amounts charged and redetermined rents and deductions, including excess interest.

If and to the extent we invest in properties in foreign jurisdictions, our income from those properties will generally be subject to tax in those jurisdictions. If we continue to operate as we do, then we will distribute our taxable income to our shareholders each year and we will generally not pay federal income tax. As a result, we cannot recover the cost of foreign income taxes imposed on our foreign investments by claiming foreign tax credits against our federal income tax liability. Also, we cannot pass through to our shareholders any foreign tax credits.

If we fail to qualify or elect not to qualify as a REIT, we will be subject to federal income tax in the same manner as a C corporation. Distributions to our shareholders if we do not qualify as a REIT will not be deductible by us nor will distributions be required under the Internal Revenue Code. In that event, distributions to our shareholders will generally be taxable as ordinary dividends potentially eligible for the 15% income tax rate discussed below in Taxation of U.S. Shareholders and, subject to limitations in the Internal Revenue Code, will be eligible for the dividends received deduction for corporate shareholders. Also, we will generally be disqualified from qualification as a REIT for the four taxable years following disqualification. If we do not qualify as a REIT for even one year, this could result in reduction or elimination of distributions to our shareholders, or in our incurring substantial indebtedness or liquidating substantial investments in order to pay the resulting corporate-level taxes. For our 2005 taxable year and beyond, the 2004 Act provides certain relief provision under which we might avoid automatically ceasing to be a REIT for failure to meet certain REIT requirements, all as discussed in more detail below.

REIT Qualification Requirements

General Requirements. Section 856(a) of the Internal Revenue Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

(3) that would be taxable, but for Sections 856 through 859 of the Internal Revenue Code, as a C corporation;

(4) that is not a financial institution or an insurance company subject to special provisions of the Internal Revenue Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) that is not closely held as defined under the personal holding company stock ownership test, as described below; and

(7) that meets other tests regarding income, assets and distributions, all as described below.

Section 856(b) of the Internal Revenue Code provides that conditions (1) through (4) must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a pro rata part of a taxable year of less than 12 months. Section 856(h)(2) of the Internal Revenue Code provides that neither condition (5) nor (6) need be met for our first taxable year as a REIT. We believe that we have met conditions (1) through (7) during each of the requisite periods ending on or before December 31, 2005, and that we can continue to meet these conditions in future taxable years. There can, however, be no assurance in this regard.

By reason of condition (6), we will fail to qualify as a REIT for a taxable year if at any time during the last half of a year more than 50% in value of our outstanding shares is owned directly or indirectly by five or fewer individuals. To help comply with condition (6), our declaration of trust restricts transfers of our shares. In addition, if we comply with applicable Treasury regulations to ascertain the ownership of our shares and do not know, or by exercising reasonable diligence would not have known, that we failed condition (6), then we will be treated as having met condition (6). However, our failure to comply with these regulations for ascertaining ownership may result in a penalty of $25,000, or $50,000 for intentional violations. Accordingly, we intend to comply with these regulations, and to request annually from record holders of significant percentages of our shares information regarding the ownership of our shares. Under our declaration of trust, our shareholders are required to respond to these requests for information.

For purposes of condition (6), REIT shares held by a pension trust are treated as held directly by the pension trust s beneficiaries in proportion to their actuarial interests in the pension trust. Consequently, five or fewer pension trusts could own more than 50% of the interests in an entity without jeopardizing that entity s federal income tax qualification as a REIT. However, as discussed below, if a REIT is a pension-held REIT, each pension trust owning more than 10% of the REIT s shares by value generally may be taxed on a portion of the dividends it receives from the REIT.

The 2004 Act provides that we will not automatically fail to be a REIT if we do not meet conditions (1) through (6), provided we can establish reasonable cause for any such failure. Each such excused failure will result in the imposition of a $50,000 penalty instead of REIT disqualification. It is impossible to state whether in all circumstances we would be entitled to the benefit of this relief provision. This relief provision applies to any failure of the applicable conditions, even if the failure first occurred in a prior taxable year, as long as each of the requirements of the relief provision is satisfied after October 22, 2004.

*Our Wholly-Owned**Subsidiaries and Our Investments through Partnerships.* Except in respect of taxable REIT subsidiaries as discussed below, Section 856(i) of the Internal Revenue Code provides that any corporation, 100% of whose stock is held by a REIT, is a qualified REIT subsidiary and shall not be treated as a separate corporation. The assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as the REIT s. We believe that each of our direct and indirect wholly-owned subsidiaries, other than the taxable REIT subsidiaries

discussed below, will either be a qualified REIT subsidiary within the meaning of Section 856(i) of the Internal Revenue Code, or a noncorporate entity that for federal income tax purposes is not treated as separate from its owner under regulations issued under Section 7701 of the Internal Revenue Code. Thus, except for the taxable REIT subsidiaries discussed below, in applying all the federal income tax REIT qualification requirements described in this summary, all assets, liabilities and items of income, deduction and credit of our direct and indirect wholly-owned subsidiaries are treated as ours.

We may invest in real estate through one or more limited or general partnerships or limited liability companies that are treated as partnerships for federal income tax purposes. In the case of a REIT that is a partner in a partnership, regulations under the Internal Revenue Code provide that, for purposes of the REIT qualification requirements regarding income and assets discussed below, the REIT is deemed to own its proportionate share of the assets of the partnership corresponding to the REIT s proportionate capital interest in the partnership and is deemed to be entitled to the income of the partnership attributable to this proportionate share. In addition, for these purposes, the character of the assets and gross

income of the partnership generally retain the same character in the hands of the REIT. Accordingly, our proportionate share of the assets, liabilities, and items of income of each partnership in which we are a partner is treated as ours for purposes of the income tests and asset tests discussed below. In contrast, for purposes of the distribution requirement discussed below, we must take into account as a partner our share of the partnership s income as determined under the general federal income tax rules governing partners and partnerships under Sections 701 through 777 of the Internal Revenue Code.

Taxable REIT Subsidiaries. We are permitted to own any or all of the securities of a taxable REIT subsidiary as defined in Section 856(l) of the Internal Revenue Code, provided that no more than 20% of our assets, at the close of each quarter, is comprised of our investments in the stock or securities of our taxable REIT subsidiaries. Among other requirements, a taxable REIT subsidiary must:

(1) be a non-REIT corporation for federal income tax purposes in which we directly or indirectly own shares;

(2) join with us in making a taxable REIT subsidiary election;

(3) not directly or indirectly operate or manage a lodging facility or a health care facility; and

(4) not directly or indirectly provide to any person, under a franchise, license, or otherwise, rights to any brand name under which any lodging facility or health care facility is operated, except that in limited circumstances a subfranchise, sublicense or similar right can be granted to an independent contractor to operate or manage a lodging facility.

In addition, a corporation other than a REIT in which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value will automatically be treated as a taxable REIT subsidiary. Subject to the discussion below, we believe that we and each of our taxable REIT subsidiaries have complied with, and will continue to comply with, the requirements for taxable REIT subsidiary status during all times each subsidiary s taxable REIT subsidiary election remains in effect, and we believe that the same will be true for any taxable REIT subsidiary that we later form or acquire.

Our ownership of stock and securities in taxable REIT subsidiaries is exempt from the 10% and 5% REIT asset tests discussed below. Also, as discussed below, taxable REIT subsidiaries can perform services for our tenants without disqualifying the rents we receive from those tenants under the 75% or 95% gross income tests discussed below. Moreover, because taxable REIT subsidiaries are taxed as C corporations that are separate from us, their assets, liabilities and items of income, deduction and credit are not generally imputed to us for purposes of the REIT qualification requirements described in this summary. Therefore, taxable REIT subsidiaries can generally undertake third-party management and development activities and activities not related to real estate.

Restrictions are imposed on taxable REIT subsidiaries to ensure that they will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary may not deduct interest paid in any year to an affiliated REIT to the extent that the interest payments exceed,

generally, 50% of the taxable REIT subsidiary s adjusted taxable income for that year. However, the taxable REIT subsidiary may carry forward the disallowed interest expense to a succeeding year, and deduct the interest in that later year subject to that year s 50% adjusted taxable income limitation. In addition, if a taxable REIT subsidiary pays interest, rent, or other amounts to its affiliated REIT in an amount that exceeds what an unrelated third party would have paid in an arm s length transaction, then the REIT generally will be subject to an excise tax equal to 100% of the excessive portion of the payment. Finally, if in comparison to an arm s length transaction, a tenant has overpaid rent to the REIT in exchange for underpaying the taxable REIT subsidiary for services rendered, then the REIT may be subject to an excise tax equal to 100% of the overpayment. There can be no assurance that arrangements involving our taxable REIT subsidiaries will not result in the imposition of one or more of these deduction limitations or excise taxes, but we do not believe that we are or will be subject to these impositions.

As of January 1, 2001, we acquired 100% ownership of several formerly 99% owned corporate subsidiaries, and filed a taxable REIT subsidiary election with each of these subsidiaries effective January 1, 2001. These elections were revoked early in taxable year 2002, in connection with our spin-off of Five Star and our associated diminished ownership of these subsidiaries. We have received an opinion of counsel that it is more likely than not that these subsidiaries were taxable REIT subsidiaries from January 1, 2001, until the revocation of the taxable REIT subsidiary elections. We had

submitted a private letter ruling request to the IRS to confirm that these subsidiaries complied with the requirement that prohibits the direct or indirect operation or management of a healthcare facility by a taxable REIT subsidiary, but withdrew this request before any IRS ruling was issued. If it is determined that these subsidiaries were ineligible for taxable REIT subsidiary status, we believe that the subsidiaries would instead have been qualified REIT subsidiaries under Section 856(i) of the Internal Revenue Code as of January 1, 2001 because we owned 100% of them and they were not properly classified as taxable REIT subsidiaries. As our qualified REIT subsidiaries, the gross income from the subsidiaries healthcare facilities would be treated as our own, and as a general matter would be nonqualifying income for purposes of the 75% and 95% gross income tests discussed below. However, we took steps to qualify for the 75% and 95% gross income tests under the relief provision described below. Thus, even if the IRS or a court ultimately determines that these subsidiaries failed to qualify as our taxable REIT subsidiaries, and that this failure thereby implicated our compliance with the 75% and 95% gross income tests discussed below, we expect we would qualify for the gross income tests relief provision and thereby preserve our qualification as a REIT. If this relief provision were to apply to us, we would be subject to tax at a 100% rate on the greater of the amount by which we failed the 75% or the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year; however, we would expect to owe little or no tax in these circumstances.

Income Tests. There are two gross income requirements for qualification as a REIT under the Internal Revenue Code:

At least 75% of our gross income, excluding gross income from sales or other dispositions of property held primarily for sale, must be derived from investments relating to real property, including rents from real property as defined under Section 856 of the Internal Revenue Code, mortgages on real property, income and gain from foreclosure property, or shares in other REITs. When we receive new capital in exchange for our shares or in a public offering of five-year or longer debt instruments, income attributable to the temporary investment of this new capital in stock or a debt instrument, if received or accrued within one year of our receipt of the new capital, is generally also qualifying income under the 75% gross income test.

At least 95% of our gross income, excluding gross income from sales or other dispositions of property held primarily for sale, must be derived from a combination of items of real property income that satisfy the 75% gross income test described above, dividends, interest, gains from the sale or disposition of stock, securities, or real property or, for financial instruments entered into during our 2004 or earlier taxable years, certain payments under interest rate swap or cap agreements, options, futures contracts, forward rate agreements or similar financial instruments. But for financial instruments entered into during our 2005 or later taxable years, the 95% gross income test has been modified as follows: except as may be provided in Treasury regulations, gross income for these purposes no longer includes income from a hedging transaction as defined under clauses (ii) and (iii) of Section 1221(b)(2)(A) of the Internal Revenue Code, but only to the extent that (A) the transaction hedges indebtedness we incur to acquire or carry real estate assets, and (B) the hedging transaction was clearly identified, meaning that the transaction must be identified as a hedging transaction before the end of the day on which it is entered and the risks being hedged must be identified generally within 35 days after the date the transaction is entered.

For purposes of the 75% and 95% gross income tests outlined above, income derived from a shared appreciation provision in a mortgage loan is generally treated as gain recognized on the sale of the property to which it relates. Although we will use our best efforts to ensure that the income generated by our investments will be of a type that satisfies both the 75% and 95% gross income tests, there can be no assurance in this regard.

In order to qualify as rents from real property under Section 856 of the Internal Revenue Code, several requirements must be met:

The amount of rent received generally must not be based on the income or profits of any person, but may be based on receipts or sales.

Rents do not qualify if the REIT owns 10% or more by vote or value of the tenant, whether directly or after application of attribution rules. While we intend not to lease property to any party if rents from that property would not qualify as rents from real property, application of the 10% ownership rule is dependent upon

complex attribution rules and circumstances that may be beyond our control. For example, an unaffiliated third party s ownership directly or by attribution of 10% or more by value of our shares, as well as 10% or more by vote or value of the stock of one of our tenants, would result in that tenant s rents not qualifying as rents from real property. Our declaration of trust disallows transfers or purported acquisitions, directly or by attribution, of our shares to the extent necessary to maintain our REIT status under the Internal Revenue Code. Nevertheless, there can be no assurance that these provisions in our declaration of trust will be effective to prevent our REIT status from being jeopardized under the 10% affiliated tenant rule. Furthermore, there can be no assurance that we will be able to monitor and enforce these restrictions, nor will our shareholders necessarily be aware of ownership of shares attributed to them under the Internal Revenue Code s attribution rules.

There is a limited exception to the above prohibition on earning rents from real property from a 10% affiliated tenant, if the tenant is a taxable REIT subsidiary. If at least 90% of the leased space of a property is leased to tenants other than taxable REIT subsidiaries and 10% affiliated tenants, and if the taxable REIT subsidiary s rent for space at that property is substantially comparable to the rents paid by nonaffiliated tenants for comparable space at the property, then otherwise qualifying rents paid by the taxable REIT subsidiary to the REIT will not be disqualified on account of the rule prohibiting 10% affiliated tenants.

In order for rents to qualify, we generally must not manage the property or furnish or render services to the tenants of the property, except through an independent contractor from whom we derive no income or, for our 2001 taxable year and thereafter, through one of our taxable REIT subsidiaries. There is an exception to this rule permitting a REIT to perform customary tenant services of the sort that a tax-exempt organization could perform without being considered in receipt of unrelated business taxable income as defined in Section 512(b)(3) of the Internal Revenue Code. In addition, a de minimis amount of noncustomary services will not disqualify income as rents from real property so long as the value of the impermissible services does not exceed 1% of the gross income from the property.

If rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as rents from real property ; if this 15% threshold is exceeded, the rent attributable to personal property will not so qualify. For our taxable years through December 31, 2000, the portion of rental income treated as attributable to personal property was determined according to the ratio of the tax basis of the personal property to the total tax basis of the real and personal property that is rented. For our 2001 taxable year and thereafter, the ratio is determined by reference to fair market values rather than tax bases.

We believe that all or substantially all our rents have qualified and will qualify as rents from real property for purposes of Section 856 of the Internal Revenue Code.

In order to qualify as mortgage interest on real property for purposes of the 75% test, interest must derive from a mortgage loan secured by real property with a fair market value, at the time the loan is made, at least equal to the amount of the loan. If the amount of the loan exceeds the fair market value of the real property, the interest will be treated as interest on a mortgage loan in a ratio equal to the ratio of the fair market value of the real property to the total amount of the mortgage loan.

Absent the foreclosure property rules of Section 856(e) of the Internal Revenue Code, a REIT s receipt of business operating income from a property would not qualify under the 75% and 95% gross income tests. But as foreclosure property, gross income from such a business operation would so qualify. In the case of property leased by a REIT to a tenant, foreclosure property is defined under applicable Treasury regulations to include generally the real property and incidental personal property that the REIT reduces to possession upon a default or imminent default under the lease by the tenant, and as to which a foreclosure property election is made by attaching an appropriate statement to the REIT s federal income tax return.

Any gain that a REIT recognizes on the sale of foreclosure property, plus any income it receives from foreclosure property that would not qualify under the 75% gross income test in the absence of foreclosure property treatment, reduced by

expenses directly connected with the production of those items of income, would be subject to income tax at the maximum corporate rate, currently 35%, under the foreclosure property income tax rules of Section 857(b)(4) of the Internal Revenue Code. Thus, if a REIT should lease foreclosure property in exchange for rent that qualifies as rents from real property as described above, then that rental income is not subject to the foreclosure property income tax.

Foreclosure property status is not permanent. A property s status as foreclosure property for a REIT ceases upon the earlier of:

the close of the third taxable year following the taxable year in which the property became foreclosure property, subject to any extension granted by the IRS;

the date the REIT begins to lease the property on terms that give rise to income that does not qualify under the 75% gross income test, or the date the REIT begins to receive or accrue income pursuant to a lease, directly or indirectly, that does not qualify under the 75% gross income test;

the first day after reducing the property to ownership on which construction takes place, other than completion of a building or other improvement where more than 10% of the construction was completed before the tenant s default became imminent; or

the first day more than 90 days after reducing the property to possession that the REIT does not retain an independent contractor, from whom it does not derive or receive any income, to operate the property on the REIT s behalf.

The application of the foreclosure property rules to the two hospitals that are the subject of our dispute with HealthSouth is not clear. From the inception of our dispute in 2004, through the end of both our 2004 and 2005 taxable years, HealthSouth remained in possession of the two hospitals and only paid us amounts that were in the nature of rents from real property . We attached a statement with our 2004 federal income tax return that summarized our dispute with HealthSouth and expressed our intent that a foreclosure property election apply to the two subject hospitals when and if appropriate. We intend to attach a similar statement to our 2005 federal income tax return. We expect that our 2004 and 2005 income from the two hospitals will be qualifying income for purposes of the 75% and 95% gross income tests, and, because the only amounts that we received from HealthSouth through the end of our 2004 and 2005 taxable years was in the nature of rents from real property , we do not believe that any foreclosure property income tax is owing on such amounts.

With respect to our 2006 taxable year, the final outcome of our litigation with HealthSouth remains uncertain. However, in February 2006 HealthSouth paid us sums it represented to be net cash flow from the disputed hospitals as well as interest on such amounts. Also, in March 2006 we entered an agreement to lease these hospitals to a healthcare operating company, Five Star, but that lease will not become effective until Massachusetts health regulatory authorities authorize the transfer of the operations to this new tenant. In view of these changing circumstances, we have taken actions and expect to take actions we believe are appropriate to allow us (i) to comply with the 75% and 95% gross income tests during the period until a new operator is authorized to assume the hospitals operations and (ii) to limit the tax on amounts we may receive from HealthSouth.

Other than sales of foreclosure property, any gain we realize on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business will be treated as income from a prohibited transaction that is subject to a penalty tax at a 100% rate. This prohibited transaction income also may adversely affect our ability to satisfy the 75% and 95% gross income tests for federal income tax qualification as a REIT. We cannot provide assurances as to whether or not the IRS might successfully assert that one or more of our dispositions is subject to the 100% penalty tax. However, we believe that dispositions of assets that we have made or that we might make in the future will not be subject to the 100% penalty tax, because we intend to:

own our assets for investment with a view to long-term income production and capital appreciation;

engage in the business of developing, owning and operating our existing properties and acquiring, developing, owning and operating new properties; and

make occasional dispositions of our assets consistent with our long-term investment objectives.

Pursuant to the 2004 Act, if we fail to satisfy one or both of the 75% or the 95% gross income tests in any taxable year, we may nevertheless qualify as a REIT for that year if we satisfy the following requirements after October 22, 2004:

our failure to meet the test is due to reasonable cause and not due to willful neglect, and

after we identify the failure, we file a schedule describing each item of our gross income included in the 75% or 95% gross income tests for that taxable year.

It is impossible to state whether in all circumstances we would be entitled to the benefit of this relief provision for the 75% and 95% gross income tests. Even if this relief provision does apply, a 100% tax is imposed upon the greater of the amount by which we failed the 75% test or the 95% test, with adjustments, multiplied by a fraction intended to reflect our profitability. This relief provision applies to any failure of the applicable income tests, even if the failure first occurred in a prior taxable year, as long as each of the requirements of the relief provision is satisfied after October 22, 2004.

Under prior law, if we failed to satisfy one or both of the 75% or 95% gross income tests, we nevertheless would have qualified as a REIT for that year if: our failure to meet the test was due to reasonable cause and not due to willful neglect; we reported the nature and amount of each item of our income included in the 75% or 95% gross income tests for that taxable year on a schedule attached to our tax return; and any incorrect information on the schedule was not due to fraud with intent to evade tax. For our 2004 and prior taxable years, we attached a schedule of gross income to our federal income tax returns, but it is impossible to state whether in all circumstances we would be entitled to the benefit of this prior relief provision for the 75% and 95% gross income tests. Even if this relief provision did apply, a 100% tax is imposed upon the greater of the amount by which we failed the 75% test or the 95% test, with adjustments, multiplied by a fraction intended to reflect our profitability.

Asset Tests. At the close of each quarter of each taxable year, we must also satisfy the following asset percentage tests in order to qualify as a REIT for federal income tax purposes:

At least 75% of our total assets must consist of real estate assets, cash and cash items, shares in other REITs, government securities, and temporary investments of new capital (that is, stock or debt instruments purchased with proceeds of a stock offering or a public offering of our debt with a term of at least five years, but only for the one-year period commencing with our receipt of the offering proceeds).

Not more than 25% of our total assets may be represented by securities other than those securities that count favorably toward the preceding 75% asset test.

Of the investments included in the preceding 25% asset class, the value of any one non-REIT issuer s securities that we own may not exceed 5% of the value of our total assets, and we may not own more than 10% of any one non-REIT issuer s outstanding voting securities. For our 2001 taxable year and thereafter, we may not own more than 10% of the vote or value of any one non-REIT issuer s outstanding securities, unless that issuer is our taxable REIT subsidiary or the securities are straight debt securities or otherwise excepted as discussed below.

For our 2001 taxable year and thereafter, our stock and securities in a taxable REIT subsidiary are exempted from the preceding 10% and 5% asset tests. However, no more than 20% of our total assets may be represented by stock or securities of taxable REIT subsidiaries.

When a failure to satisfy the above asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter.

In addition, for our 2005 taxable year and thereafter, the 2004 Act provides that if we fail the 5% value test or the 10% vote or value tests at the close of any quarter and do not cure such failure within 30 days after the close of that quarter, that failure will nevertheless be excused if (a) the failure is de minimis and (b) within 6 months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy the 5% value and 10% vote and value asset tests. For purposes of this relief provision, the failure will be de minimis if the value of the assets causing the failure does not exceed the lesser of (a) 1% of the total value of our assets at the end of the relevant quarter or (b) $10,000,000. If our failure is not de minimis, or if any of the other REIT asset tests have been violated, we may nevertheless qualify as a REIT if (a) we provide the IRS with a description of each asset causing the failure, (b) the failure was due to reasonable cause and not willful neglect, (c) we pay a tax equal to the greater of (i) $50,000 or (ii) the highest rate of corporate tax imposed (currently 35%) on the net income generated by the assets causing the failure during the period of the failure, and (d) within 6 months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy all of the REIT asset tests. These relief provisions apply to any failure of the applicable asset tests, even if the failure first occurred in a prior taxable year, as long as each of the requirements of the relief provision is satisfied after October 22, 2004.

The 2004 Act also clarifies and expands, on a retroactive basis so as to be effective for our 2001 taxable year forward, an excepted securities safe harbor to the 10% value test that includes among other items (a) straight debt securities, (b) certain rental agreements in which payment is to be made in subsequent years, (c) any obligation to pay rents from real property, (d) securities issued by governmental entities that are not dependent in whole or in part on the profits of or payments from a nongovernmental entity, and (e) any security issued by another REIT.

We intend to maintain records of the value of our assets to document our compliance with the above asset tests, and to take actions as may be required to cure any failure to satisfy the tests within 30 days after the close of any quarter.

Our Relationship with Five Star. In 2001, we and HRPT spun off substantially all of our Five Star common shares. In addition, our leases with Five Star, Five Star s charter and bylaws, and the transaction agreement governing the spin-off contain restrictions upon the ownership of Five Star common shares and require Five Star to refrain from taking any actions that may jeopardize our qualification as a REIT under the Internal Revenue Code, including actions which would result in our or our significant shareholder, HRPT Properties Trust, obtaining actual or constructive ownership of 10% or more of the Five Star common shares. Accordingly, commencing with our 2002 taxable year, we expect that the rental income we receive from Five Star and its subsidiaries will be rents from real property, and thus qualifying income under the 75% and 95% gross income tests described above.

Annual Distribution Requirements. In order to qualify for taxation as a REIT under the Internal Revenue Code, we are required to make annual distributions other than capital gain dividends to our shareholders in an amount at least equal to the excess of:

(A) the sum of 90% of our real estate investment trust taxable income, as defined in Section 857 of the Internal Revenue Code, computed by excluding any net capital gain and before taking into account any dividends paid deduction for which we are eligible, and 90% of our net income after tax, if any, from property received in foreclosure, over

(B) the sum of our qualifying noncash income, *e.g.*, imputed rental income or income from transactions inadvertently failing to qualify as like-kind exchanges.

The distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the earlier taxable year and if paid on or before the first regular distribution payment after that declaration. If a dividend is declared in October, November, or December to shareholders of record during one of those months, and is paid during the following January, then for federal income tax purposes the dividend will be treated as having been both paid and received on December 31 of the prior taxable year. A distribution which is not pro rata within a class of our beneficial interests entitled to a distribution, or which is not consistent with the rights to distributions among our classes of beneficial interests, is a preferential distribution that is not taken into consideration for purposes of the distribution requirements, and accordingly the payment of a preferential distribution could affect our ability to meet the distribution requirements. Taking into account our distribution policies, including the dividend reinvestment plan we have adopted, we

expect that we will not make any preferential distributions. The distribution requirements may be waived by the IRS if a REIT establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the 4% excise tax discussed below. To the extent that we do not distribute all of our net capital gain and all of our real estate investment trust taxable income, as adjusted, we will be subject to tax on undistributed amounts.

In addition, we will be subject to a 4% excise tax to the extent we fail within a calendar year to make required distributions to our shareholders of 85% of our ordinary income and 95% of our capital gain net income plus the excess, if any, of the grossed up required distribution for the preceding calendar year over the amount treated as distributed for that preceding calendar year. For this purpose, the term grossed up required distribution for any calendar year is the sum of our taxable income for the calendar year without regard to the deduction for dividends paid and all amounts from earlier years that are not treated as having been distributed under the provision. We will be treated as having sufficient earnings and profits to treat as a dividend any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax.

If we do not have enough cash or other liquid assets to meet the 90% distribution requirements, we may find it necessary and desirable to arrange for new debt or equity financing to provide funds for required distributions in order to maintain our REIT status. We can provide no assurance that financing would be available for these purposes on favorable terms.

We may be able to rectify a failure to pay sufficient dividends for any year by paying deficiency dividends to shareholders in a later year. These deficiency dividends may be included in our deduction for dividends paid for the earlier year, but an interest charge would be imposed upon us for the delay in distribution. Although we may be able to avoid being taxed on amounts distributed as deficiency dividends, we will remain liable for the 4% excise tax discussed above.

In addition to the other distribution requirements above, to preserve our status as a REIT we are required to timely distribute C corporation earnings and profits that we inherit from acquired corporations.

Acquisition of C Corporations

On January 11, 2002, we acquired all of the outstanding stock of a subsidiary of a C corporation. At the time of that acquisition, this subsidiary directly or indirectly owned all of the outstanding equity interests in various corporate and noncorporate subsidiaries. Upon our acquisition, each of the acquired entities became either our qualified REIT subsidiary under Section 856(i) of the Internal Revenue Code or a disregarded entity under Treasury regulations issued under Section 7701 of the Internal Revenue Code. Thus, after the acquisition, all assets, liabilities and items of income, deduction and credit of wholly-owned subsidiaries have been treated as ours for purposes of the various REIT qualification tests described above. In addition, we generally were treated as the successor to the acquired subsidiaries federal income tax attributes, such as those entities adjusted tax bases in their assets and their depreciation schedules; we were also treated as the successor to the acquired corporate subsidiaries earnings and profits for federal income tax purposes, if any.

Built-in Gains from C Corporations. As described above, notwithstanding our qualification and taxation as a REIT, we may still be subject to corporate taxation in particular circumstances. Specifically, if we acquire an asset from a corporation in a transaction in which our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of that asset in the hands of a present or former C corporation, and if we subsequently recognize gain on the

disposition of that asset during the ten year period beginning on the date on which the asset ceased to be owned by the C corporation, then we will generally pay tax at the highest regular corporate tax rate, currently 35%, on the lesser of (1) the excess, if any, of the asset s fair market value over its adjusted tax basis, each determined as of the time the asset ceased to be owned by the C corporation, or (2) our gain recognized in the disposition. Accordingly, any taxable disposition of an asset acquired in the January 11, 2002, transaction during the ten-year period commencing on that date could be subject to tax under these rules. However, except as described below, we have not disposed, and have no present plan or intent to dispose, of any material assets acquired in the January 11, 2002, transaction.

Also on January 11, 2002, we conveyed to Five Star and its subsidiaries operating assets that were of a type that are typically owned by the tenant of a senior living facility. In exchange, Five Star and its subsidiaries assumed related operating liabilities. The aggregate adjusted tax basis in the transferred operating assets was less than the related liabilities assumed, and Five Star and its subsidiaries received a cash payment from us in the amount of the difference. We believe that the fair market value of these conveyed operating assets equaled their adjusted tax bases, and we and Five Star agreed to do our respective tax return reporting to that effect. Accordingly, although Sullivan & Worcester LLP is unable to render an opinion on factual determinations such as assets fair market value, we reported no gain or loss, and therefore owed no corporate level tax under the rules for dispositions of former C corporation assets, in respect of this conveyance of operating assets to Five Star.

Earnings and Profits. A REIT may not have any undistributed C corporation earnings and profits at the end of any taxable year. Upon the closing of the January 11, 2002, transaction, we succeeded to the undistributed earnings and profits, if any, of the acquired corporate subsidiaries. Thus, we needed to distribute all of these earnings and profits no later than December 31, 2002. If we failed to do so, we will not qualify as a REIT unless we are able to rely on the relief provision described below.

Although Sullivan & Worcester LLP is unable to render an opinion on factual determinations such as the amount of undistributed earnings and profits, we made an investigation of the amount of undistributed earnings and profits that we inherited in the January 11, 2002, transaction. We believe that we did not acquire any undistributed earnings and profits in this transaction that remained undistributed on December 31, 2002, after taking into account our distributions for 2002. However, there can be no assurance that the IRS would not, upon subsequent examination, propose adjustments to the undistributed earnings and profits that we inherited as a result of the January 11, 2002, transaction. In examining the calculation of undistributed earnings and profits that we inherited, the IRS might consider all taxable years of the acquired subsidiaries as open for review for purposes of its proposed adjustments. If it is subsequently determined that we had undistributed earnings and profits from the January 11, 2002, transaction at December 31, 2002, we may be eligible for a relief provision similar to the deficiency dividends procedure described above. To utilize this relief provision, we would have to pay an interest charge for the delay in distributing the undistributed earnings and profits; in addition, we would be required to distribute to our shareholders, in addition to our other REIT distribution requirements, the amount of the undistributed earnings and profits less the interest charge paid.

Depreciation and Federal Income Tax Treatment of Leases

Our initial tax bases in our assets will generally be our acquisition cost. We will generally depreciate our real property on a straight-line basis over 40 years and our personal property over 12 years. These depreciation schedules may vary for properties that we acquire through tax-free or carryover basis acquisitions.

The initial tax bases and depreciation schedules for our assets we held immediately after we were spun off in 1999 from HRPT depends upon whether the deemed exchange that resulted from that spin-off was an exchange under Section 351(a) of the Internal Revenue Code. We believe that Section 351(a) treatment was appropriate. Therefore, we carried over HRPT s tax basis and depreciation schedule in each of the assets, and to the extent that HRPT recognized gain on an asset in the deemed exchange, we obtained additional tax basis in that asset which we depreciate in the same manner as we depreciate newly purchased assets. In contrast, if Section 351(a) treatment was not appropriate for the deemed exchange, then we will be treated as though we acquired all our assets at the time of the spin-off in a fully taxable acquisition, thereby acquiring aggregate tax bases in these assets equal to the aggregate amount realized by HRPT in the deemed exchange, and it would then be appropriate to depreciate these tax bases in the same manner as we depreciate newly purchased assets. We believe, and Sullivan & Worcester LLP has opined, that it is likely that the deemed exchange was an exchange under Section 351(a) of the Internal Revenue Code, and we will perform all our tax reporting accordingly. We may be required to amend these tax reports, including those sent to our shareholders, if the IRS successfully challenges our position that the deemed exchange was an exchange under Section 351(a) of the Internal Revenue Code. We intend to comply with the annual REIT distribution requirements regardless of whether the deemed exchange was an exchange under Section 351(a) of the Internal Revenue Code.

We are entitled to depreciation deductions from our facilities only if we are treated for federal income tax purposes as the owner of the facilities. This means that the leases of the facilities must be classified for federal income tax purposes as

true leases, rather than as sales or financing arrangements, and we believe this to be the case. In the case of sale-leaseback arrangements, the IRS could assert that we realized prepaid rental income in the year of purchase to the extent that the value of a leased property, at the time of purchase, exceeded the purchase price for that property. While we believe that the value of leased property at the time of purchase did not exceed purchase prices, because of the lack of clear precedent we cannot provide assurances as to whether the IRS might successfully assert the existence of prepaid rental income in any of our sale-leaseback transactions.

Taxation of U.S. Shareholders

The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the maximum individual federal income tax rate for long-term capital gains generally to 15% (for gains properly taken into account during the period beginning May 6, 2003, and ending for taxable years that begin after December 31, 2008) and for most corporate dividends generally to 15% (for taxable years that begin in the years 2003 through 2008). However, because we are not generally subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, dividends on our shares generally are not eligible for the new 15% tax rate on dividends. As a result, our ordinary dividends continue to be taxed at the higher federal income tax rates applicable to ordinary income. However, the 15% federal income tax rate for long-term capital gains and dividends generally applies to:

(1) your long-term capital gains, if any, recognized on the disposition of our shares;

(2) our distributions designated as long-term capital gain dividends (except to the extent attributable to real estate depreciation recapture, in which case the distributions are subject to a 25% federal income tax rate);

(3) our dividends attributable to dividends, if any, received by us from non-REIT corporations such as taxable REIT subsidiaries; and

(4) our dividends to the extent attributable to income upon which we have paid federal corporate income tax.

As long as we qualify as a REIT for federal income tax purposes, a distribution to our U.S. shareholders that we do not designate as a capital gain dividend will be treated as an ordinary income dividend to the extent of our current or accumulated earnings and profits. Distributions made out of our current or accumulated earnings and profits that we properly designate as capital gain dividends will be taxed as long-term capital gains, as discussed below, to the extent they do not exceed our actual net capital gain for the taxable year. However, corporate shareholders may be required to treat up to 20% of any capital gain dividend as ordinary income under Section 291 of the Internal Revenue Code.

In addition, we may elect to retain net capital gain income and treat it as constructively distributed. In that case:

(1) we will be taxed at regular corporate capital gains tax rates on retained amounts;

(2) each U.S. shareholder will be taxed on its designated proportionate share of our retained net capital gains as though that amount were distributed and designated a capital gain dividend;

(3) each U.S. shareholder will receive a credit for its designated proportionate share of the tax that we pay;

(4) each U.S. shareholder will increase its adjusted basis in our shares by the excess of the amount of its proportionate share of these retained net capital gains over its proportionate share of this tax that we pay; and

(5) both we and our corporate shareholders will make commensurate adjustments in our respective earnings and profits for federal income tax purposes.

If we elect to retain our net capital gains in this fashion, we will notify our U.S. shareholders of the relevant tax information within 60 days after the close of the affected taxable year.

As discussed above, for noncorporate U.S. shareholders, long-term capital gains are generally taxed at maximum rates of 15% or 25%, depending upon the type of property disposed of and the previously claimed depreciation with respect to this property. If for any taxable year we designate capital gain dividends for U.S. shareholders, then the portion of the capital gain dividends we designate will be allocated to the holders of a particular class of shares on a percentage basis equal to the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all classes of our shares. We will similarly designate the portion of any capital gain dividend that is to be taxed to noncorporate U.S. shareholders at the maximum rates of 15% or 25% so that the designations will be proportionate among all classes of our shares.

Distributions in excess of current or accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the shareholder s adjusted tax basis in the shareholder s shares, but will reduce the shareholder s basis in those shares. To the extent that these excess distributions exceed the adjusted basis of a U.S. shareholder s shares, they will be included in income as capital gain, with long-term gain generally taxed to noncorporate U.S. shareholders at a maximum rate of 15%. No U.S. shareholder may include on his federal income tax return any of our net operating losses or any of our capital losses.

Dividends that we declare in October, November or December of a taxable year to U.S. shareholders of record on a date in those months will be deemed to have been received by shareholders on December 31 of that taxable year, provided we actually pay these dividends during the following January. Also, items that are treated differently for regular and alternative minimum tax purposes are to be allocated between a REIT and its shareholders under Treasury regulations which are to be prescribed. It is possible that these Treasury regulations will require tax preference items to be allocated to our shareholders with respect to any accelerated depreciation or other tax preference items that we claim.

A U.S. shareholder will recognize gain or loss equal to the difference between the amount realized and the shareholder s adjusted basis in our shares that are sold or exchanged. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the shareholder s holding period in the shares exceeds one year. In addition, any loss upon a sale or exchange of our shares held for six months or less will generally be treated as a long-term capital loss to the extent of our long-term capital gain dividends during the holding period.

The 2004 Act imposes a penalty, effective for federal tax returns with due dates after October 22, 2004, for the failure to properly disclose a reportable transaction. A reportable transaction currently includes, among other things, a sale or exchange of our shares resulting in a tax loss in excess of (i) $10 million in any single year or $20 million in any combination of years in the case of our shares held by a C corporation or by a partnership with only C corporation partners or (ii) $2 million in any single year or $4 million in any combination of years in the case of our shares held by any other partnership or an S corporation, trust or individual, including losses that flow through pass through entities to individuals. A taxpayer discloses a reportable transaction by filing IRS Form 8886 with its federal income tax return and, in the first year of filing, a copy of Form 8886 must be sent to the IRS s Office of Tax Shelter Analysis. The penalty for failing to disclose a reportable transaction is generally $10,000 in the case of a natural person and $50,000 in any other case.

Noncorporate U.S. shareholders who borrow funds to finance their acquisition of our shares could be limited in the amount of deductions allowed for the interest paid on the indebtedness incurred. Under Section 163(d) of the Internal Revenue Code, interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment is generally deductible only to the extent of the investor s net investment income. A U.S. shareholder s net investment income will include ordinary income dividend distributions received from us and, if an appropriate election is made by the shareholder, capital gain dividend distributions received from us; however, distributions treated as a nontaxable return of the shareholder s basis will not enter into the computation of net investment income.

Taxation of Tax-Exempt Shareholders

In Revenue Ruling 66-106, the IRS ruled that amounts distributed by a REIT to a tax-exempt employees pension trust did not constitute unrelated business taxable income, even though the REIT may have financed some of its activities with acquisition indebtedness. Although revenue rulings are interpretive in nature and subject to revocation or modification by the IRS, based upon the analysis and conclusion of Revenue Ruling 66-106, our distributions made to shareholders that

are tax-exempt pension plans, individual retirement accounts, or other qualifying tax-exempt entities should not constitute unrelated business taxable income, unless the shareholder has financed its acquisition of our shares with acquisition indebtedness within the meaning of the Internal Revenue Code.

Tax-exempt pension trusts, including so-called 401(k) plans but excluding individual retirement accounts or government pension plans, that own more than 10% by value of a pension-held REIT at any time during a taxable year may be required to treat a percentage of all dividends received from the pension-held REIT during the year as unrelated business taxable income. This percentage is equal to the ratio of:

(1) the pension-held REIT s gross income derived from the conduct of unrelated trades or businesses, determined as if the pension-held REIT were a tax-exempt pension fund, less direct expenses related to that income, to

(2) the pension-held REIT s gross income from all sources, less direct expenses related to that income,

except that this percentage shall be deemed to be zero unless it would otherwise equal or exceed 5%. A REIT is a pension-held REIT if:

the REIT is predominantly held by tax-exempt pension trusts; and

the REIT would fail to satisfy the closely held ownership requirement discussed above if the stock or beneficial interests in the REIT held by tax-exempt pension trusts were viewed as held by tax-exempt pension trusts rather than by their respective beneficiaries.

A REIT is predominantly held by tax-exempt pension trusts if at least one tax-exempt pension trust owns more than 25% by value of the REIT s stock or beneficial interests, or if one or more tax-exempt pension trusts, each owning more than 10% by value of the REIT s stock or beneficial interests, own in the aggregate more than 50% by value of the REIT s stock or beneficial interests. Because of the share ownership concentration restrictions in our declaration of trust, we believe that we are not and will not be a pension-held REIT. However, because our shares are publicly traded, we cannot completely control whether or not we are or will become a pension-held REIT.

Social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Internal Revenue Code, respectively, are subject to different unrelated business taxable income rules, which generally will require them to characterize distributions from a REIT as unrelated business taxable income. In addition, these prospective investors should consult their own tax advisors concerning any set aside or reserve requirements applicable to them.

Taxation of Non-U.S. Shareholders

The rules governing the United States federal income taxation of non-U.S. shareholders are complex, and the following discussion is intended only as a summary of these rules. If you are a non-U.S. shareholder, we urge you to consult with your own tax advisor to determine the impact of United States federal, state, local, and foreign tax laws, including any tax return filing and other reporting requirements, with respect to your investment in our shares.

In general, a non-U.S. shareholder will be subject to regular United States federal income tax in the same manner as a U.S. shareholder with respect to its investment in our shares if that investment is effectively connected with the non-U.S. shareholder s conduct of a trade or business in the United States. In addition, a corporate non-U.S. shareholder that receives income that is or is deemed effectively connected with a trade or business in the United States may also be subject to the 30% branch profits tax under Section 884 of the Internal Revenue Code, which is payable in addition to regular United States federal corporate income tax. The balance of this discussion of the United States federal income taxation of non-U.S. shareholders addresses only those non-U.S. shareholders whose investment in our shares is not effectively connected with the conduct of a trade or business in the United States.

A distribution by us to a non-U.S. shareholder that is not attributable to gain from the sale or exchange of a United States real property interest and that is not designated as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. A distribution of this type will generally be subject to United States federal income tax and withholding at the rate of 30%, or at a lower rate if the non-U.S. shareholder has in the manner prescribed by the IRS demonstrated its entitlement to benefits under a tax treaty. Because we cannot determine our current and accumulated earnings and profits until the end of the taxable year, withholding at the rate of 30% or applicable lower treaty rate will generally be imposed on the gross amount of any distribution to a non-U.S. shareholder that we make and do not designate a capital gain dividend. Notwithstanding this withholding on distributions in excess of our current and accumulated earnings and profits, these distributions are a nontaxable return of capital to the extent that they do not exceed the non-U.S. shareholder s adjusted basis in our shares, and the nontaxable return of capital will reduce the adjusted basis in these shares. To the extent that distributions in excess of current and accumulated earnings and profits exceed the non-U.S. shareholder s adjusted basis in our shares, the distributions will give rise to tax liability if the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or exchange of these shares, as discussed below. A non-U.S. shareholder may seek a refund from the IRS of amounts withheld on distributions to him in excess of our current and accumulated earnings and profits.

Capital gain dividends that are received by a non-U.S. shareholder, including dividends attributable to our sales of United States real property interests, and that are deductible by us in respect of our 2005 taxable year and thereafter will be subject to the taxation and withholding regime applicable to ordinary income dividends and the branch profits tax will not apply, provided that (1) the capital gain dividends are received with respect to a class of shares that is regularly traded on a domestic established securities market like the NYSE, both as defined by applicable Treasury regulations, and (2) the foreign shareholder does not own more than 5% of that class of shares at any time during the one-year period ending on the date of distribution of the capital gain dividends. If both of these provisions are satisfied, qualifying non-U.S. shareholders will not be subject to withholding on capital gain dividends as though those amounts were effectively connected with a United States trade or business, and qualifying non-U.S. shareholders will not be required to file United States federal income tax returns or pay branch profits tax in respect of these capital gain dividends. Instead, these dividends will be subject to United States federal income tax and withholding as ordinary dividends, currently at a 30% tax rate unless reduced by applicable treaty, as discussed below. We believe that our shares are and will be regularly traded on an established securities market within the definition of each term provided in applicable Treasury regulations; however, we can provide no assurance that our shares will continue to be regularly traded on an established securities market in future taxable years.

Except as discussed above, for any year in which we qualify as a REIT, distributions that are attributable to gain from the sale or exchange of a United States real property interest are taxed to a non-U.S. shareholder as if these distributions were gains effectively connected with a trade or business in the United States conducted by the non-U.S. shareholder. Accordingly, a non-U.S. shareholder that does not qualify for the provision above or that received dividends for taxable years before 2005 will be taxed on these amounts at the normal capital gain rates applicable to a U.S. shareholder, subject to any applicable alternative minimum tax and to a special alternative minimum tax in the case of nonresident alien individuals; such a non-U.S. shareholder will be required to file a United States federal income tax return reporting these amounts, even if applicable withholding is imposed as described below; and such a non-U.S. shareholder that is also a corporation may owe the 30% branch profits tax under Section 884 of the Internal Revenue Code in respect of these amounts. We will be required to withhold from distributions to such non-U.S. shareholders, and remit to the IRS, 35% of the maximum amount of any distribution that could be designated as a capital gain dividend. In addition, for purposes of this withholding rule, if we designate prior distributions as capital gain dividends, then subsequent distributions up to the amount of the designated prior distributions will be treated as capital gain dividends. The amount of any tax withheld is creditable against the non-U.S. shareholder s United States federal income tax liability, and the non-U.S. shareholder may file for a refund from the IRS of any amount of withheld tax in excess of that tax liability.

If for any taxable year we designate capital gain dividends for our shareholders, then the portion of the capital gain dividends we designate will be allocated to the holders of a particular class of shares on a percentage basis equal to the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all classes of our shares.

Tax treaties may reduce the withholding obligations on our distributions. Under some treaties, however, rates below 30% that are applicable to ordinary income dividends from United States corporations may not apply to ordinary income dividends from a REIT or may apply only if the REIT meets certain additional conditions. You must generally use an applicable IRS Form W-8, or substantially similar form, to claim tax treaty benefits. If the amount of tax withheld by us with respect to a distribution to a non-U.S. shareholder exceeds the shareholder s United States federal income tax liability with respect to the distribution, the non-U.S. shareholder may file for a refund of the excess from the IRS. The 35% withholding tax rate discussed above on some capital gain dividends corresponds to the maximum income tax rate applicable to corporate non-U.S. shareholders but is higher than the 15% and 25% maximum rates on capital gains generally applicable to noncorporate non-U.S. shareholders. Treasury regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, our distributions to a non-U.S. shareholder that is an entity should be treated as paid to the entity or to those owning an interest in that entity, and whether the entity or its owners are entitled to benefits under the tax treaty.

If our shares are not United States real property interests within the meaning of Section 897 of the Internal Revenue Code, a non-U.S. shareholder s gain on sale of these shares generally will not be subject to United States federal income taxation, except that a nonresident alien individual who was in the United States for 183 days or more during the taxable year will be subject to a 30% tax on this gain. Our shares will not constitute a United States real property interest if we are a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during the preceding five-year period less than 50% in value of its shares is held directly or indirectly by foreign persons. We believe that we are and will be a domestically controlled REIT and thus a non-U.S. shareholder s gain on sale of our shares will not be subject to United States federal income taxation. However, because our shares are publicly traded, we can provide no assurance that we will be a domestically controlled REIT. If we are not a domestically controlled REIT, a non-U.S. shareholder s gain on sale of our shares will not be subject to United States federal income taxation as a sale of a United States real property interest, if that class of shares is regularly traded, as defined by applicable Treasury regulations, on an established securities market like the New York Stock Exchange, and the non-U.S. shareholder has at all times during the preceding five years owned 5% or less by value of that class of shares. If the gain on the sale of our shares were subject to United States federal income taxation, the non-U.S. shareholder will generally be subject to the same treatment as a U.S. shareholder with respect to its gain, will be required to file a United States federal income tax return reporting that gain, and a corporate non-U.S. shareholder might owe branch profits tax under Section 884 of the Internal Revenue Code. A purchaser of our shares from a non-U.S. shareholder will not be required to withhold on the purchase price if the purchased shares are regularly traded on an established securities market or if we are a domestically controlled REIT. Otherwise, a purchaser of our shares from a non-U.S. shareholder may be required to withhold 10% of the purchase price paid to the non-U.S. shareholder and to remit the withheld amount to the IRS.

Backup Withholding and Information Reporting

Information reporting and backup withholding may apply to distributions or proceeds paid to our shareholders under the circumstances discussed below. The backup withholding rate is currently 28%. Amounts withheld under backup withholding are generally not an additional tax and may be refunded by the IRS or credited against the REIT shareholder s federal income tax liability.

A U.S. shareholder will be subject to backup withholding when it receives distributions on our shares or proceeds upon the sale, exchange, redemption, retirement or other disposition of our shares, unless the U.S. shareholder properly executes, or has previously properly executed, under penalties of perjury an IRS Form W-9 or substantially similar form that:

provides the U.S. shareholder s correct taxpayer identification number; and

certifies that the U.S. shareholder is exempt from backup withholding because it is a corporation or comes within another exempt category, it has not been notified by the IRS that it is subject to backup withholding, or it has been

notified by the IRS that it is no longer subject to backup withholding.

If the U.S. shareholder has not and does not provide its correct taxpayer identification number on the IRS Form W-9 or substantially similar form, it may be subject to penalties imposed by the IRS, and the REIT or other withholding agent may have to withhold a portion of any capital gain distributions paid to it. Unless the U.S. shareholder has established on a

properly executed IRS Form W-9 or substantially similar form that it is a corporation or comes within another exempt category, distributions on our shares paid to it during the calendar year, and the amount of tax withheld, if any, will be reported to it and to the IRS.

Distributions on our shares to a non-U.S. shareholder during each calendar year and the amount of tax withheld, if any, will generally be reported to the non-U.S. shareholder and to the IRS. This information reporting requirement applies regardless of whether the non-U.S. shareholder is subject to withholding on distributions on our shares or whether the withholding was reduced or eliminated by an applicable tax treaty. Also, distributions paid to a non-U.S. shareholder on our shares may be subject to backup withholding, unless the non-U.S. shareholder properly certifies its non-U.S. shareholder status on an IRS Form W-8 or substantially similar form in the manner described above. Similarly, information reporting and backup withholding will not apply to proceeds a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares, if the non-U.S. shareholder properly certifies its non-U.S. shareholder status on an IRS Form W-8 or substantially similar form. Even without having executed an IRS Form W-8 or substantially similar form, however, in some cases information reporting and backup withholding will not apply to proceeds that a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares if the non-U.S. shareholder receives those proceeds through a broker s foreign office.

Other Tax Consequences

Our tax treatment and that of our shareholders may be modified by legislative, judicial, or administrative actions at any time, which actions may be retroactive in effect. The rules dealing with federal income taxation are constantly under review by the Congress, the IRS and the Treasury Department, and statutory changes, new regulations, revisions to existing regulations, and revised interpretations of established concepts are issued frequently. Likewise, the rules regarding taxes other than federal income taxes may also be modified. No prediction can be made as to the likelihood of passage of new tax legislation or other provisions or the direct or indirect effect on us and our shareholders. Revisions to tax laws and interpretations of these laws could adversely affect the tax or other consequences of an investment in our shares. We and our shareholders may also be subject to taxation by state, local or other jurisdictions, including those in which we or our shareholders transact business or reside. These tax consequences may not be comparable to the federal income tax consequences discussed above.

ERISA PLANS, KEOGH PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

General Fiduciary Obligations

Fiduciaries of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, ERISA, must consider whether:

their investment in our shares satisfies the diversification requirements of ERISA;

the investment is prudent in light of possible limitations on the marketability of our shares;

they have authority to acquire our shares under the applicable governing instrument and Title I of ERISA; and

the investment is otherwise consistent with their fiduciary responsibilities.

Trustees and other fiduciaries of an ERISA plan may incur personal liability for any loss suffered by the plan on account of a violation of their fiduciary responsibilities. In addition, these fiduciaries may be subject to a civil penalty of up to 20% of any amount recovered by the plan on account of a violation. Fiduciaries of any IRA, Roth IRA, Keogh Plan or other qualified retirement plan not subject to Title I of ERISA, referred to as non-ERISA plans, should consider that a plan may only make investments that are authorized by the appropriate governing instrument. Fiduciary shareholders should consult their own legal advisors if they have any concern as to whether the investment is consistent with the foregoing criteria.

Prohibited Transactions

Fiduciaries of ERISA plans and persons making the investment decision for an IRA or other non-ERISA plan should consider the application of the prohibited transaction provisions of ERISA and the Internal Revenue Code in making their investment decision. Sales and other transactions between an ERISA or non-ERISA plan, and persons related to it, are prohibited transactions. The particular facts concerning the sponsorship, operations and other investments of an ERISA plan or non-ERISA plan may cause a wide range of other persons to be treated as disqualified persons or parties in interest with respect to it. A prohibited transaction, in addition to imposing potential personal liability upon fiduciaries of ERISA plans, may also result in the imposition of an excise tax under the Internal Revenue Code or a penalty under ERISA upon the disqualified person or party in interest with respect to the plan. If the disqualified person who engages in the transaction is the individual on behalf of whom an IRA or Roth IRA is maintained or his beneficiary, the IRA or Roth IRA may lose its tax-exempt status and its assets may be deemed to have been distributed to the individual in a taxable distribution on account of the prohibited transaction, but no excise tax will be imposed. Fiduciary shareholders should consult their own legal advisors as to whether the ownership of our shares involves a prohibited transaction.

Plan Assets Considerations

The Department of Labor, which has administrative responsibility over ERISA plans as well as non-ERISA plans, has issued a regulation defining plan assets. The regulation generally provides that when an ERISA or non-ERISA plan acquires a security that is an equity interest in an entity and that security is neither a publicly offered security nor a security issued by an investment company registered under the Investment Company Act of 1940, the ERISA plan s or non-ERISA plan s assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established either that the entity is an operating company or that equity participation in the entity by benefit plan investors is not significant.

Each class of our shares (that is, our common shares and any class of preferred shares that we may issue) must be analyzed separately to ascertain whether it is a publicly offered security. The regulation defines a publicly offered security as a security that is widely held, freely transferable and either part of a class of securities registered under the Exchange Act, or sold under an effective registration statement under the Securities Act of 1933, as amended, provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the offering occurred. Each class of our outstanding shares has been registered under the Exchange Act.

The regulation provides that a security is widely held only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. However, a security will not fail to be widely held because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer s control. Our common shares have been widely held and we expect our common shares to continue to be widely held. We expect the same to be true of any class of preferred stock that we may issue, but we can give no assurance in that regard.

The regulation provides that whether a security is freely transferable is a factual question to be determined on the basis of all relevant facts and circumstances. The regulation further provides that, where a security is part of an offering in which the minimum investment is $10,000 or less, some restrictions on transfer ordinarily will not, alone or in combination, affect a finding that these securities are freely transferable. The restrictions on transfer enumerated in the regulation as not affecting that finding include:

any restriction on or prohibition against any transfer or assignment which would result in a termination or reclassification for federal or state tax purposes, or would otherwise violate any state or federal law or court order;

any requirement that advance notice of a transfer or assignment be given to the issuer and any requirement that either the transferor or transferee, or both, execute documentation setting forth representations as to compliance with any restrictions on transfer which are among those enumerated in the regulation as not affecting free transferability, including those described in the preceding clause of this sentence;

any administrative procedure which establishes an effective date, or an event prior to which a transfer or assignment will not be effective; and

any limitation or restriction on transfer or assignment that is not imposed by the issuer or a person acting on behalf of the issuer.

We believe that the restrictions imposed under our declaration of trust on the transfer of shares do not result in the failure of our shares to be freely transferable. Furthermore, we believe that there exist no other facts or circumstances limiting the transferability of our shares which are not included among those enumerated as not affecting their free transferability under the regulation, and we do not expect or intend to impose in the future, or to permit any person to impose on our behalf, any limitations or restrictions on transfer which would not be among the enumerated permissible limitations or restrictions.

Assuming that each class of our shares will be widely held and that no other facts and circumstances exist which restrict transferability of these shares, we have received an opinion of our counsel, Sullivan & Worcester LLP, that our shares will not fail to be freely transferable for purposes of the regulation due to the restrictions on transfer of the shares under our declaration of trust and that under the regulation each class of our currently outstanding shares is publicly offered and our assets will not be deemed to be plan assets of any ERISA plan or non-ERISA plan that invests in our shares.

Item 1A. Risk Factors

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer and the trading price of our debt or equity securities could decline. Investors should consider the following risks and the information contained under the heading Warning Concerning Forward-Looking Statements before deciding to invest in our securities.

Financial and other difficulties at Five Star could adversely affect us.

As of December 31, 2005, Five Star is responsible for approximately 62% of our total rents. When the lease for the two hospitals involved in the HealthSouth litigation becomes effective, Five Star will be responsible for 68% of our total rents (assuming we do not make additional investments or sales before then). Five Star has not been consistently profitable since it became a public company in 2001. Although it was profitable in 2004 and the first half of 2005, Five Star experienced a significant loss in the second half of 2005 and for the full year 2005 as a result of the termination fees it paid to Sunrise, discussed below. Also, while Five Star has access to a $25.0 million working capital line of credit from a financial institution, Five Star has limited resources and has substantial lease obligations to us and others. Five Star s business is subject to a number of risks, including the following:

A small percentage decline in Five Star s revenue or increase in Five Star s expenses could have a material negative impact on Five Star s operating results.

Five Star s growth strategy, including recent acquisitions, may not succeed and may result in reduced profits or recurring losses.

Increases in tort liability and insurance costs have in the past negatively impacted Five Star s operating results and may adversely impact its future results.

Increases in labor costs could have a material adverse effect on Five Star.

Extensive regulation applicable to Five Star s business increases Five Star s costs and may result in losses.

Five Star reported that Medicare and Medicaid payments accounted for approximately 36% of its total revenues in the year ended December 31, 2005. A reduction in these rates or a failure of these rates to match Five Star s cost increases may materially adversely affect Five Star.

If Five Star s operations are unprofitable, Five Star might default its rent obligations to us.

Five Star s termination of its Sunrise management agreements resulted in a significant loss and may not improve its future earnings.

Five Star s termination of 12 management agreements with Sunrise in the third quarter of 2005 and an additional agreement in the first quarter of 2006 resulted in an expense by Five Star equal to the termination fees it paid Sunrise, which totaled $86.3 million. This expense caused Five Star to experience a significant loss in the second half of 2005 and for the full 2005 year. Also, the income Five Star realizes from the 13 communities for which it assumed management responsibility may decline or these operations may produce losses. If Five Star is unable to operate these 13 communities profitably, Five Star may become unable to pay its rent to us.

Five Star may be unable to lease the two hospitals we own or may not be able to operate them profitably.

We have agreed to lease the two hospitals affected by our HealthSouth litigation to Five Star. The agreement to lease is conditioned upon Five Star s obtaining all health regulatory approvals required to operate the hospitals. Five Star may not be able to obtain those approvals and the lease may not become effective. Also, HealthSouth s appeal of the court s decisions may be successful, HealthSouth s lease may be reinstated and our lease with Five Star may be terminated.

The historical operating and financial information concerning the two hospitals that have been received from HealthSouth may not be accurate. Also, recent changes in Medicare rate formulas applicable to rehabilitation hospitals make it difficult to project the hospitals future financial results. Under these circumstances, Five Star may not be able to profitably operate these hospitals. Losses at these hospitals could jeopardize Five Star s ability to pay our rents.

Sunrise s operation of our properties may adversely affect us and Five Star.

In March 2003, Marriott sold its subsidiary, MSLS, to Sunrise. This subsidiary directly leases 14 of our properties and currently manages 17 of our properties that are leased to Five Star. Sunrise s annual rent to us for the 14 properties it leases is $31.1 million, or 19% of our total annualized current rents; this rent is guaranteed by Marriott. Five Star s annual rent to us for its lease of the 17 properties which Sunrise manages is approximately $36.3 million, or 22% of our total annualized current rents. Neither Marriott nor Sunrise has guaranteed Five Star s rent for our communities which are leased to Five Star but managed by Sunrise. If Sunrise is unable to successfully operate or manage these communities, either Sunrise or Five Star, or both of them, may become unable to pay rents due to us.

We are being adversely affected by our ongoing litigation with HealthSouth.

We own two hospitals operated by HealthSouth. In March 2003, the SEC accused HealthSouth and some of its executives of publishing false financial information; since then, according to published reports, at least 17 former HealthSouth executives, including all five of its former chief financial officers, have pled guilty to, or been found guilty of, various crimes. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K for the period ending December 31, 2003. In December 2005, HealthSouth filed late an Annual Report on Form 10-K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth 10-Ks show a substantial negative net worth and a history of substantial operating losses. In January 2006, the court ordered HealthSouth to cooperate in licensing a new tenant for our hospitals and pay us the hospitals net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004. During the pendency of our disputes with HealthSouth, HealthSouth continued to pay us a disputed rent amount of $725,000 per month through January 2006. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. We do not know if HealthSouth will file for bankruptcy or if it will continue to pay us amounts due. Also, if HealthSouth s legal and financial problems cause our hospitals

operations to be disrupted before they can be transferred to Five Star, the value of our hospitals may decline and the rent we ultimately charge Five Star may be less than currently contemplated. We have incurred and are continuing to incur significant expenses in connection with our litigation with HealthSouth. See also the discussion of the HealthSouth litigation contained in Item 3 Legal Proceedings below and under Warning Concerning Forward-Looking Statements, which discusses some of the other possible adverse effects on us of the HealthSouth litigation.

The operations of some of our facilities are dependent upon payments from the Medicare and Medicaid programs.

Fifteen percent (15%) of our annual rents come from properties where a majority of the operating revenues are received from the Medicare and Medicaid programs. Even at properties where less than a majority of the revenues comes from Medicare or Medicaid payments, a reduction in such payments can materially adversely impact profits or result in losses from the properties operations. The federal government and some states are now experiencing fiscal deficits. Historically when governmental deficits have increased, cut backs in Medicare and Medicaid funding have followed. These cut backs sometimes include rate reductions, but more often result in a failure of Medicare and Medicaid rates to increase by sufficient amounts to offset increasing costs. If Medicare or Medicaid rates are reduced from current levels or if rate increases are less than increases in our tenants operating costs, it could have a material adverse effect on the ability of some of our tenants, including Five Star, to pay our rents.

Our tenants are faced with significant potential litigation and rising insurance costs that not only affect their ability to obtain and maintain adequate liability and other insurance, but also may affect their ability to pay their lease payments and fulfill their insurance and indemnification lease obligations to us.

In some states, advocacy groups have been created to monitor the quality of care at skilled nursing facilities and assisted and independent living facilities, and these groups have brought litigation against operators. Also, in several instances, private litigations by skilled nursing facility patients, assisted and independent living facility residents or their families have succeeded in winning very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance incurred by our tenants. In addition, the cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment continues. This has affected the ability of some of our tenants to obtain and maintain adequate liability and other insurance and manage their related risk exposures. In addition to being unable to fulfill their insurance, indemnification and other obligations to us under their leases and thereby potentially exposing us to those risks, these litigation risks and costs could cause some of our tenants to become unable to pay rents due to us.

Our properties and their operations are subject to complex regulations.

Physical characteristics of senior housing properties are mandated by various governmental authorities. Changes in these regulations may require significant expenditures. Our leases generally require our tenants to maintain our properties in compliance with applicable laws and we try to monitor their compliance. However, if our tenants suffer financial distress, maintenance of our properties may be neglected. Under some of our leases we have agreed to fund capital expenditures in return for rent increases. Our available financial resources or those of our tenants may be insufficient to fund expenditures required to keep our properties operating in accordance with regulations, and if we fund these expenditures, our tenants financial resources may be insufficient to meet increased rental obligations to us.

Licensing, Medicare and Medicaid laws also require our tenants who operate senior living communities to comply with extensive standards governing operations. There are also various laws prohibiting fraud by senior living operators, including criminal laws that prohibit false claims for Medicare and Medicaid and that regulate patient referrals. In recent years, the federal and state governments have devoted increasing resources to monitoring the quality of care at senior living communities and to anti-fraud investigations in healthcare. When quality of care deficiencies are identified or improper billing is uncovered, various sanctions may be imposed, including denial of new admissions, exclusion from Medicare or Medicaid program participation, monetary penalties, governmental oversight or loss of licensure. Our tenants and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on our facilities which they operate. If our tenants are unable to cure deficiencies which have been identified or which are identified in the future, these sanctions may be imposed, and if imposed, may adversely affect our tenants ability to pay rents to us and our ability to identify a substitute tenant.

Increasing investor interest in our sector and consolidation at the operator or REIT level could increase competition and reduce our growth.

Our business is highly competitive and we expect that it may become more competitive in the future. We compete with a number of healthcare REITs and other financing sources, some of which are larger and have a lower cost of capital than we do. Recently, there has been increasing interest from newly created REITs and other investors in senior housing and long-term care real estate, and the potential for consolidation at the REIT or operator level appears to have increased. These developments could result in fewer investment opportunities for us and lower spreads over our cost of our capital, either or both of which would limit our ability to grow our business.

We may be unable to access the capital necessary to repay debts or to grow.

To retain our status as a REIT, we are required to distribute 90% of our taxable income to shareholders and we generally cannot use income from operations to repay debts or fund our growth. Accordingly, our business and growth strategy depend, in part, upon our ability to raise additional capital at reasonable costs to repay debts or fund new investments. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our debts at or prior to their maturities and to invest at yields that exceed our cost of capital. However, our ability to raise reasonably priced capital is not guaranteed; we may be unable to raise reasonably priced capital because of reasons related to our business or for reasons beyond our control, such as market conditions. Our growth strategy is not assured and may fail.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets. Also, interest rate changes often affect the value of dividend paying securities.

Our revolving bank credit facility bears interest at variable rates. At December 31, 2005, we had $64 million outstanding and $486 million available for drawing under our revolving bank credit facility. If interest rates increase, so will our interest costs, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures. We may from time to time enter into agreements such as interest rate swaps, caps, floors and other interest rate hedging contracts with respect to a portion of our variable rate debt. While these agreements may lessen the impact of rising interest rates on us, they also expose us to the risk that other parties to the agreements will not perform or that the agreements will be unenforceable. In addition, an increase in interest rates may decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to sell properties. Increases in interest rates generally often reduce the value of dividend paying securities; accordingly, if interest rates rise the market value of our common shares may decline.

Acquisitions that we make may not be successful.

Our business strategy contemplates acquisitions of additional senior housing properties. We cannot assure our investors that acquisitions we make will prove to be successful. We might encounter unanticipated difficulties and expenditures relating to any acquired properties. Newly acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. We might never realize the anticipated benefits of certain acquisitions.

Competition may adversely affect some of our facilities.

During the 1990s, a large number of new assisted living properties were developed. In most states these properties are subject to less stringent regulations than nursing homes and can operate with comparatively fewer personnel and at comparatively lower costs. As a result of offering newer accommodations at equal or lower costs, these assisted living properties and other senior living alternatives, including home healthcare, often attract persons who would have previously become nursing home residents. Many of the residents attracted to new assisted living properties were the most profitable nursing home patients, since they paid higher rates than Medicaid or Medicare would pay and they required lesser amounts of care. Historically, nursing homes have been somewhat protected from competition by state requirements of obtaining certificates of need to develop new properties; however, these barriers are being eliminated in many states. Also, there are few regulatory barriers to competition for home healthcare or for independent and assisted living services.

These competitive factors have caused some nursing homes which we own to decline in value. This decline may continue as assisted living facilities or other elderly care alternatives such as home healthcare expand their businesses. Similar risks face each of our tenants. These competition risks may prevent our tenants and operators from maintaining or improving occupancy at our properties, which may increase the risk of default under our leases.

Our business dealings with our managing trustees and affiliated entities may create conflicts of interest.

We have no employees. Personnel and other services which we require are provided to us under contract by our manager, RMR. RMR is majority beneficially owned by one of our managing trustees, Barry Portnoy. The remainder of RMR is beneficially owned by Adam Portnoy, Mr. Portnoy s son, who is also an executive officer of RMR. In addition, Gerard M. Martin, another of our managing trustees, David J. Hegarty, our President, Chief Operating Officer and Secretary, and John R. Hoadley, our Treasurer and Chief Financial Officer, are directors and/or executive officers of RMR. We pay RMR a fee based in large part upon the amount of our investments. Our agreement with RMR also provides for payment to RMR of incentive fees under certain circumstances. Any incentive fees are payable through our issuance of common shares to RMR. Our fee arrangement with RMR could encourage RMR to advocate acquisitions and discourage sales by us. Our fees to RMR were $8.9 million for 2005. RMR also acts as the manager for two other publicly owned REITs: HRPT, which primarily owns office buildings and is our largest shareholder; and Hospitality Properties Trust, or HPT, which owns hotels. RMR also provides services to Five Star under a shared services agreement and RMR has other business interests. Messrs. Barry Portnoy and Martin also serve as managing trustees of HRPT and HPT and as managing directors of Five Star. Mr. Adam Portnoy is Executive Vice President of HRPT. These multiple responsibilities to public companies and other businesses could create competition among these companies for the time and efforts of RMR and Messrs. Barry and Adam Portnoy and Martin. All of the contractual arrangements between us and RMR have been approved by our trustees other than Messrs. Barry Portnoy and Martin. Each of our trustees other than Messrs. Barry Portnoy and Martin serve as a trustee or director of one or more other companies with which RMR has contractual arrangements similar to its contracts with us, including HRPT and HPT. We believe that the quality and depth of management available to us by contracting with RMR could not be duplicated by our being a self-advised company or by our contracting with unrelated third parties without considerable cost increases. A termination of our contract with RMR is a default under our revolving bank credit facility unless approved by a majority of our lenders. The fact that we believe that our relationships with RMR and our managing trustees have been beneficial to us in the past does not guarantee that these related party transactions may not be detrimental to us in the future.

Our business dealings with Five Star may create conflicts of interest.

Five Star was originally organized as our subsidiary. We distributed substantially all our Five Star ownership to our shareholders on December 31, 2001. Our two managing trustees, Messrs. Barry Portnoy and Martin, serve as the managing directors of Five Star. As of December 31, 2005, our leases with Five Star accounted for 62% of our annual rents. When the lease for the two hospitals involved in the HealthSouth litigation becomes effective and assuming no new leases or sales by us, Five Star will account for 68% of our annual rents. In the future, we expect to do additional business with Five Star. We believe that our current leases and other business dealings with Five Star were entered on commercially reasonable terms. However, because of the historical and continuing relationships which we have with Five Star, these continuing and expanding business relationships may not be on the same or as favorable terms as we might achieve with a third party with whom we do not have such relationships. In addition, disputes may arise in the future between us and Five Star that we are unable to resolve or the resolution of these disputes may not be as favorable to us as a resolution we might achieve with a third party.

HRPT, our largest shareholder, may be able to significantly influence our actions. In addition, future sales of our shares by HRPT, or the perception that such sales could occur, could have an adverse effect on the market price of our common shares.

Until October 1999, we were 100% owned by HRPT. As of March 6, 2006, HRPT owned 7.7 million of our shares which represented 10.7% of our total shares outstanding. Because of this large percentage ownership, HRPT may be able to significantly influence our shareholder decisions, which may result in decisions which our shareholders believe are contrary to our or their best interests. Messrs. Barry Portnoy and Martin, our managing trustees, and Frederick Zeytoonjian, another of our trustees, are also trustees of HRPT, and Messrs. Barry Portnoy and Martin also serve as

managing trustees of HRPT. Mr. Adam Portnoy is the Executive Vice President of HRPT. In addition, RMR, our manager, is also the manager to HRPT. During 2004 and 2005, HRPT sold some of our shares that it owned. The possibility that HRPT may in the future decide to sell a large number of our shares or actual sales of our shares by HRPT may have an adverse effect upon the market price of our common shares.

Ownership limitations and anti-takeover provisions in our declaration of trust, bylaws and rights plan and under Maryland law may prevent our shareholders from receiving a takeover premium.

Our declaration of trust prohibits any shareholder other than HRPT, RMR and their affiliates from owning more than 9.8% of our outstanding shares. This provision of the declaration of trust may help us comply with REIT tax requirements. However, this provision will also inhibit a change of control. Our declaration of trust and bylaws contain other provisions that may increase the difficulty of acquiring control of us by means of a tender offer, open market purchases, a proxy fight or otherwise, if the acquisition is not approved by our board of trustees. These other anti-takeover provisions include the following:

a staggered board of trustees with three separate classes;

the two-thirds majority shareholder vote required for removal of trustees;

the ability of our board of trustees to increase, without shareholder approval, the amount of shares (including common shares) that we are authorized to issue under our declaration of trust and bylaws, and to issue additional shares on terms that it determines;

advance notice procedures with respect to nominations of trustees and shareholder proposals; and

the fact that only the board of trustees may call shareholder meetings and that shareholders are not entitled to act without a meeting.

We maintain a rights agreement whereby, in the event a person or group of persons acquires or attempts to acquire 10% or more of our outstanding common shares, our shareholders, other than such person or group, will be entitled to purchase additional shares or other securities or property at a discount. In addition, certain provisions of Maryland law may have an anti-takeover effect. For all of these reasons, our shareholders may be unable to realize a change of control premium for shares they own.

The loss of our tax status as a REIT would have significant adverse consequences to us and reduce the value of our shareholders common shares.

As a REIT, we generally do not pay federal and state income taxes. However, our continued qualification as a REIT is dependent upon our compliance with complex provisions of the Internal Revenue Code, for which there are available only limited judicial or administrative interpretations. We believe we have operated and are operating as a REIT in compliance with the Internal Revenue Code. However, we cannot assure our shareholders that, upon review or audit, the IRS will agree with this conclusion. If we cease to be a REIT, we would violate a covenant in our revolving bank credit facility, our ability to raise capital could be adversely affected, we may be subject to material amounts of federal and state income taxes and the value of our shares would likely decline.

Real estate ownership creates risks and liabilities.

Our business is subject to risks associated with real estate acquisitions and ownership, including:

property and casualty losses, some of which may be uninsured;

defaults and bankruptcies by our tenants;

the illiquid nature of real estate markets which impairs our ability to purchase or sell our assets rapidly to respond to changing economic conditions;

leases which are not renewed at expiration or for property which is relet at lower rents;

costs that may be incurred relating to maintenance and repair, and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act; and

environmental hazards at our properties for which we may be liable, including those created by prior owners or occupants, existing tenants, abutters or other persons.

There is no assurance that we will make distributions in the future.

We intend to continue to pay quarterly distributions to our shareholders consistent with our historical practice. However, our ability to pay distributions will be adversely affected if any of the risks described herein occur. Our payment of distributions is subject to compliance with restrictions contained in our revolving bank credit facility and our note indenture. All distributions are made at the discretion of our board of trustees and our future distributions will depend upon our earnings, our cash flows, our anticipated cash flows, our financial condition, maintenance of our REIT tax status and such other factors as our board of trustees may deem relevant from time to time. There are no assurances of our ability to pay distributions in the future. In addition, our distributions in the past have included, and may in the future include, a return of capital.

We may have substantial debt obligations and may incur additional debt.

At March 6, 2006, we had $603,320 in debt outstanding, which was approximately 40% of our total book capitalization. Our note indenture and revolving bank credit facility permit us and our subsidiaries to incur additional debt, including secured debt. If we default in paying any of our debts or honoring our debt covenants, these debts may be accelerated and we could be forced to liquidate our assets for less than the values we would receive in a more orderly process.

Any notes we may issue will be effectively subordinated to the debts of our subsidiaries and to our secured debt.

We conduct substantially all of our business through, and all of our properties are owned by, subsidiaries. Consequently, our ability to pay debt service on our outstanding notes and any notes we issue in the future will be dependent upon the cash flow of our subsidiaries and payments by those subsidiaries to us as dividends or otherwise. Our subsidiaries are separate legal entities and have their own liabilities. Payments due on our outstanding notes, and any notes we may issue are, or will be, effectively subordinated to liabilities of our subsidiaries, including guaranty liabilities. Substantially all of our subsidiaries have guaranteed our revolving bank credit facility; none of our subsidiaries guaranty our outstanding notes. In addition, at March 6, 2006, our subsidiaries have approximately $70.0 million of secured debt. Our outstanding notes are, and any notes we may issue will be, also effectively subordinated to our secured debt.

We may be required to prepay our debts upon a change of control.

In certain change of control circumstances, our current and future noteholders and some of our other lenders may have the right to require us to purchase their notes at their principal amount plus accrued interest and a premium.

Our notes may be redeemed before maturity, and our noteholders may be unable to reinvest proceeds at the same or a higher rate.

We may redeem all or a portion of our outstanding notes or notes we may issue in the future after a certain amount of time. Generally, the redemption price will equal the principal amount being redeemed, plus accrued interest to the redemption date, plus a premium. If a redemption occurs, our noteholders may be unable to reinvest the money they receive in the redemption at a rate that is equal to or higher than the rate of return on the redeemed notes.

There may be no public market for notes we may issue and one may not develop.

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Generally, any notes we may issue will be a new issue for which no trading market currently exists. We do not intend to list our notes on any securities exchange or to seek approval for quotation through any automated quotation system. We can provide no assurance that an active trading market for any of our notes will exist in the future. Even if a market does develop, the liquidity of the trading market for any of our notes and the market price quoted for any such notes may be adversely affected by changes in the overall market for fixed income securities, by changes in our financial performance or prospects, or by changes in the prospects for REITs or for the senior living industry generally.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

At December 31, 2005, we had real estate investments totaling $1.7 billion, at cost after impairment write-downs, in 188 properties. At December 31, 2005, 23 properties with an aggregate cost of $137.9 million were mortgaged or subject to capital lease obligations totaling $70.1 million.

The following table summarizes some information about our properties as of December 31, 2005. All dollar amounts are in thousands.

Location of Properties by State	Number of Properties	Number of Living Units/Beds	Undepreciated Carrying Value	Net Book Value
Alabama	3	132	$ 13,527	$ 13,148
Arizona	8	1,403	95,818	82,203
California	9	1,539	126,546	104,660
Colorado	8	864	34,013	26,072
Connecticut	2	300	13,127	7,009
Delaware	5	875	60,580	54,601
Florida	11	3,043	225,249	181,958
Georgia	11	687	43,621	39,946
Illinois	1	364	36,743	27,404
Indiana	2	263	23,620	21,427
Iowa	7	495	13,270	9,741
Kansas	3	402	33,265	30,062
Kentucky	7	799	62,505	57,493
Maryland	7	953	93,764	81,155
Massachusetts	3	489	66,863	52,612
Michigan	5	270	16,936	15,614
Minnesota	2	92	6,914	6,451
Missouri	2	180	4,619	3,318
Nebraska	15	887	23,510	20,592
New Jersey	6	984	87,426	72,224
New Mexico	1	209	26,817	24,215
North Carolina	2	197	13,218	12,223
Ohio	2	516	37,137	32,961
Pennsylvania	15	1,458	125,026	119,268
South Carolina	11	594	41,478	39,883
South Dakota	3	361	7,589	4,928
Tennessee	9	513	38,961	37,635
Texas	6	1,716	160,344	142,922
Virginia	12	1,543	117,092	99,433
Washington	1	103	5,193	3,340
Wisconsin	7	861	24,404	17,464
Wyoming	2	191	6,993	5,180
Total	188	23,282	$ 1,686,169	$ 1,447,138

Item 3. Legal Proceedings

In January 2002, HealthSouth settled a default under its lease with us by exchanging properties. We delivered to HealthSouth title to five nursing homes which HealthSouth leased from us. In exchange, HealthSouth delivered to us title to two rehabilitation hospitals and we entered into an amended lease, reducing the annual rent we received from $10.25 million to $8.7 million, extending the lease term and changing other lease terms between HealthSouth and us. A primary factor which caused us to lower the rent for an extended lease term was the purported credit strength of HealthSouth. In agreeing to lower the rent and extend the lease term, we relied upon statements made by certain officers of HealthSouth, upon financial statements and other documents provided by HealthSouth, upon public statements made by HealthSouth and its representatives concerning HealthSouth s financial condition and upon publicly available documents of HealthSouth.

In March 2003, the SEC accused HealthSouth and some of its executives of publishing false financial information; since then, according to published reports, at least 17 former HealthSouth executives, including all five of its former chief financial officers, have been adjudicated of, or pled guilty to, various crimes. In April 2003, we commenced a lawsuit against HealthSouth in the Massachusetts Land Court seeking, among other matters, to reform the amended lease, based upon HealthSouth s fraud, by increasing the rent payable to us back to $10.25 million from January 2, 2002 until the termination or expiration of the amended lease and to change the lease term to its historical expiration on January 1, 2006, among other matters. HealthSouth has defended this lawsuit and asserted counterclaims against us arising from this and unrelated matters. This litigation is pending at this time. In June 2004, we declared an event of default under the amended lease because HealthSouth failed to deliver to us accurate and timely financial information as required by the amended lease. On October 26, 2004, we terminated the amended lease because of these defaults. On November 2, 2004, HealthSouth brought a second lawsuit against us in the Massachusetts Superior Court seeking to prevent our termination of the amended lease. On September 25, 2005, the court ruled that our lease termination was proper. On January 18, 2006, the court ordered HealthSouth to cooperate with us in licensing a new tenant for our two hospitals and pay us the hospitals net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004. HealthSouth has filed an appeal of the court s decisions; however, HealthSouth s motions for a stay of the court s decisions during the appeal have been denied by both the trial court and the appeals court. During the pendency of these disputes, HealthSouth continued to pay us at the disputed rent amount of $725,000 per month through January 2006. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. We are reviewing HealthSouth s calculations of amounts due to us and we may claim additional amounts. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K for the period ending December 31, 2003. In December 2005, HealthSouth filed late an Annual Report on Form 10-K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth Form 10-Ks show a substantial negative net worth and a history of substantial operating losses. To date we have been unable to obtain reliable current financial information about the operations of HealthSouth or our hospitals. Accordingly, we do not know if we will be able to collect any additional amounts which the courts may determine to be owed to us by HealthSouth. We recently filed a motion seeking an order requiring HealthSouth to reimburse some of our legal fees. HealthSouth has opposed this motion and we do not know when or how this request will be decided.

In the ordinary course of business we may be involved in other legal proceedings; however, we are not aware of any other material pending or threatened legal proceeding affecting us or any of our properties for which we might become liable or the outcome of which we expect to have a material impact on us.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Shares, Related Shareholder Matters and Issuer Purchases of Securities

Our common shares are traded on the NYSE (symbol: SNH). The following table sets forth for the periods indicated the high and low sale prices for our shares as reported by the NYSE.

	High	Low
2004		
First Quarter	$ 19.55	$ 17.00
Second Quarter	20.05	13.50
Third Quarter	18.24	16.10
Fourth Quarter	20.34	17.85
2005		
First Quarter	$ 19.10	$ 16.20
Second Quarter	19.45	16.40
Third Quarter	20.00	17.79
Fourth Quarter	19.35	16.84

The closing price of our common shares on the NYSE on March 6, 2006 was $18.33.

As of March 6, 2006, there were 3,000 record holders of our common shares, and we estimate that as of that date there were in excess of 60,000 beneficial owners of our common shares.

The following table sets forth the amount of cash distributions to our shareholders paid with respect to the periods indicated:

	Distributions Per Common Share	
	2005	2004
First Quarter	$ 0.32	$ 0.31
Second Quarter	0.32	0.31
Third Quarter	0.32	0.32
Fourth Quarter	0.32	0.32

All distributions shown in the table above have been paid. Distributions to our shareholders are generally paid in the quarterly period following the quarter to which the distribution relates. We currently intend to continue to declare and pay future cash distributions to our shareholders on a quarterly basis. However, distributions to our shareholders are made at the discretion of our board of trustees and depend on our earnings, cash available for distribution, financial condition, capital market conditions, growth prospects and other factors that our board of trustees deems relevant.

Item 6. Selected Financial Data

Set forth below is selected financial data for the periods and dates indicated. Refer to note 1 to the consolidated financial statements for further discussion of the restatement adjustments. Comparative results are impacted by property acquisitions during the periods shown. This data should be read in conjunction with, and is qualified in its entirety by reference to, management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K/A. Amounts are in thousands, except per share information.

Income Statement Data:

	2005 (Restated)	2004	2003	2002	2001
Total revenues(1)	$ 163,187	$ 148,523	$ 131,148	$ 122,297	$ 274,644
Income from continuing operations(2)	57,981	55,523	47,034	52,013	18,021
Net income(2) (3)	63,912	56,742	45,874	50,184	17,018
Cash distributions to common shareholders(4)	88,783	81,589	72,477	72,457	42,640
Weighted average shares outstanding	68,757	63,406	58,445	56,416	30,859
Per common share data:					
Income from continuing operations(2)	$ 0.84	$ 0.88	$ 0.80	$ 0.92	$ 0.58
Net income(2) (3)	0.93	0.89	0.78	0.89	0.55
Cash distributions to common shareholders(4)	1.28	1.26	1.24	1.24	1.20

Balance Sheet Data:

	2005 (Restated)	2004	2003	2002	2001
Real estate properties, at cost, net of impairment losses	$ 1,686,169	$ 1,600,952	$ 1,418,241	$ 1,238,487	$ 593,199
Total assets	1,500,641	1,447,730	1,304,100	1,158,200	867,303
Total indebtedness(5)	556,320	535,178	554,823	384,758	280,101
Total shareholders equity	923,184	890,667	727,906	752,326	574,624

(1) In 2002 includes FF&E reserve income of $5.3 million ($0.09 per share), which was collected by us but escrowed for use by one of our tenants to fund improvements to our properties. In 2001 includes patient revenues from facilities operations of $224.9 million.

(2) Includes an impairment of assets charge of $1.8 million ($0.03 per share) in 2005. Includes $4.2 million ($0.14 per share) of general and administrative expenses related to foreclosures and lease terminations and Five Star spin off costs of $3.7 million ($0.12 per share) in 2001.

(3) Includes a gain on sale of properties of $5.9 million ($0.09 per share) and $1.2 million ($0.01 per share) in 2005 and 2004, respectively. Includes a loss on sale of properties of $1.2 million ($0.02 per share) in 2003. Includes a loss from discontinued operations of $1.8 million ($0.03 per share) and $1.0 million ($0.03 per share) in 2002 and 2001, respectively.

(4) In addition to the cash distributions to common shareholders, on December 31, 2001, we made a distribution of one share of Five Star for every ten of our common shares then outstanding. This in kind distribution was valued at $31.5 million ($0.726 per share) based upon the market value of Five Star shares at the time of the distribution.

(5) Amounts in 2003, 2002 and 2001 include $27.4 million of junior subordinated debentures that were classified as trust preferred securities prior to 2004. See Note 6 to our consolidated financial statements.

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

The following information should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K/A. Refer to note 1 to the consolidated financial statements for further discussion of the restatement adjustments.

PORTFOLIO OVERVIEW

(dollars in thousands)

(as of December 31, 2005)

	# of Properties	# of Units/Beds	Investment: carrying value before depreciation	% of Investment	Annualized Current Rent	% of Annualized Current Rent
Facility Type						
Independent living communities (1)	36	10,412	$ 907,527	53.8%	$ 90,195	54.3%
Assisted living facilities	89	6,197	515,165	30.6%	50,261	30.2%
Skilled nursing facilities	61	6,309	219,924	13.0%	17,106	10.3%
Hospitals	2	364	43,553	2.6%	8,700	5.2%
Total	188	23,282	$ 1,686,169	100.0%	$ 166,262	100.0%
Tenant/Operator						
Five Star/Sunrise (2)	30	7,307	$ 632,465	37.5%	$ 64,026	38.5%
Five Star	106	8,467	486,817	28.9%	39,434	23.7%
Sunrise/Marriott (3)	14	4,091	325,473	19.3%	31,087	18.7%
NewSeasons/IBC (4)	10	1,019	87,641	5.2%	9,287	5.6%
HealthSouth (5)	2	364	43,553	2.6%	8,700	5.2%
Alterra/Brookdale (6)	18	894	61,126	3.6%	7,232	4.3%
Genesis HealthCare	1	156	13,007	0.8%	1,535	1.0%
5 private companies (combined)	7	984	36,087	2.1%	4,961	3.0%
Total	188	23,282	$ 1,686,169	100.0%	$ 166,262	100.0%

Tenant Operating Statistics (Year Ended December 31)(7)

					Percentage of Operating Revenue Sources					
	Rent Coverage		Occupancy		Private Pay		Medicare		Medicaid	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Five Star/Sunrise (2)	1.3x	1.2x	92%	90%	84%	85%	12%	11%	4%	4%
Five Star (8)	1.7x	1.7x	89%	88%	43%	42%	18%	18%	39%	38%
Sunrise/Marriott (3)	1.3x	1.3x	90%	90%	80%	82%	16%	13%	5%	5%
NewSeasons/IBC (4)	1.1x	1.1x	80%	79%	100%	100%				
HealthSouth (5) (9)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Alterra/Brookdale (6)	1.8x	1.6x	87%	83%	98%	98%			2%	2%
Genesis HealthCare	1.9x	1.9x	96%	96%	21%	22%	32%	32%	47%	46%
5 private companies (combined)	1.8x	2.1x	86%	86%	25%	25%	24%	21%	51%	54%

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

(2) These 30 properties are leased to Five Star and 18 were managed by Sunrise on December 31, 2005. As of December 31, 2005, Five Star operated 12 of these 30 properties and began operating one additional property in February 2006. Sunrise does not guaranty Five Star s lease obligations. The rent that Five Star pays to us is subordinate to the management fees paid by Five Star to Sunrise, but our rent is not subordinate to Five Star s internal management costs. The rent coverage presented for this lease has been adjusted to exclude management fees paid to Sunrise for the 13 properties that Five Star currently manages. Rent coverage is after non-subordinated management fees on the remaining 17 properties of $13.1 million and $12.0 million in the year ended December 31, 2005 and 2004, respectively.

(3) Marriott guarantees the lease for the 14 properties leased to Sunrise.

(4) Independence Blue Cross, a Pennsylvania health insurer, guarantees the lease for the 10 properties leased to NewSeasons.

(5) Effective January 2, 2002, we entered an amended lease with HealthSouth for two hospitals. In April 2003, we commenced a lawsuit against HealthSouth seeking, among other matters, to reform the amended lease, based upon HealthSouth s fraud, by increasing the rent payable to us from January 2, 2002 until the termination or expiration of the amended lease. This litigation is pending at this time. On October 26, 2004, we terminated the amended lease for default because HealthSouth failed to deliver to us accurate and timely financial information as required by the amended lease. On November 2, 2004, HealthSouth brought a second lawsuit against us seeking to prevent our termination of the amended lease. On September 25, 2005, the court ruled that our termination was proper. On January 18, 2006, the court ordered HealthSouth to cooperate with us in licensing a new tenant and to pay us the hospitals net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004.

HealthSouth has filed an appeal of the court s decisions; however, HealthSouth s motions for a stay of the court s decisions during the appeal have been denied by both the trial court and the appeals court. During the pendency of these disputes, HealthSouth continued to pay us at the disputed rent amount of $725,000 per month through January 2006. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. We are reviewing HealthSouth s calculations of amounts due to us and we may claim additional amounts. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K for the period ending December 31, 2003. In December 2005, HealthSouth filed late an Annual Report on Form 10-K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth Form 10-Ks show a substantial negative net worth and a history of substantial operating losses. To date we have been unable to obtain reliable current financial information about the operations of HealthSouth or our hospitals. Accordingly, we do not know if we will be able to collect any additional amounts which the courts may determine to be owed to us by HealthSouth.

(6) Brookdale guarantees the lease for the 18 properties leased to Alterra.

(7) All tenant operating data presented are based upon the operating results provided by our tenants for the indicated periods ending December 31, 2005, or the most recent prior period for which tenant operating results are available to us from our tenants. Rent coverage is calculated as operating cash flow from our tenants operations of our properties, before subordinated charges and capital expenditure reserves, divided by rent payable to us. We have not independently verified our tenants operating data.

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

(9) During 2003, HealthSouth issued a press release stating that its historical financial information should not be relied upon. From that time until June 2005, HealthSouth had not filed audited financial information with the SEC. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K, or Form 10K, for the period ending December 31, 2003. In December 2005, HealthSouth filed late a Form 10K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth Form 10-Ks show a substantial negative net worth and a history of substantial operating losses. Because we do not have reliable current information about the operations or financial performance of HealthSouth or our hospitals, we do not show operating data for this operator.

RESULTS OF OPERATIONS

Year Ended December 31, 2005, Compared to Year Ended December 31, 2004

	Year Ended December 31,			
	2005 (Restated)	2004	$ Change	% Change
	(in thousands, except per share amounts)			
Rental income	$ 161,265	$ 145,731	$ 15,534	10.7%
Interest and other income	1,922	2,792	(870)	(31.2)%
Interest expense	46,633	41,836	4,797	11.5%
Depreciation expense	43,694	39,301	4,393	11.2%
General and administrative expense	13,117	11,863	1,254	10.6%
Impairment of assets	1,762		1,762	100.0%
Income from continuing operations	$ 57,981	$ 55,523	$ 2,458	4.4%
Gain on sale of properties	5,931	1,219	4,712	386.5%
Net income	63,912	56,742	7,170	12.6%
Weighted average shares outstanding	68,757	63,406	5,351	8.4%
Per share amounts:				
Income from continuing operations	$ 0.84	$ 0.88	$ (0.04)	(4.5)%
Gain on sale of properties	$ 0.09	$ 0.01	$ 0.08	800.0%
Net income	$ 0.93	$ 0.89	$ 0.04	4.5%

Rental income increased in 2005 because of rents from our real estate acquisitions totaling $84.9 million during 2005 and the full impact of rents from our $187.9 million of acquisitions in 2004. Interest and other income for the year ended December 31, 2005, includes $517,000 of interest income from a $24.0 million mortgage financing we provided to

Five Star in June 2005 and which Five Star repaid in August 2005. For the year ended December 31, 2004, interest and other income includes a $1.25 million settlement payment we received from Marriott in January 2004.

Interest expense increased because we assumed $49.2 million of mortgage debt in connection with an acquisition in November 2004 and because of higher rates and amounts outstanding under our revolving bank credit facility. Our weighted average balance outstanding and interest rate under our revolving bank facility was $62.3 million and 4.8% and $45.0 million and 3.0% for the years ended December 31, 2005 and 2004, respectively.

Depreciation expense increased because of 2005 real estate acquisitions totaling $84.9 million and the full year impact of 2004 real estate acquisitions totaling $187.9 million. General and administrative expense includes $1.9 million and $285,000 of HealthSouth litigation costs for the years ended December 31, 2005 and 2004, respectively. In 2004, it also includes $775,000 of diligence costs incurred in connection with a failed potential acquisition. General and administrative expense, exclusive of diligence and litigation costs, increased in 2005 by $464,000, or 4.3%, as a result of property acquisitions.

During 2005, we recognized an impairment of assets charge of $1.8 million related to a property that had been closed during the year and that we are now offering for sale.

Income from continuing operations increased because of the changes in revenues and expenses described above. Income from continuing operations per share decreased because of the increase in the weighted average number of shares outstanding that resulted from our issuance of common shares in 2004 and 2005.

During the year ended December 31, 2005, we recorded a gain of $5.9 million from the sale of three properties. During the year ended December 31, 2004, we recorded a gain of $1.2 million from the sale of one property.

Net income and net income per share increased because of the changes that effected income from continuing operations and the gain on sale of properties.

Year Ended December 31, 2004, Compared to Year Ended December 31, 2003

	Year Ended December 31,			
	2004	2003	$ Change	% Change
	(in thousands, except per share amounts)			
Rental income	$ 145,731	$ 129,188	$ 16,543	12.8%
Interest and other income	2,792	1,960	832	42.4%
Interest expense	41,836	37,899	3,937	10.4%
Depreciation expense	39,301	35,728	3,573	10.0%
General and administrative expense	11,863	10,487	1,376	13.1%
Income from continuing operations	$ 55,523	$ 47,034	$ 8,492	18.1%
Gain (loss) on sale of properties	1,219	(1,160)	2,379	204.9%
Net income	56,742	45,874	10,868	23.7%
Weighted average shares outstanding	63,406	58,445	4,961	8.5%
Per share amounts:				
Income from continuing operations	$ 0.88	$ 0.80	$ 0.08	10.0%
Gain (loss) on sale of properties	$ 0.01	$ (0.02)	$ 0.03	150.0%
Net income	$ 0.89	$ 0.78	$ 0.11	14.1%

Rental income increased because of our acquisitions totaling $187.9 million during 2004 and the full year impact of rents from our $179.4 million of acquisitions during 2003.

Interest and other income for the year ended December 31, 2004, includes a $1.25 million settlement payment we received from Marriott in January 2004. For the year ended December 31, 2003, interest and other income includes $750,000 of proceeds from the sale of a mortgage note. In connection with one of our 2002 acquisitions, we were assigned the rights under this mortgage note from a third party. The mortgage note was allocated zero value at the time of the assignment. However, in March 2003, we sold the note to an affiliate of the note obligor for $750,000. Interest and other income for the year ended December 31, 2003, includes $371,000 of mortgage interest income from mortgage financing we provided in February 2003 to Alterra, and a net operating loss of $146,000 from a property we repossessed from a tenant which defaulted on its lease.

Interest expense increased because of our issuance of $150.0 million of 7 7/8% senior unsecured notes in April 2003, partially offset by less interest expense on reduced amounts outstanding under our revolving bank credit facility during 2003. The weighted average balance outstanding and weighted average interest rate under our revolving bank facility was $45.0 million and 3.0% and $45.7 million and 2.8% for the years ended December 31, 2004 and 2003, respectively.

Depreciation expense increased because of 2004 real estate acquisitions totaling $187.9 million and because of depreciation for a full year of 2003 real estate acquisitions totaling $179.4 million. General and administrative expense includes, in 2004, $1.1 million of diligence costs for a failed potential acquisition and HealthSouth litigation costs, and in 2003, $1.2 million in costs for our litigations with Marriott and HealthSouth. General and administrative expense, exclusive of diligence and litigation costs, increased in 2004 by $1.5 million, or 15.9%, as a result of our acquisitions and for accounting and other costs incurred for the implementation of the requirements of Section 404 of the Sarbanes Oxley-Act and related SEC and NYSE rules.

During the year ended December 31, 2004, we recorded a gain of $1.2 million from the sale of one property. During the year ended December 31, 2003, we recorded a loss of $1.2 million from the sale of one property.

Income from continuing operations, net income and per share amounts increased because of the factors described above and the increase in the weighted average number of shares outstanding after our issuance of common shares during 2004.

LIQUIDITY AND CAPITAL RESOURCES

Our Operating Liquidity and Resources

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

Our Investment and Financing Liquidity and Resources

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our receipt of rents and our need or desire to pay operating expenses and distributions to our shareholders, we maintain a revolving bank credit facility with a group of commercial banks and other lenders. In July 2005, we amended our existing revolving bank credit facility to extend its maturity from November 2005 to November 2009, with an extension option to November 2010 upon payment of an extension fee. Availability under the revolving bank credit facility increased from $250.0 million to $550.0 million, and the amended facility includes a feature under which we may expand the maximum borrowing to $1.1 billion, in certain circumstances. Borrowings under our revolving bank credit facility are unsecured. We may borrow, repay and reborrow funds until maturity. No principal repayment is due until maturity. We pay interest

In order to fund acquisitions and to accommodate cash needs that may result from timing differences between our r

on borrowings under the revolving bank credit facility at LIBOR plus a premium. At December 31, 2005, the annual interest rate payable on our revolving bank credit facility was 5.31%.

In May 2005, we sold one nursing home for $4.6 million. We used the proceeds to repay borrowings and for general business purposes. We prepaid one of our mortgage obligations for $4.2 million in connection with the sale of this property.

In June 2005, we purchased four assisted living communities for $24.0 million and loaned $24.0 million under a mortgage line of credit which was secured by six assisted living facilities. We funded these amounts, totaling $48.0 million, with borrowings under our revolving bank credit facility and cash on hand. The borrower, Five Star, repaid the $24.0 million mortgage in August 2005 and we used the proceeds to repay amounts outstanding under our revolving bank credit facility. On October 31, 2005, we purchased the six properties securing the mortgage line of credit for $58.0 million with borrowings under our revolving bank credit facility and cash on hand. Simultaneous with our purchase, we terminated the mortgage line of credit.

During 2005, we purchased $15.5 million of improvements made to some of our properties. We borrowed on our revolving bank credit facility and used cash on hand to fund these purchases.

In December 2005, we issued 3.25 million of our common shares in a public offering, raising net proceeds of $58.2 million. At that time, we called for redemption $52.5 million of our 7 7/8% senior unsecured notes. We used the net proceeds from the offering to temporarily repay borrowings outstanding on our revolving bank credit facility and for general business purposes and, ultimately, in January 2006, to redeem such notes.

At the end of December 2005, we sold two assisted living facilities for $8.5 million and the net proceeds received were included in cash at December 31, 2005.

At December 31, 2005, we had $14.6 million of cash and cash equivalents and $486.0 million available under our revolving bank credit facility. We expect to use cash balances, borrowings under our revolving bank credit facility and net proceeds of offerings of equity or debt securities to fund future property acquisitions and expenditures related to the repair, maintenance or renovation of our properties.

On January 9, 2006, we redeemed the $52.5 million of senior notes and paid a redemption premium of $4.1 million plus accrued but unpaid interest. We funded these amounts with a portion of the net proceeds from our December 2005 equity offering, which had been temporarily used to repay borrowings outstanding under our revolving bank credit facility.

When significant amounts are outstanding under our revolving bank credit facility or as the maturity dates of our revolving bank credit facility and term debts approach, we will explore alternatives for the repayment of amounts due. Such alternatives may include incurring additional debt and issuing new equity securities. As of December 31, 2005, we had $1.4 billion available on an effective shelf registration statement. An effective shelf registration statement allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities. Although there can be no assurance that we will complete any debt or equity offerings or other financings, we believe we will have access to various types of financings, including debt or equity offerings, to finance future acquisitions and to pay our debts and other obligations.

On January 9, 2006, we declared a distribution of $0.32 per common share with respect to our 2005 fourth quarter results. This distribution was paid to shareholders on February 21, 2006, using cash on hand and borrowings under our revolving bank credit facility.

As of December 31, 2005, our contractual payment obligations were as follows (dollars in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations(1)	$ 551,008	$ 53,565	$ 2,336	$ 66,664	$ 428,443
Capital lease obligations	6,374	917	2,052	1,778	1,627
Ground lease obligations	3,069	142	284	284	2,359
Total	$ 560,451	$ 54,624	$ 4,672	$ 68,726	$ 432,429

(1) At December 31, 2005, our term debt maturities were as follows: $52.5 million in 2006; $64.0 million in 2009; $281.6 million in 2012; $12.4 million in 2013; $97.5 million in 2015; $14.7 million in 2027; and $28.2 million in 2041. In January 2006, we redeemed $52.5 million of our 7 7/8% senior notes due 2015 with a portion of the net proceeds from our December 2005 equity offering, which had been temporarily used to repay borrowings outstanding under our revolving bank credit facility.

As of March 6, 2006, we have no commercial paper, derivatives, swaps, hedges, joint ventures or partnerships. We have no off balance sheet arrangements other than our trust preferred securities issued by an unconsolidated subsidiary of ours. See Note 6 to our consolidated financial statements for a discussion of our trust preferred securities.

Debt Covenants

Our principal debt obligations at December 31, 2005, were our unsecured revolving bank credit facility, two issues totaling $395.0 million of unsecured senior notes, our $28.2 million of junior subordinated debentures and $63.8 million of mortgage debt and bonds secured by 21 of our properties. As discussed above, we redeemed $52.5 million of our unsecured senior notes in January 2006. Our senior notes are governed by an indenture. This indenture and related supplements and our revolving bank credit facility contain a number of financial ratio covenants which generally restrict our ability to incur debts, including debts secured by mortgages on our properties in excess of calculated amounts, require us to maintain a minimum net worth, restrict our ability to make distributions under certain circumstances and require us to maintain other ratios. Our junior subordinated debentures are governed by an indenture which is generally less restrictive than the indenture governing our senior notes and the terms of our revolving bank credit facility. As of December 31, 2005, we believe we were in compliance with all of the covenants under our indentures and related supplements and our revolving bank credit facility.

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

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

Related Party Transactions

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

owns more than 9.8% of our outstanding voting or equity interests. As of March 6, 2006, HRPT owns 10.7% of our outstanding common shares.

On December 31, 2001, we distributed substantially all of our shares of Five Star to our shareholders. At the time Five Star was spun off from us, all of the persons serving as directors of Five Star were also our trustees. Two of our trustees, Messrs. Martin and Portnoy, are currently directors of Five Star. As of December 31, 2005, we leased 136 senior living communities to Five Star for total annual minimum rent of $103.5 million. All transactions between us and Five Star subsequent to the Five Star spin off have been approved by our independent trustees who are not directors of Five Star.

In June 2005, we purchased from Five Star four assisted living communities for $24.0 million, which we leased back to Five Star. These communities were added to a combination lease for 97 communities from us to Five Star which has a current term ending in 2020, plus tenant renewal options thereafter. The annual rent under the combination lease increased by $2.2 million plus percentage rent starting in 2007.

Also in June 2005, we provided a $43.5 million first mortgage line of credit to assist Five Star with financing up to 75% of the purchase price of six assisted living communities located in suburban Pittsburgh, Pennsylvania. Five Star borrowed $24.0 million on this line of credit for the June 2005 closing of its acquisition and subsequently repaid this borrowing in August 2005. On October 31, 2005, we purchased the six properties that secured this line of credit from Five Star for $58.0 million, Five Star s purchase price for the properties, and we leased them back to Five Star. Simultaneous with our purchase, the line of credit was cancelled. These properties were added to the existing combination lease described above. The annual rent under the combination lease increased by $5.2 million plus percentage rent starting in 2007.

In 2005, we sold one nursing home to Five Star and two assisted living facilities previously leased to Five Star to unaffiliated parties for total consideration of approximately $13.0 million and recognized a gain of $5.9 million. These three properties were part of our combination leases with Five Star. Under the terms of these leases, upon the sale of the properties the annual rent payable to us was reduced by 10% of the net proceeds we received from the sales, or approximately $1.3 million.

During the year ended December 31, 2005, pursuant to the terms of our leases with Five Star, we purchased approximately $15.5 million of improvements made to our properties leased by Five Star, and, as a result, the annual rent payable to us by Five Star increased by 10% of our investments, or approximately $1.5 million.

On February 28, 2006, we agreed to lease the two hospitals affected by the HealthSouth litigation to Five Star, conditioned upon Five Star s obtaining the health regulatory approvals required to operate the hospitals. When the new lease becomes effective, the annual rent Five Star will pay to us will be $10.25 million per year. In 2008, when we believe accurate financial information based upon stabilized operations will be available and that the litigation with HealthSouth may be concluded, either we or Five Star may request that the rent be reset effective July 1, 2008.

In December 2005, we completed a public offering for 3.25 million of our common shares. Simultaneous with this offering, HRPT sold 950,000 of our shares which it owned. We and HRPT were parties to a joint underwriting agreement in connection with this offering. We did not receive any proceeds from the sale of our shares by HRPT and HRPT paid its pro-rata share of the expenses of this offering. The shares sold by HRPT were offered pursuant to an effective registration statement filed by us pursuant to an agreement with HRPT. HRPT paid the expenses of preparing and filing that registration statement.

RMR originates and presents investment opportunities to our board and provides management and administrative services to us under an agreement. RMR is compensated at an annual rate equal to a percentage of our average real estate

investments, as defined. The percentage applied to our investments at the time we were spun off from HRPT is 0.5%. The percentage for the first $250.0 million of investments made since our spin off from HRPT is 0.7% and thereafter is 0.5%. In addition RMR receives an incentive fee based upon increases in our funds from operations per share, as defined. The incentive fee is paid in common shares. The fees we paid RMR during 2005 for services were $8.9 million. RMR also provides the internal audit function for us and for other publicly owned companies to which it provides management services. We pay a pro rata share of RMR s costs in providing that function. Our audit committee approves the identity and salary of the individual serving as our director of internal audit, as well as the share of the costs which we pay ($107,000 in 2005). Prior to October 1, 2005, RMR was beneficially owned by Messrs. Barry Portnoy and Gerard Martin, each a managing trustee and member of our board of trustees. Effective October 1, 2005, Messrs. Barry Portnoy and his son, Adam Portnoy, acquired Mr. Martin s beneficial ownership interest in RMR. Mr. Adam Portnoy is an executive officer of RMR and the Executive Vice President of HRPT. Mr. Martin remains a director of RMR and, together with Mr. Barry Portnoy, continues to serve as one of our managing trustees. All transactions between us and RMR are approved by our independent trustees.

Critical Accounting Policies

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

Allocation of Purchase Price and Recognition of Depreciation Expense. The acquisition cost of each real property investment is allocated to various property components such as land, buildings and improvements, and each component generally has a different useful life. Acquisition cost allocations and the determination of the useful lives are based on our management s estimates or, under some circumstances, studies provided by independent real estate appraisal firms. We allocate the value of real estate acquired among building, land, furniture, fixtures and equipment, the value of in place leases and the fair market value of above or below market leases and customer relationships. We compute related depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. The value of intangible assets is amortized over the term of the respective lease. The allocated cost of land is not depreciated. Inappropriate allocation of acquisition costs or incorrect estimates of useful lives could result in depreciation and amortization expenses which do not appropriately reflect the balance sheet and income for future periods as required by generally accepted accounting principles.

Impairment of Assets. We periodically evaluate our real property investments for impairment indicators. These indicators may include weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and market or industry changes that could permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the related real property investment by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to the present value of these expected future cash flows. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future tenant profitability, market or industry factors differ from our expectations, we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

Classification of Leases. Our real property investments are generally leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate its classification as either a capital lease or an operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenues. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a leased property, appropriate discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases. These policies involve significant judgments based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual values, the ability of our tenants and operators to perform their obligations to us, and the current and likely future operating and competitive environments in which our properties are operated. In the future we may need to revise our assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own,

result in the classification of some of our leases as other than operating leases or decrease the carrying values of some of our assets.

Impact of Inflation

Inflation might have both positive and negative impacts upon us. Inflation might cause the value of our real estate investments to increase. In an inflationary environment, the percentage rents which we receive based upon a percentage of our tenants revenues should increase. Offsetting these benefits, inflation might cause our costs of equity and debt capital and other operating costs to increase. An increase in our capital costs or in our operating costs will result in decreased earnings unless it is offset by increased revenues. In periods of rapid inflation, our tenants operating costs may increase faster than revenues and this fact may have an adverse impact upon us if our tenants operating income from our properties becomes insufficient to pay our rent. To mitigate the adverse impact of increased operating costs at our leased properties, we generally require our tenants to guarantee our rent. To mitigate the adverse impact of increased costs of debt capital in the event of material inflation, we previously have purchased interest rate cap agreements and we may enter into similar interest rate hedge arrangements in the future. The decision to enter into these agreements was and will be based on the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur and the requirements of our borrowing arrangements.

Impact of Government Reimbursement

Approximately 85% of our current annual rents come from properties where approximately 80% or more of the operating revenues are derived from residents who pay from their own private resources. The remaining 15% of our rents come from properties where the revenues are heavily dependent upon Medicare and Medicaid programs. The operations of these properties currently produce sufficient cash flow to support our rent. However, as discussed above in Business Government Regulation and Reimbursement , we expect that Medicare and Medicaid rates paid to our tenants may not increase in amounts sufficient to pay our tenants increased operating costs, or that they may even decline. Also, the hospitals we leased to HealthSouth are heavily dependent upon Medicare revenues. We cannot predict whether our tenants which are affected by Medicare and Medicaid rates will be able to continue to pay their rent obligations if these expected circumstances occur and persist for an extended time.

Seasonality

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

Item 7A. 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 is unchanged from December 31, 2004. 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 future.

At December 31, 2005, our outstanding fixed rate debt included the following (dollars in thousands):

Debt	Principal Balance	Annual Interest Rate	Annual Interest Expense	Maturity	Interest Payments Due
Unsecured senior notes	$ 245,000	8.625%	$ 21,131	2012	Semi-Annually
Unsecured senior notes	150,000	7.875%	11,813	2015	Semi-Annually
Junior subordinated debentures	28,241	10.125%	2,859	2041	Quarterly
Mortgages	36,630	6.97%	2,553	2012	Monthly
Mortgages	12,437	6.11%	760	2013	Monthly
Bonds	14,700	5.875%	864	2027	Semi-Annually
	$ 487,008		$ 39,980		

In January 2006, we redeemed $52.5 million of our 7 7/8% senior notes and paid a redemption premium of $4.1 million.

No principal payments are due under our unsecured notes, debentures or bonds until maturity. Our mortgages require principal and interest payments through maturity pursuant to an amortization schedule. 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. If these debts are refinanced at interest rates which are 10% higher or lower than shown above, our per annum interest cost would increase or decrease by approximately $4.0 million. Changes in market interest rates also affect the fair value of our 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 December 31, 2005, and discounted cash flow analysis through the maturity date of our fixed rated debt obligations, a hypothetical immediate 10% change in interest rates would change the fair value of those obligations by approximately $18 million.

We are allowed to make prepayments of our unsecured senior notes, in whole or in part, at par plus a premium, as defined. Our debentures have provisions that allow us to make repayments at par beginning June 15, 2006. Our mortgages contain a provision that allows us to make repayment at face value plus a premium which is generally designed to preserve a stated yield to the mortgage holder. These prepayment rights may afford us the opportunity to mitigate the risk of refinancing at maturity.

Our unsecured revolving bank credit facility accrues interest at floating rates and matures in November 2009. At December 31, 2005, we had $64.0 million outstanding and $486.0 million available for borrowing under our revolving bank credit facility. We may make repayments and drawings under our revolving bank credit facility at any time without penalty. We borrow in U.S. dollars and borrowings under our revolving bank credit facility accrue interest at LIBOR plus a margin. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. A change in interest rates would not affect the value of this floating rate debt but would affect our operating results. For example, the interest rate payable on our outstanding revolving indebtedness of $64.0 million at December 31, 2005, was 5.31% per annum. The following table presents the impact a 10% change in interest rates would have on our annual floating rate interest expense at December 31, 2005 (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate Per Year	Outstanding Debt	Total Interest Expense Per Year
At December 31, 2005	5.31%	$ 64,000	$ 3,398
10% reduction	4.78%	64,000	3,059
10% increase	5.84%	64,000	3,738

The foregoing table shows 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 bank credit facility or other floating rate obligations.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

In our Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 13, 2006, we reported that 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 Exchange Act 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 were effective. Subsequently, we became aware of a material weakness in our internal control over financial reporting; namely, that we did not maintain effective controls over the accuracy of our accounting for the early extinguishment of debt.

This material weakness resulted in this amendment to our Annual Report on Form 10-K/A for the year ended December 31, 2005, in order to restate the financial statements for the year ended December 31, 2005 and to restate the financial information for the fourth quarter of 2005. Solely as a result of this material weakness, our management has revised its earlier conclusion and has now concluded that our disclosure controls and procedures were not effective as of December 31, 2005.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2005, that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control over Financial Reporting (as restated)

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and board of trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*.

In our Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 13, 2006, management concluded that our internal control over financial reporting was effective as of December 31, 2005. Subsequently, we became aware of a material weakness in our internal control over financial reporting; namely, that we did not maintain effective controls over the accuracy of our accounting for the early extinguishment of debt.

This material weakness resulted in this amendment to our Annual Report on Form 10-K/A for the year ended December 31, 2005, in order to restate the financial statements for the year ended December 31, 2005, and to restate the financial information for the fourth quarter of 2005. Solely as a result of this material weakness, our management has revised its earlier assessment and has now concluded that our internal control over financial reporting was not effective as of December 31, 2005.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2005 consolidated financial statements included in this Annual Report on Form 10-K/A, has issued an attestation report on our revised assessment of our internal control over financial reporting. Its report appears elsewhere herein.

Remediation of Material Weakness in Internal Control

As of the date of this amended Annual Report on Form 10-K/A, our management has implemented new control procedures to reduce the possibility that our future financial reporting may not reflect U.S. generally accepted accounting principles with regard to the early extinguishment of debt. As a result of these new procedures, our management has concluded that we maintain effective control over the accuracy of our accounting for the early extinguishment of debt as of the date of this amended Annual Report on Form 10-K/A, or February 2, 2007.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

We have a code of business conduct and ethics that applies to all our representatives, including our officers and trustees and employees of RMR. Our code of business conduct and ethics is posted on our website, www.snhreit.com. A printed copy of our code of business conduct and ethics is also available free of charge to any shareholder who requests a copy. We intend to disclose any amendments or waivers to our code of business conduct and ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller (or any person performing similar functions) on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Equity Compensation Plan Information. We may grant common shares to our officers and other employees of RMR under either our 1999 Incentive Share Award Plan or our 2003 Incentive Share Award Plan, collectively referred to as the Award Plans. In addition, our independent trustees receive 1,000 shares per year each as part of their annual compensation for serving as our trustees and such shares may be awarded under either of these plans. The terms of grants made under these plans are determined by our trustees at the time of the grant. Payments by us to RMR are described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Related Party Transactions . The following table is as of December 31, 2005.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans and excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	None.	None.	2,806,220(1)

Equity compensation plans not approved by security holders	None.	None.	2,806,220(1)
Total	None.	None.	2,806,220(1)

(1) Pursuant to the terms of the Award Plans, in no event shall the number of shares issued under both plans combined exceed 2,921,920. Since the Award Plans were established, 115,700 share awards have been granted.

The remainder of the information required by Item 12 is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Index to Financial Statements and Financial Statement Schedules

The following consolidated financial statements and financial statement schedule of Senior Housing Properties Trust are included on the pages indicated:

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

(b) Exhibits

Exhibit Number	Description
3.1	Composite Copy of Amended and Restated Declaration of Trust, dated September 20, 1999, as amended to date. (Incorporated by reference to the Company s Current Report on Form 8-K dated January 21, 2004.)

3.2	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.)
3.3	Articles Supplementary dated March 10, 2004. (Incorporated by reference to the Company s Registration Statement on Form 8-A dated March 18, 2004.)
3.4	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.)
3.5	Composite Copy of Amended and Restated Bylaws, dated March 14, 2003, as amended to date. (Incorporated by reference to the Company s Current Report on Form 8-K dated March 10, 2004.)
4.1	Form of common share certificate. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000.)
4.2	Junior Subordinated Indenture between the Company and State Street Bank and Trust Company as trustee, dated June 21, 2001. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)
4.3	Supplemental Indenture No. 1 by and between the Company and State Street Bank and Trust Company as trustee, dated June 21, 2001. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)
4.4	Amended and Restated Trust Agreement among SNH Capital Trust Holdings as sponsor, State Street Bank and Trust Company as property trustee and the regular trustees named therein relating to SNH Capital Trust I, dated June 21, 2001. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)
4.5	Guarantee Agreement between the Company and State Street Bank and Trust Company as trustee, dated June 21, 2001. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)
4.6	Agreement as to Expenses and Liabilities between the Company and SNH Capital Trust I, dated June 21, 2001. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)
4.7	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.)
4.8	Supplemental Indenture No. 1, dated December 20, 2001, by and between the Company and State Street Bank and Trust Company. (Incorporated by reference to the Company s Current Report on Form 8-K dated February 13, 2002.)
4.9	Supplemental Indenture No. 2, dated December 28, 2001, by and between the Company and State Street Bank and Trust Company. (Incorporated by reference to the Company s Current Report on Form 8-K dated February 13, 2002.)
4.10	Supplemental Indenture No. 3, dated as of April 21, 2003, between the Company and U.S. Bank National Association. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
4.11	Rights Agreement, dated as of March 10, 2004, by and 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.)
4.12	Appointment of Successor Rights Agent, dated as of December 13, 2004, by and 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.)
8.1	Opinion of Sullivan & Worcester LLP as to certain tax matters. (Filed herewith.)

10.1	Amended and Restated Advisory Agreement, dated as of January 1, 2006, between the Company and Reit Management & Research LLC (+) (Filed herewith.)
10.2	1999 Incentive Share Award Plan. (+) (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.3	Amendment to the 1999 Incentive Share Award Plan. (+) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
10.4	2003 Incentive Share Award Plan. (+) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
10.5	Form of Restricted Share Agreement. (+) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.)
10.6	Representative Indemnification Agreement. (+) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
10.7	Summary of Trustee Compensation. (+) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.)
10.8	Transaction Agreement, dated September 21, 1999, between HRPT Properties Trust and the Company. (Incorporated by reference to the Current Report on Form 8-K dated October 12, 1999 by HRPT Properties Trust.)
10.9	Representative Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.10	Representative Guaranty of Tenant Obligations, dated as of October 8, 1993, by Marriott International, Inc. in favor of HMC Retirement Properties, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.11	Representative First Amendment to Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.12	Representative Assignment and Assumption of Leases, Guarantees and Permits for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.13	Representative Second Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.14	Representative First Amendment of Guaranty by Marriott International, Inc., dated as of May 16, 1994, in favor of HMC Retirement Properties, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.15	Assignment of Lease, dated as of June 16, 1994, by HMC Retirement Properties, Inc. in favor of Health and Rehabilitation Properties Trust. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.16	Third Amendment to Facilities Lease, dated as of June 30, 1994, between HMC Retirement Properties, Inc. and Marriott Senior Living Services, Inc. (Incorporated by reference to the Company s Registration Statement on Form S-11, File No. 333-69703.)
10.17	Third Amendment of Lease, dated August 4, 2000, between SPTMRT Properties Trust and Marriott Senior Living Services, Inc. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000.)

10.18 Representative Fourth Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000.)

10.19 Representative Fifth Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000.)

10.20 Amended and Restated Lease Agreement, dated as of January 1, 2000, between HRES1 Properties Trust and IHS Acquisition 135, Inc. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.21 Transaction Agreement, dated December 7, 2001, by and among the Company, certain subsidiaries of the Company party thereto, Five Star Quality Care, Inc., certain subsidiaries of Five Star Quality Care, Inc. party thereto, FSQ, Inc., Hospitality Properties Trust, HRPT Properties Trust and Reit Management & Research, LLC. (Incorporated by reference to the Company s Current Report on Form 8-K dated December 13, 2001.)

10.22 Second Amended and Restated Master Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant, dated November 19, 2004. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.)

10.23 First Amendment to Second Amended and Restated Master Lease Agreement, dated as of May 17, 2005, by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant. (Incorporated by reference to the Company s Current Report on Form 8-K dated June 8, 2005.)

10.24 Second Amendment to Second Amended and Restated Master Lease Agreement, dated as of June 3, 2005, by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant. (Incorporated by reference to the Company s Current Report on Form 8-K dated June 8, 2005.)

10.25 Third Amendment to Second Amended and Restated Master Lease Agreement, dated as of October 31, 2005, by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)

10.26 Guaranty Agreement made by Five Star Quality Care, Inc., as Guarantor, for the benefit of certain subsidiaries of the Company, dated December 31, 2001, relating to the Maser Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant, dated December 31, 2001. (Incorporated by reference to the Company s Current Report on Form 8-K filed January 24, 2002.)

10.27 Guaranty Agreement made by Five Star Quality Care, Inc., as Guarantor, for the benefit of the Company and certain subsidiaries of the Company, dated October 25, 2002, relating to the Amended and Restated Master Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and Five Star Quality Care Trust, as Tenant, dated March 1, 2004, as amended. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)

10.28 Amended Master Lease Agreement by and among certain subsidiaries of the Company, as Landlords, and FS Tenant Holding Company Trust, as Tenant, dated January 11, 2002. (Incorporated by reference to the Company s Current Report on Form 8-K dated December 31, 2001.)

10.29 Guaranty Agreement made by Five Star Quality Care, Inc., as Guarantor, for the benefit of certain subsidiaries of the Company, dated January 11, 2002, relating to the Amended Master Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and FS Tenant Holding

	Company Trust and FS Tenant Pool III Trust, as Tenant, dated January 11, 2002. (Incorporated by reference to the Company s Current Report on Form 8-K dated December 31, 2001.)
10.30	First Amendment to Amended Master Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and FS Tenant Holding Company Trust and FS Tenant Pool III Trust as Tenant, dated October 1, 2002. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2002.)
10.31	Second Amendment to Master Lease Agreement by and among certain subsidiaries of the Company, as Landlord, and FS Tenant Holding Company Trust and FS Tenant Pool III Trust as Tenants, dated March 1, 2004. (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2003.)
10.32	Registration Agreement, dated October 10, 2003, between the Company and HRPT Properties Trust. (Incorporated by reference to the Company s Registration Statement on Form S-3 filed with the Securities and Exchange Commission on October 10, 2003.)
10.33	Letter Agreement among the Company, Five Star and FVE Acquisition Inc., dated September 23, 2004, regarding FVE Acquisition Inc. s merger with LTA Holdings, Inc. (Incorporated by reference to the Company s Current Report on Form 8-K dated September 23, 2004.)
10.34	Letter Agreement between the Company and LTA Holdings, Inc., dated September 23, 2004. (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)
10.35	Amended and Restated Credit Agreement, dated as of July 29, 2005, by and among the Company, Wachovia Bank, National Association, as Administrative Agent, the Sole Arranger, the Sole Book Manager, the Syndication Agents and the Documentation Agents signatory thereto, and each of the financial institutions initially a signatory thereto as a Lender. (Incorporated by reference to the Company s Current Report on Form 8-K dated August 1, 2005.)
12.1	Ratio of Earnings to Fixed Charges (Restated). (Filed herewith.)
21.1	List of Subsidiaries. (Filed herewith.)
23.1	Consent of Sullivan & Worcester LLP. (Contained in Exhibit 8.1.)
23.2	Consent of Ernst and Young LLP. (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.)

(+) Management contract or compensatory plan or arrangement

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Senior Housing Properties Trust

We have audited the accompanying consolidated balance sheets of Senior Housing Properties Trust (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Senior Housing Properties Trust at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the accompanying consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, shareholders equity, and cash flows for the year ended December 31, 2005 have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Senior Housing Properties Trust s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006, except for the effects of the material weakness described in the sixth paragraph of that report, as to which date is February 2, 2007, expressed an unqualified opinion on management s assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 8, 2006,

except for Note 1, as to which date is

February 2, 2007

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Senior Housing Properties Trust

We have audited management s assessment, included in Item 9A of Senior Housing Properties Trust s Annual Report on Form 10-K/A under the heading Management Report on Assessment of Internal Control Over Financial Reporting, that Senior Housing Properties Trust (the Company) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of the Company s material weakness relating to the accounting for the early extinguishment of debt, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Senior Housing Properties Trust s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our report dated March 8, 2006, we expressed an unqualified opinion on management s previous assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005 and an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria. Management has subsequently determined that a deficiency in controls related to the accounting for the early extinguishment of debt existed as of the previous assessment date, and has further concluded that such deficiency represented a material weakness as of December 31, 2005. As a result, management has revised its assessment, as presented in Item 9A of the Company s Annual Report on Form 10-K/A under the heading Management Report on Assessment of Internal Control Over Financial Reporting, to conclude that the Company s internal control over financial reporting was not effective as of December 31, 2005. Accordingly, our present opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, as expressed herein, is different from that expressed in our previous report.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment: In its assessment as of December 31, 2005, management has identified a material weakness in the Company s accounting for the early extinguishment of debt. Specifically, the Company recognized a loss on the early extinguishment of debt prior to extinguishment. Generally accepted accounting principles require that losses on the early extinguishment of debt be recognized in income in the period of extinguishment. The insufficient controls resulted in the restatement of the Company s consolidated financial statements for the year ended December 31, 2005. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated March 8, 2006, except for Note 1, as to which date is February 2, 2007, on those consolidated financial statements.

In our opinion, management s assessment that Senior Housing Properties Trust did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Senior Housing Properties Trust has not maintained effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 8, 2006, except for the effects of the material

weakness described in the sixth paragraph above,

as to which date is February 2, 2007

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	December 31,	
	2005 (Restated)	**2004**
ASSETS		
Real estate properties, at cost:		
Land	$ 185,819	$ 178,353
Buildings and improvements	1,500,350	1,422,599
	1,686,169	1,600,952
Less accumulated depreciation	239,031	199,232
	1,447,138	1,401,720
Cash and cash equivalents	14,642	3,409
Restricted cash	2,529	6,176
Investments	10,626	13,126
Deferred financing fees, net	10,961	9,367
Due from affiliates	8,845	7,961
Other assets	5,900	5,971
Total assets	$ 1,500,641	$ 1,447,730
LIABILITIES AND SHAREHOLDERS EQUITY		
Unsecured revolving bank credit facility	$ 64,000	$ 37,000
Senior unsecured notes due 2012 and 2015, net of discount	393,938	393,775
Junior subordinated debentures due 2041	28,241	28,241
Secured debt and capital leases	70,141	76,162
Accrued interest	13,089	12,519
Due to affiliate	786	1,516
Other liabilities	7,262	7,850
Total liabilities	577,457	557,063
Commitments and contingencies		
Shareholders equity:		
Common shares of beneficial interest, $0.01 par value: 80,000,000 shares authorized, 71,812,227 and 68,495,908 shares issued and outstanding at December 31, 2005 and 2004, respectively	718	685
Additional paid-in capital	1,093,480	1,034,686
Cumulative net income	272,403	208,491
Cumulative distributions	(447,289)	(359,567)
Unrealized gain on investments	3,872	6,372
Total shareholders equity	923,184	890,667
Total liabilities and shareholders equity	$ 1,500,641	$ 1,447,730

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENT OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	2005 (Restated)	2004	2003
Revenues:			
Rental income	$ 161,265	$ 145,731	$ 129,188
Interest and other income	1,922	2,792	1,960
Total revenues	163,187	148,523	131,148
Expenses:			
Interest	46,633	41,836	37,899
Depreciation	43,694	39,301	35,728
General and administrative	13,117	11,863	10,487
Impairment of assets	1,762		
Total expenses	105,206	93,000	84,114
Income from continuing operations	57,981	55,523	47,034
Gain (loss) on sale of properties	5,931	1,219	(1,160)
Net income	$ 63,912	$ 56,742	$ 45,874
Weighted average shares outstanding	68,757	63,406	58,445
Basic and diluted earnings per share:			
Income from continuing operations	$ 0.84	$ 0.88	$ 0.80
Gain (loss) on sale of properties	$ 0.09	$ 0.01	$ (0.02)
Net income	$ 0.93	$ 0.89	$ 0.78

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(DOLLARS IN THOUSANDS)

	Number of Shares	Common Shares	Additional Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Unrealized Gain on Investments	Totals
Balance at December 31, 2002	58,436,900	$ 584	$ 853,637	$ 105,875	$ (209,304)	$ 1,534	$ 752,326
Comprehensive income				45,874		1,956	47,830
Distributions					(72,472)		(72,472)
Retired shares	(62)						
Share grants	16,500	1	221				222
Balance at December 31, 2003	58,453,338	585	853,858	151,749	(281,776)	3,490	727,906
Comprehensive income				56,742		2,882	59,624
Distributions					(77,791)		(77,791)
Issuance of shares	10,000,000	100	180,095				180,195
Share grants	27,000		470				470
Incentive fee	15,571		263				263
Retired shares	(1)						
Balance at December 31, 2004	68,495,908	685	1,034,686	208,491	(359,567)	6,372	890,667
Comprehensive income				63,912		(2,500)	61,412
Distributions					(87,722)		(87,722)
Issuance of shares	3,250,000	33	58,137				58,170
Share grants	27,300		6				6
Incentive fee	39,019		651				651
Balance at December 31, 2005 (Restated)	71,812,227	$ 718	$ 1,093,480	$ 272,403	$ (447,289)	$ 3,872	$ 923,184

See accompanying notes.

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

	Year Ended December 31,		
	2005 (Restated)	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 63,912	$ 56,742	$ 45,874
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	43,694	39,301	35,728
Impairment of assets	1,762		
(Gain) loss on sale of properties	(5,931)	(1,219)	1,160
Amortization of deferred finance fees and debt discounts	2,212	2,107	2,034
Changes in assets and liabilities:			
Restricted cash	(523)	(998)	105
Due from affiliates	(884)	(1,899)	(6,124)
Other assets	71	377	1,125
Accrued interest	570	51	2,398
Due to affiliates	(729)	885	303
Other liabilities	68	(159)	(2,984)
Cash provided by operating activities	104,222	95,188	79,619
CASH FLOWS FROM INVESTING ACTIVITIES:			
Real estate acquisitions	(97,480)	(137,748)	(179,391)
Increase in security deposits			600
Mortgage financing provided	(24,000)	(133,849)	(6,900)
Mortgage financing repaid by mortgagor	24,000	133,849	6,900
Proceeds from sale of real estate	12,537	5,900	288
Cash used for investing activities	(84,943)	(131,848)	(178,503)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common shares, net	58,170	180,194	
Proceeds from issuance of senior notes, net of discount			149,709
Proceeds from borrowings on revolving bank credit facility	143,000	184,000	234,000
Repayments of borrowings on revolving bank credit facility	(116,000)	(249,000)	(213,000)
Repayment of debt	(1,851)	(864)	(801)
Deferred financing fees	(3,643)		(3,676)
Distributions to shareholders	(87,722)	(77,791)	(72,472)
Cash (used for) provided by financing activities	(8,046)	36,539	93,760
Increase (decrease) in cash and cash equivalents	11,233	(121)	(5,124)
Cash and cash equivalents at beginning of period	3,409	3,530	8,654
Cash and cash equivalents at end of period	$ 14,642	$ 3,409	$ 3,530

See accompanying notes

	Year Ended December 31,		
	2005	2004	2003
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 43,851	$ 39,678	$ 30,695
NON-CASH INVESTING ACTIVITIES:			
Debt assumed in acquisition		50,139	
Purchases of fixed assets with restricted cash			(2,151)
NON-CASH FINANCING ACTIVITIES:			
Issuance of common shares	657	733	222
Release of restricted cash to us	4,170	4,930	
Repayment of debt with cash previously restricted	(4,170)	(4,930)	

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

We are a Maryland real estate investment trust, or REIT. At December 31, 2005, we owned 188 senior living properties located in 32 states.

We have restated our consolidated financial statements for the year ended December 31, 2005, to reflect a correction resulting from a misapplication of U.S. generally accepted accounting principles applicable to the period in which debt extinguishment costs are recorded as an expense. As a result of the correction, a $5.2 million loss on early extinguishment of debt, related to our redemption of senior notes in January 2006 is being recognized in the first quarter of 2006 instead of the fourth quarter of 2005.

Note 2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION. Our consolidated financial statements include the accounts of Senior Housing Properties Trust, or the Company, and all of our consolidated subsidiaries. We have eliminated all intercompany transactions.

REAL ESTATE PROPERTIES. We depreciate real estate properties on a straight line basis over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. Our management regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows of the related properties to determine if an impairment loss should be recognized. We determine the amount of impairment loss by comparing the historical carrying value of the asset to its estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows of properties using standard industry valuation techniques. One of our nursing home properties has been closed and is being offered for sale. At December 31, 2005, we recorded an impairment charge of $1.8 million to reduce the net book value of this asset held for sale to its estimated fair value, less costs to sell, of $1.8 million. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our long lived assets. If we change our estimate of the remaining lives, we allocate the carrying value of the affected assets over their revised remaining lives.

We allocate the value of real estate acquired among buildings, land, furniture, fixtures and equipment, the value of in-place leases and the fair market value of above or below market leases and customer relationships. We amortize the value of intangible assets over the term of the respective lease.

CASH AND CASH EQUIVALENTS. We carry cash and cash equivalents, consisting of overnight repurchase agreements and short term investments with original maturities of three months or less at the date of purchase, at cost plus accrued interest, which approximates market.

RESTRICTED CASH. Restricted cash consists of amounts escrowed for real estate taxes, insurance and capital expenditures at 20 of our mortgaged properties.

INVESTMENTS. We own 1,000,000 common shares, or 0.48%, of HRPT Properties Trust, or HRPT. We also own 35,000 common shares, or 0.17%, of Five Star Quality Care, Inc., or Five Star, which we retained or received when we spun off Five Star in 2001. We classify these holdings as available for sale and carry them at fair value, with unrealized gains and losses reported as a separate component of shareholders equity. The Unrealized Gain On Investments shown on the Consolidated Balance Sheet represents the difference between the market value of these shares of HRPT and Five Star calculated by using quoted market prices on the date they were acquired ($6.50 and $7.26 per share, respectively) and on December 31, 2005 ($10.35 and $7.88 per share, respectively). At December 31, 2005, our investment in HRPT had a fair value of $10.4 million, including unrealized gains of $3.9 million. At March 6, 2006, this investment had a fair value of $10.7 million, including unrealized gains of $4.2 million. At December 31, 2005, our investment in Five Star had a fair value of $276,000, including an unrealized gain of $22,000. At March 6, 2006, this investment had a fair value of $348,000, including an unrealized gain of $94,000.

DEFERRED FINANCING FEES. We capitalize issuance costs related to borrowings and amortize them over the terms of the respective loans. The unamortized balance of deferred financing fees and accumulated amortization were $14.6 million and $3.7 million, and $14.5 million and $5.1 million at December 31, 2005 and 2004, respectively. The weighted average amortization period is approximately 11 years. This amortization

expense for the five years subsequent to December 31, 2005 is $1.8 million in 2006, $1.8 million in 2007, $1.8 million in 2008, $1.8 million in 2009 and $916,000 in 2010.

REVENUE RECOGNITION. We recognize rental income from operating leases on a straight line basis over the life of lease agreements. We recognize interest income as earned over the terms of real estate mortgages. We recognize percentage rents when realizable and earned. For the years ended December 31, 2005, 2004 and 2003, percentage rents earned aggregated $3.2 million, $3.4 million, and $3.3 million, respectively.

EARNINGS PER COMMON SHARE. We compute earnings per common share using the weighted average number of shares outstanding during the period. We have no common share equivalents, instruments convertible into common shares or other dilutive instruments.

USE OF ESTIMATES. Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that may affect the amounts reported in these financial statements and related notes. The actual results could differ from these estimates.

INCOME TAXES. We operate in a manner to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended. Accordingly, we do not expect to be subject to federal income taxes if we continue to distribute our taxable income and continue to meet the other requirements for qualifying as a real estate investment trust. However, we are subject to some state and local taxes on our income and property.

SEGMENT REPORTING. We operate in one segment, real estate leasing of healthcare and senior living properties.

Note 3. Real Estate Properties

We generally lease our properties on a triple net basis, pursuant to noncancellable, fixed term, operating leases expiring between 2010 and 2020. Some leases to a single tenant or group of affiliated tenants are cross defaulted or cross guaranteed, and provide for all or none tenant renewal options at existing or market rent rates. These triple net leases generally require the lessee to pay all property operating costs. The cost, after impairment write downs, and the depreciated carrying value of the properties leased were $1.7 billion and $1.4 billion at December 31, 2005, respectively. The future minimum lease payments due to us during the current terms of our leases as of December 31, 2005, are $162.7 million in 2006, $163.0 million in 2007, $163.3 million in 2008, $163.7 million in 2009, $164.0 million in 2010 and $1.1 billion, thereafter.

On June 3, 2005, we purchased from Five Star four assisted living communities for $24.0 million, which we leased back to Five Star. These properties contain 299 living units and all of the revenues at these facilities are paid by residents from their private resources. These communities were added to a combination lease for 97 communities from us to Five Star which has a current term ending in 2020, plus tenant renewal options thereafter. The annual rent under the combination lease increased by $2.2 million and percentage rent, based on increases in gross revenues at the leased properties, will commence in 2007.

Also in June 2005, we provided a $43.5 million first mortgage line of credit to Five Star secured by six assisted living communities located in suburban Pittsburgh, Pennsylvania. Five Star borrowed $24.0 million on this line of credit in June 2005 and subsequently repaid the borrowing in August 2005. On October 31, 2005, we purchased the six properties that secured this line of credit from Five Star for $58.0 million, Five Star s purchase price for the properties, and we leased them back to Five Star. Simultaneous with our purchase, the line of credit was cancelled. These properties were added to the existing combination lease described above. The annual rent under the combination lease increased by $5.2 million plus percentage rent starting in 2007.

In 2005, we sold one nursing home to Five Star and two assisted living facilities previously leased to Five Star to unaffiliated parties for a total consideration of approximately $13.0 million and recognized a gain of $5.9 million. These properties were part of combination leases for properties we lease to Five Star. Under the terms of these leases, upon the sale of the properties,

the annual rent payable to us was reduced by 10% of the net proceeds that we received from the sales, or approximately $1.3 million.

In 2003, we evicted a nursing home tenant that had defaulted on its lease. Until May 2004, Five Star managed this nursing home for our account. Effective on May 1, 2004, we and Five Star agreed to add this nursing home to a Five Star combination lease. The facility revenues, expenses and net operating income (loss) for this property for the period from January 1, 2004, to April 30, 2004, were $1.4 million, $1.2 million and $154,000, respectively, and for the period March 17, 2003, to December 31, 2003, were $2.6 million, $2.7 million and $(150,000), respectively. The net operating income (loss) is included in Interest and Other Income in our Consolidated Statement of Income.

During 2005, pursuant to the terms of our leases with Five Star, we purchased approximately $15.5 million of improvements made to our properties which are leased by Five Star and the annual rent payable to us by Five Star was increased by 10% of our investments, or approximately $1.5 million.

Note 4. Shareholders Equity

We have common shares available for issuance under the terms of our 1999 Incentive Share Award Plan and our 2003 Incentive Share Award Plan, collectively referred to as the Award Plans. During the years ended December 31, 2005, 2004 and 2003, 24,300, 24,000 and 15,000 common shares, respectively, were awarded to our officers and certain employees of our manager pursuant to the Award Plans. In addition, our independent trustees were each awarded 1,000, 1,000 and 500 common shares pursuant to the Award Plans during the years ended December 31, 2005, 2004 and 2003, respectively, as part of their annual fees. The shares awarded to the trustees vested immediately. The shares awarded to our officers and certain employees of our manager vest over a three year period. At December 31, 2005, 2,806,220 of our common shares remain available for issuance under the Award Plans. All share awards are expensed when the grants vest.

Cash distributions paid or payable by us to our common shareholders for the years ended December 31, 2005, 2004 and 2003, were $1.28 per share, $1.26 per share, and $1.24 per share, respectively. The characterization of the distributions made in 2005, 2004 and 2003 was 59.53%, 65.69%, and 52.62% ordinary income, respectively; 35.59%, 32.64%, and 47.38% return of capital, respectively; 4.88%, 1.19%, and 0% capital gain, respectively; and 0%, 0.48%, and 0% uncaptured Section 1250 gain, respectively.

Note 5. Transactions with Affiliates

We have an agreement with Reit Management & Research LLC, or RMR, for RMR to originate and present investment opportunities to our board and provide management and administrative services to us. This agreement is subject to annual renewal by our independent trustees. RMR is beneficially owned by Barry Portnoy, one of our managing trustees, and Adam Portnoy, an executive officer of RMR and Executive Vice President of HRPT. RMR is compensated annually based on a formula principally related to the gross amount of our investments in real estate. RMR is also entitled to an annual incentive fee, which is based on a formula and paid in our restricted common shares. Fees paid to RMR for the years ended December 31, 2005, 2004, and 2003, were $8.9 million, $8.9 million and $7.6 million, respectively.

As discussed in Note 3, during 2005, we purchased 10 properties from Five Star and leased them to Five Star. We also sold three properties previously leased to Five Star, one of which was sold to Five Star. During 2005, we purchased approximately $15.5 million of improvements to our properties leased by Five Star and the annual rent payable to us by Five Star was increased by 10% of our investments, or approximately $1.5 million.

Note 6. Indebtedness

On July 29, 2005, we amended our unsecured revolving bank credit facility to increase the available borrowing amount from $250.0 million to $550.0 million and extend the maturity date from November 2005 to November 2009, with an option to extend the maturity by one additional year upon payment of a fee. The annual interest payable for amounts drawn under the facility was reduced from LIBOR plus 1.45% to LIBOR plus 1.00%. In certain circumstances, the

amount of unsecured borrowings available under this facility may be increased to $1.1 billion. Certain financial and other covenants in the facility were also amended to reflect current market conditions. We can borrow, repay and reborrow until maturity, and no principal repayment is due until maturity. The interest rate on borrowings under our revolving bank credit facility was 5.31% at December 31, 2005. Our revolving bank credit facility is available for acquisitions, working capital and general business purposes. As of December 31, 2005, $64.0 million was outstanding and $486.0 million was available for borrowing under this revolving bank credit facility.

As discussed in Note 3, we sold a property to Five Star in 2005. Simultaneous with this sale, we repaid the $4.2 million mortgage note that was secured by this property. This mortgage note was also secured by $4.3 million of restricted cash, which became unrestricted when the mortgage note was prepaid.

At December 31, 2005, our additional outstanding debt consisted of the following (dollars in thousands):

Unsecured Debt	Coupon	Maturity	Face Amount	Unamortized Discount
Senior notes	8.625%	2012	$ 245,000	$ 836
Senior notes	7.875%	2015	150,000	226
Total unsecured senior notes			395,000	1,062
Junior subordinated debentures	10.125%	2041	28,241	
Total unsecured debt			$ 423,241	$ 1,062

Secured and Other Debt	Balance	Interest Rate	Maturity	Number of Properties as Collateral	Initial Cost of Collateral	Net Book Value of Collateral
Mortgages	$ 36,630	6.97%	June 2012	16	$ 69,656	$ 67,706
Mortgages	12,437	6.11%	November 2013	4	15,987	15,540
Bonds	14,700	5.875%	December 2027	1	34,279	30,978
Capital leases	6,374	7.7%	May 2016	2	17,969	15,956
Total secured	$ 70,141				$ 137,891	$ 130,180

In December 2005, we called for redemption $52.5 million of our 7 7/8% senior unsecured notes. The redemption occurred in January 2006, at which time we recognized a loss on early extinguishment of debt of $5.2 million, which included a $4.1 million redemption premium and a $1.1 million write off of deferred financing fees and unamortized discount related to these notes.

Interest on our unsecured senior notes and our bonds is payable semi-annually in arrears; however, no principal repayments are due until maturity. Interest on our mortgages is payable monthly. Our monthly payments on our mortgages due 2012 and 2013 include principal and interest. Payments under our capital leases are due monthly.

As part of our acquisition of 31 assisted living properties in November 2004, we assumed $49.2 million of secured debt which was recorded at its fair value of $50.2 million. We are amortizing the premium arising from this assumed debt to interest expense over the contractual term of the debt.

Required principal payments on our outstanding debt as of December 31, 2005, are as follows (dollars in thousands):

2006	$	54,482
2007		2,123
2008		2,265
2009		66,435
2010		2,007
Thereafter		430,070

At December 31, 2005, our wholly-owned finance subsidiary had 1,095,750 shares of 10.125% trust preferred securities outstanding, with a liquidation preference of $25 per share, for a total liquidation amount of $27.4 million. We own all of the finance subsidiary s common securities. This finance subsidiary exists solely to issue the trust preferred securities and its own common securities and to hold as its sole assets $28.2 million of 10.125% junior subordinated debentures due June 15, 2041 that we issued. We can redeem the debentures for their liquidation amount in whole or in part on or after June 15, 2006. When the debentures are redeemed or repaid at maturity, the finance subsidiary will redeem a like amount of trust preferred securities. We have provided a full and unconditional guarantee of this finance subsidiary s obligations related to the trust preferred securities arising out of payments on or redemptions of the debentures. We are amortizing underwriting commissions and other costs over the 40 year life of the trust preferred securities and the debentures.

Note 7. Fair Value of Financial Instruments and Commitments

The financial statements presented include rents receivable, senior notes, mortgages payable, other liabilities, security deposits and junior subordinated debentures. The fair values of the financial instruments were not materially different from their carrying values at December 31, 2005 and 2004, except as follows (dollars in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior notes	$ 393,938	$ 426,388	$ 393,775	$ 446,888
Junior subordinated debentures	28,241	29,066	28,241	30,105

The fair values of our senior notes are based on estimates using discounted cash flow analysis and currently prevailing interest rates. The fair value of our junior subordinated debentures is based on the quoted per share prices of the related trust preferred securities of $25.73 and $26.65 at December 31, 2005 and 2004, respectively.

Note 8. Concentration of Credit Risk

The assets included in these financial statements are primarily income producing senior housing real estate located throughout the United States. The following is a summary of the significant lessees as of and for the years ended December 31, 2005 and 2004 (dollars in thousands):

	At December 31, 2005		Year Ended December 31, 2005	
	Investment(1)	% of Total	Revenue	% of Total
Five Star	$ 1,119,282	67%	$ 98,549	61%
Sunrise Senior Living, Inc.	325,473	19%	31,088	19%
All others	241,414	14%	31,628	20%
	$ 1,686,169	100%	$ 161,265	100%

	At December 31, 2004		Year Ended December 31, 2004	
	Investment(1)	% of Total	Revenue	% of Total
Five Star	$ 1,034,065	65%	$ 83,169	57%
Sunrise Senior Living, Inc.	325,473	20%	32,194	22%

All others	241,414	15%		30,368	21%
	$ 1,600,952	100%	$	145,731	100%

(1) Historical costs exclusive of depreciation and, in certain instances, after impairment losses.

Note 9. Selected Quarterly Financial Data (unaudited)

The following is a summary of our unaudited quarterly results of operations for 2005 and 2004 (dollars in thousands, except per share amounts):

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (Restated)
Revenues	$ 39,227	$ 39,605	$ 40,244	$ 44,111
Income from continuing operations	13,865	14,316	14,129	15,671
Net income	13,865	15,033	14,129	20,885
Per share data:				
Income from continuing operations	$ 0.20	$ 0.21	$ 0.21	$ 0.23
Net income	$ 0.20	$ 0.22	$ 0.21	$ 0.30

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 36,543	$ 35,506	$ 35,744	$ 40,730
Income from continuing operations	13,269	12,822	12,919	16,513
Net income	13,269	14,041	12,919	16,513
Per share data:				
Income from continuing operations	$ 0.21	$ 0.20	$ 0.20	$ 0.26
Net income	$ 0.21	$ 0.22	$ 0.20	$ 0.26

Note 10. Commitments and Contingencies

In January 2002, HealthSouth settled a default under its lease with us by exchanging properties. We delivered to HealthSouth title to five nursing homes which HealthSouth leased from us. In exchange, HealthSouth delivered to us title to two rehabilitation hospitals and we entered into an amended lease, reducing the annual rent we received from $10.25 million to $8.7 million, extending the lease term and changing other lease terms between HealthSouth and us. A primary factor which caused us to lower the rent for an extended lease term was the purported credit strength of HealthSouth. In agreeing to lower the rent and extend the lease term, we relied upon statements made by certain officers of HealthSouth, upon financial statements and other documents provided by HealthSouth, upon public statements made by HealthSouth and its representatives concerning HealthSouth s financial condition and upon publicly available documents of HealthSouth.

In March 2003, the SEC accused HealthSouth and some of its executives of publishing false financial information; since then, according to published reports, at least 17 former HealthSouth executives, including all five of its former chief financial officers, have been adjudicated of, or pled guilty to, various crimes. In April 2003, we commenced a lawsuit against HealthSouth in the Massachusetts Land Court seeking, among other matters, to reform the amended lease, based upon HealthSouth s fraud, by increasing the rent payable to us back to $10.25 million from January 2, 2002 until the termination or expiration of the amended lease and to change the lease term to its historical expiration on January 1, 2006, among other matters. HealthSouth has defended this lawsuit and asserted counterclaims against us arising from this and unrelated matters. This litigation is pending at this time. In June 2004, we declared an event of default under the amended lease because HealthSouth failed to deliver to us accurate and timely financial information as required by the amended lease. On October 26, 2004, we terminated the amended lease because of these defaults. On November 2, 2004, HealthSouth brought a second lawsuit against us in the Massachusetts Superior Court seeking to prevent our termination of the amended lease. On September 25, 2005, the court ruled that our termination was proper. On January 18, 2006, the court ordered HealthSouth to cooperate with us in licensing a new tenant for our two hospitals and pay us the hospitals net patient revenues, after a 5% management fee and payment of costs and expenses of operation, since October 26, 2004. HealthSouth has filed an appeal of the court s decisions; however, HealthSouth s motions for a stay of the court s decisions during the appeal have been denied

by both the trial court and the appeals court. During the pendency of these disputes, HealthSouth continued to pay us at the disputed rent amount of $725,000 per month. On February 2, 2006, HealthSouth paid us an additional $4.6 million which HealthSouth represented to be an amount due from November 1, 2004 to December 31, 2005, and on February 15, 2006, HealthSouth paid us an additional $723,000 which it represented to be an amount due from January 1, 2006 to January 31, 2006. We are reviewing HealthSouth s calculations of amounts due to us and we may claim additional amounts. In June 2005, HealthSouth filed a restated Annual Report on Form 10-K for the period ending December 31, 2003. In December 2005, HealthSouth filed late an Annual Report on Form 10-K for the period ending December 31, 2004. The financial and operating data included in these HealthSouth Form 10-Ks show a substantial negative net worth and a history of substantial operating losses. To date we have been unable to obtain reliable current financial information about the operations of HealthSouth or our hospitals. Accordingly, we do not know if we will be able to collect any additional amounts which the courts may determine to be owed to us by HealthSouth. If we ultimately prevail in our litigation and are entitled to receive the cash flows, net of a management fee, from the hospitals operations, and if, as a result, under Internal Revenue Code laws and regulations applicable to REITs these properties are foreclosure properties, a part of the cash flows received may be subject to income tax at corporate rates. Legal expenses incurred related to our disputes with HealthSouth were $1.9 million, $285,000 and $165,000 for the years ended December 31, 2005, 2004 and 2003, respectively, and are included in general and administrative expense. We expect these legal expenses to continue so long as our litigations with HealthSouth continue, but we cannot predict the amount of these future expenses. We recently filed a motion seeking an order requiring HealthSouth to reimburse some of our legal fees. HealthSouth has opposed this motion and we do not know when or how this request will be decided.

In connection with obtaining regulatory approval for the acquisition and lease of one senior living property, we provided a guaranty and a security interest in that property of certain prepaid service obligations to residents. We are contingently liable in the event the tenant, Five Star, fails to provide these future services.

Note 11. Pro Forma Information (unaudited)

We purchased 10 properties in 2005 for $82.0 million, including closing costs and 32 properties in 2004 for $187.9 million, including closing costs.

The following table presents our pro forma results of operations as if these 2005 and 2004 acquisitions and related financings were completed on January 1, 2004. This pro forma data is not necessarily indicative of what actual results of operations would have been for the years presented, nor does it represent the results of operations for any future period. Differences could result from, but are not limited to, additional property sales or investments, changes in interest rates and changes in our debt or equity structure. Amounts are in thousands, except per share data.

	Year Ended December 31,	
	2005 (Restated)	2004
Total revenues	$ 168,437	$ 167,971
Income from continuing operations	61,082	64,504
Net income	67,013	65,723
Per common share data:		
Income from continuing operations	$ 0.85	$ 0.90
Net income	$ 0.93	$ 0.92

Note 12. Subsequent Events.

On February 28, 2006, we agreed to lease the two hospitals involved in the HealthSouth litigation to Five Star, conditioned upon Five Star s obtaining the health regulatory approvals required to operate the hospitals. When the new lease becomes effective, the annual rent Five Star will pay to us will be $10.25 million per year. In 2008, when we believe accurate financial information based upon stabilized operations will be available and that the litigation with HealthSouth may be concluded, either Five Star or we may request that the rent be reset effective July 1, 2008.

SENIOR HOUSING PROPERTIES TRUST

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2005

(Dollars in thousands)

		Initial Cost to Company		Costs Capitalized Subsequent to		Cost amount Carried at Close of Period 12/31/05			(2)	(3)	Original
Location	State	Land	Building and Equipment	Acquisition	Impairment	Land	Building and Equipment	(1) Total	Accumulated Depreciation	Date Acquired	Construction Date
Cullman (5)	AL	$ 287	$ 3,482	$ 58	$	$ 262	$ 3,565	$ 3,827	$ 106	11/19/2004	1998
Madison (5)	AL	334	4,115	25		268	4,206	4,475	125	11/19/2004	1998
Sheffield (5)	AL	394	4,817	15		394	4,832	5,226	146	11/19/2004	1998
Peoria	AZ	2,687	15,843	541		2,687	16,385	19,071	1,861	1/11/2002	1990
Scottsdale	AZ	2,315	13,650	424		2,315	14,074	16,389	1,615	1/11/2002	1984
Scottsdale	AZ	979	8,807	91		941	8,936	9,877	2,596	5/16/1994	1990
Sun City	AZ	1,174	10,569	173		1,189	10,727	11,916	3,095	6/17/1994	1990
Sun City West	AZ	400	3,307			400	3,307	3,707	270	2/28/2003	1998
Tuscon	AZ	4,429	26,119	747		4,429	26,865	31,295	3,110	1/11/2002	1989
Yuma	AZ	223	2,100	438		223	2,538	2,761	832	6/30/1992	1984
Yuma	AZ	103	604	95		103	698	802	237	6/30/1992	1984
Fresno	CA	738	2,577	188		738	2,765	3,503	1,166	12/28/1990	1963
Laguna Hills	CA	3,132	28,184	475		3,172	28,619	31,791	8,080	9/9/1994	1975
Lancaster	CA	601	1,859	1,350		601	3,209	3,810	1,197	12/28/1990	1969
San Diego	CA	9,142	53,904	551		9,142	54,456	63,597	6,118	1/11/2002	1987
Stockton	CA	382	2,750	366		382	3,116	3,498	1,085	6/30/1992	1968
Stockton	CA	1,176	11,171	466		1,176	11,637	12,813	769	9/30/2003	1988
Thousand Oaks	CA	622	2,522	858		622	3,380	4,002	1,234	12/28/1990	1965
Van Nuys	CA	716	378	504		718	880	1,598	304	12/28/1990	1969
Canon City	CO	292	6,228	385	(3,512)	292	3,101	3,393	459	9/26/1997	1970
Colorado Springs	CO	245	5,236	524	(3,031)	245	2,728	2,974	412	9/26/1997	1972
Delta	CO	167	3,570	341		167	3,911	4,078	822	9/26/1997	1963
Grand Junction	CO	204	3,875	861		204	4,736	4,940	1,608	12/30/1993	1968
Grand Junction	CO	36	2,583	1,773		180	4,212	4,392	1,345	12/30/1993	1978
Lakewood	CO	232	3,766	1,341		232	5,107	5,339	1,837	12/28/1990	1972
Littleton	CO	185	5,043	892		185	5,935	6,120	2,303	12/28/1990	1965
Littleton	CO	400	3,507			400	3,507	3,907	286	2/28/2003	1998
New Haven	CT	1,681	14,953	2,258	(12,154)	1,681	5,057	6,738	3,025	5/11/1992	1971
Waterbury	CT	1,003	9,023	2,057	(5,694)	1,003	5,387	6,389	3,093	5/11/1992	1974
Newark	DE	2,010	11,852	384		2,010	12,236	14,246	1,411	1/11/2002	1982

		Initial Cost to Company		Costs Capitalized Subsequent		Cost amount Carried at Close of Period 12/31/05			(2)	(3)	Original
Location	State	Land	Building and Equipment	to Acquisition	Impairment	Land	Building and Equipment	(1) Total	Accumulated Depreciation	Date Acquired	Construction Date
Wilmington	DE	4,365	25,739	677		4,365	26,416	30,781	2,972	1/11/2002	1988
Wilmington	DE	1,179	6,950	323		1,179	7,273	8,452	838	1/11/2002	1974
Wilmington	DE	38	227	186		38	413	451	68	1/11/2002	1965
Wilmington	DE	869	5,126	655		869	5,780	6,650	689	1/11/2002	1989
Boca Raton	FL	4,404	39,633	798		4,474	40,362	44,835	11,727	5/20/1994	1994
Cape Coral	FL	400	2,907			400	2,907	3,307	238	2/28/2003	1998
Coral Springs	FL	3,410	20,104	605		3,410	20,710	24,119	2,340	1/11/2002	1984
Deerfield Beach	FL	3,196	18,848	853		3,196	19,701	22,897	2,220	1/11/2002	1990
Deerfield Beach	FL	1,664	14,972	298		1,690	15,245	16,934	4,429	5/16/1994	1986
Fort Myers	FL	369	2,174	344		369	2,518	2,887	268	1/11/2002	1990
Fort Myers	FL	2,349	21,137	419		2,385	21,520	23,905	6,120	8/16/1994	1984
Palm Harbor	FL	3,449	20,336	452		3,449	20,788	24,237	2,354	1/11/2002	1989
Palm Harbor	FL	3,327	29,945	591		3,379	30,484	33,863	8,857	5/16/1994	1992
Port St. Lucie	FL	1,223	11,009	219		1,242	11,209	12,451	3,257	5/20/1994	1993
West Palm Beach	FL	2,061	12,153	1,600		2,061	13,753	15,814	1,480	1/11/2002	1988
Athens	GA	337	4,008	15		337	4,023	4,359	122	11/19/2004	1998
College Park	GA	300	2,702	315		300	3,017	3,317	844	5/15/1996	1985
Columbus	GA	294	3,506	29		342	3,488	3,829	108	11/19/2004	1999
Conyers (5)	GA	342	4,180	28		322	4,229	4,550	127	11/19/2004	1997
Dalton	GA	262	3,121	18		230	3,171	3,401	96	11/19/2004	1997
Dublin	GA	442	3,982	414		442	4,395	4,838	1,209	5/15/1996	1968
Evans	GA	230	2,739	16		322	2,663	2,985	84	11/19/2004	1998
Gainesville (5)	GA	268	3,264	4		280	3,256	3,536	99	11/19/2004	1998
Macon (5)	GA	183	2,278	62		334	2,189	2,523	70	11/19/2004	1998
Marietta	GA	300	2,702	336		300	3,038	3,338	823	5/15/1996	1967
Tucker	GA	690	6,210	46		690	6,256	6,946	93	6/3/2005	1997
Clarinda	IA	77	1,453	620		77	2,073	2,150	713	12/30/1993	1968
Council Bluffs	IA	225	893	453		225	1,346	1,571	417	4/1/1995	1963
Des Moine	IA	123	627	299		123	926	1,049	148	7/1/2000	1965
Glenwood	IA	322	2,098	388		322	2,486	2,808	399	7/1/2000	1964

		Initial Cost to Company		Costs Capitalized Subsequent		Cost amount Carried at Close of Period 12/31/05			(2)	(3)	Original
Location	State	Land	Building and Equipment	to Acquisition	Impairment	Land	Building and Equipment	(1) Total	Accumulated Depreciation	Date Acquired	Construction Date
Mediapolis	IA	94	1,776	485		94	2,261	2,355	784	12/30/1993	1973
Pacific Junction	IA	32	306	45		32	351	383	94	4/1/1995	1978
Winterset	IA	111	2,099	745		111	2,844	2,955	974	12/30/1993	1973
Arlington Heights	IL	3,621	32,587	535		3,665	33,077	36,743	9,339	9/9/1994	1986
Indianapolis	IN	2,781	16,396	936		2,781	17,332	20,113	1,940	1/11/2002	1986
South Bend	IN	400	3,107			400	3,107	3,507	254	2/28/2003	1998
Ellinwood	KS	130	1,137	250		130	1,387	1,517	366	4/1/1995	1972
Overland Park	KS	1,274	11,426	950		1,274	12,377	13,650	1,068	10/25/2002	1985
Overland Park	KS	2,568	15,140	389		2,568	15,530	18,097	1,769	1/11/2002	1989
Bowling Green (5)	KY	365	4,489	36		322	4,568	4,890	137	11/19/2004	1999
Hopkinsville (5)	KY	316	3,751	36		295	3,808	4,103	114	11/19/2004	1999
Lafayette (4)	KY		10,848	392			11,240	11,240	1,244	1/11/2002	1985
Lexington (4)	KY		6,394	335			6,729	6,729	768	1/11/2002	1980
Louisville	KY	3,524	20,779	1,730		3,524	22,509	26,033	2,482	1/11/2002	1984
Mayfield	KY	268	3,195	17		750	2,730	3,480	98	11/19/2004	1999
Paducah (5)	KY	450	5,558	23		450	5,581	6,031	169	11/19/2004	2000
Braintree	MA	3,193	16,652	17		3,193	16,669	19,862	5,494	1/1/2002	1975
Winchester	MA	3,218	18,988	1,104		3,218	20,091	23,310	2,204	1/11/2002	1991
Woburn	MA	3,809	19,862	20		3,809	19,882	23,691	6,553	1/1/2002	1969
Bowie	MD	408	3,421	175		408	3,596	4,004	324	10/25/2002	2000
Easton	MD	383	4,555	204		383	4,759	5,142	429	10/25/2002	2000
Ellicott City	MD	1,410	22,691	696		1,409	23,388	24,797	1,167	3/1/2004	1997
Frederick	MD	385	3,444	209		385	3,653	4,038	329	10/25/2002	1998
Severna Park	MD	229	9,798	378		229	10,176	10,405	914	10/25/2002	1998
Silver Spring	MD	1,192	9,288	1,819		1,200	11,099	12,299	916	10/25/2002	1996
Silver Spring	MD	3,229	29,065	786		3,301	29,779	33,080	8,530	7/25/1994	1992
Hampton	MI	300	2,406			300	2,406	2,706	197	2/28/2003	1998
Midland	MI	300	2,206			300	2,206	2,506	214	2/28/2003	1998
Monroe	MI	400	2,606			400	2,606	3,006	205	2/28/2003	1998

		Initial Cost to Company		Costs Capitalized Subsequent		Cost amount Carried at Close of Period 12/31/05			(2)	(3)	Original
Location	State	Land	Building and Equipment	to Acquisition	Impairment	Land	Building and Equipment	(1) Total	Accumulated Depreciation	Date Acquired	Construction Date
Portage	MI	600	5,212			600	5,212	5,812	393	2/28/2003	1998
Saginaw	MI	300	2,606			300	2,606	2,906	213	2/28/2003	1998
Eagan	MN	400	2,506			400	2,506	2,906	229	2/28/2003	1998
West St. Paul	MN	400	3,608			400	3,608	4,008	334	2/28/2003	1998
St. Joseph	MO	111	1,027	795		111	1,822	1,933	423	6/4/1993	1976
Tarkio	MO	102	1,938	646		102	2,584	2,686	878	12/30/1993	1970
Cary	NC	713	4,628	662		713	5,290	6,003	471	10/25/2002	1999
Chapel Hill	NC	800	6,414			800	6,414	7,214	523	2/28/2003	1996
Ainsworth	NE	25	420	243		25	662	688	140	7/1/2000	1966
Ashland	NE	28	1,823	326		28	2,149	2,177	363	7/1/2000	1965
Blue Hill	NE	56	1,064	273		56	1,336	1,393	202	7/1/2000	1967
Central City	NE	21	919	301		21	1,220	1,241	201	7/1/2000	1969
Columbus	NE	89	561	250		88	812	900	119	7/1/2000	1955
Edgar	NE	1	138	201		1	339	340	52	7/1/2000	1971
Exeter	NE	4	626	151		4	777	781	133	7/1/2000	1965
Grand Island	NE	119	1,446	756		119	2,202	2,321	534	4/1/1995	1963
Gretna	NE	267	673	453	(29)	237	1,127	1,364	173	7/1/2000	1972
Lyons	NE	13	797	237		13	1,034	1,047	176	7/1/2000	1969
Milford	NE	24	880	193		24	1,073	1,097	201	7/1/2000	1967
Omaha	NE	650	5,850	19		650	5,869	6,519	88	6/3/2005	1992
Sutherland	NE	19	1,251	192		19	1,443	1,462	239	7/1/2000	1970
Utica	NE	21	569	129		21	698	719	115	7/1/2000	1966
Waverly	NE	529	686	245		529	931	1,460	181	7/1/2000	1989
Burlington	NJ	1,300	11,700	7		1,300	11,707	13,007	3,001	9/29/1995	1994
Cherry Hill	NJ	1,001	8,175			1,001	8,175	9,176	417	12/29/2003	1999
Lakewood (6)	NJ	4,885	28,803	591		4,885	29,395	34,279	3,301	1/11/2002	1987
Mt. Arlington	NJ	1,375	11,232			1,375	11,232	12,607	573	12/29/2003	2001
Voorhees	NJ	1,001	8,177			1,001	8,177	9,178	417	12/29/2003	1998
Washington Twp. (Sewall)	NJ	1,001	8,177			1,001	8,177	9,178	417	12/29/2003	1999

		Initial Cost to Company		Costs Capitalized Subsequent		Cost amount Carried at Close of Period 12/31/05			(2)		Original
Location	State	Land	Building and Equipment	to Acquisition	Impairment	Land	Building and Equipment	(1) Total	Accumulated Depreciation	(3) Date Acquired	Construction Date
Albuquerque	NM	3,828	22,572	417		3,828	22,989	26,817	2,601	1/11/2002	1986
Columbus	OH		27,778	5,155		3,623	29,310	32,933	3,177	1/11/2002	1989
Grove City	OH	332	3,081	791		332	3,872	4,204	1,000	6/4/1993	1965
Beaver Falls	PA	1,500	13,500			1,500	13,500	15,000	79	10/31/2005	1997
Canonsburg	PA	1,499	13,493	606		1,518	14,080	15,598	10,018	3/1/1991	1985
Clarks Summit	PA	1,001	8,233			1,001	8,233	9,234	430	12/29/2003	2001
Devon	PA	550	4,536			550	4,536	5,086	232	12/29/2003	2001
Elizabeth	PA	696	6,304	4		696	6,308	7,004	37	10/31/2005	1986
Exton	PA	1,001	8,233			1,001	8,233	9,234	420	12/29/2003	2000
Glen Mills	PA	1,001	8,233			1,001	8,233	9,234	430	12/29/2003	2001
Murrysville	PA	300	2,506			300	2,506	2,806	226	2/28/2003	1998
New Britain (Chalfont)	PA	979	8,052			979	8,052	9,031	411	12/29/2003	1998
Penn Hills	PA	200	904			200	904	1,104	82	2/28/2003	1997
Pittsburgh	PA	644	5,856	2		644	5,857	6,502	35	10/31/2005	1987
Pittsburgh	PA	446	4,054	7		446	4,061	4,507	24	10/31/2005	1987
South Park	PA	898	8,102	4		898	8,106	9,004	48	10/31/2005	1995
Tiffany Court (Kingston)	PA		5,682				5,682	5,682	284	12/29/2003	1997
Whitehall	PA	1,599	14,401			1,599	14,401	16,000	85	10/31/2005	1987
Anderson	SC	295	3,511	16		295	3,527	3,822	107	11/19/2004	1999
Beaufort (5)	SC	188	2,320	32		188	2,352	2,540	71	11/19/2004	1999
Camden (5)	SC	322	3,957	59		641	3,697	4,338	121	11/19/2004	1999
Columbia	SC	300	1,905			300	1,905	2,205	156	2/28/2003	1998
Greenwood	SC	310	2,790	2		401	2,701	3,102	42	6/3/2005	1999
Hartsville (5)	SC	401	4,898	6		316	4,990	5,306	149	11/19/2004	1999
Lexington (5)	SC	363	4,322	9		183	4,618	4,801	135	11/19/2004	1999
Myrtle Beach	SC	543	3,202	349		543	3,551	4,094	407	1/11/2002	1980
Orangeburg (5)	SC	303	3,681	48		303	3,729	4,032	112	11/19/2004	1999
Rock Hill	SC	300	1,705			300	1,705	2,005	150	2/28/2003	1998
Seneca (5)	SC	396	4,831	7		396	4,838	5,234	147	11/19/2004	2000

Location	State	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Impairment	Cost amount Carried at Close of Period 12/31/05		(1) Total	(2) Accumulated Depreciation	(3) Date Acquired	Original Construction Date
		Land	Building and Equipment			Land	Building and Equipment				
Huron	SD	144	3,108	4		144	3,112	3,256	1,157	6/30/1992	1968
Huron	SD	45	968	1		45	969	1,014	360	6/30/1992	1968
Sioux Falls	SD	253	3,062	4		253	3,066	3,319	1,144	6/30/1992	1960
Cleveland (5)	TN	305	3,737	25		294	3,775	4,069	114	11/19/2004	1998
Cookeville (5)	TN	322	3,948	11		287	3,993	4,280	120	11/19/2004	1998
Franklin (5)	TN	322	3,825	12		268	3,891	4,159	117	11/19/2004	1997
Gallatin	TN	280	3,329	16		310	3,314	3,624	102	11/19/2004	1998
Goodlettsville	TN	400	3,207			400	3,207	3,607	286	2/28/2003	1998
Jackson (5)	TN	295	3,482	32		304	3,504	3,808	106	11/19/2004	1999
Knoxville (5)	TN	304	3,587	27		363	3,555	3,918	110	11/19/2004	1998
Maryville	TN	300	3,607			300	3,607	3,907	270	2/28/2003	1998
Nashville	TN	750	6,750	88		365	7,223	7,588	102	6/3/2005	1979
Bellaire	TX	1,223	11,010	178		1,238	11,172	12,411	3,246	5/16/1994	1991
Dallas	TX	4,709	27,768	2,098		4,709	29,866	34,575	3,269	1/11/2002	1990
El Paso	TX	2,301	13,567	333		2,301	13,900	16,201	1,589	1/11/2002	1987
Houston	TX	5,537	32,647	1,370		5,537	34,018	39,554	3,806	1/11/2002	1989
San Antonio	TX	4,283	25,256	1,021		4,283	26,277	30,560	2,928	1/11/2002	1989
Woodlands	TX	3,694	21,782	1,567		3,694	23,349	27,043	2,585	1/11/2002	1988
Arlington	VA	1,859	16,734	295		1,885	17,004	18,888	4,871	7/25/1994	1992
Charlottesville	VA	2,936	26,422	472		2,976	26,853	29,830	7,747	6/17/1994	1991
Charlottsville	VA	641	7,637	60		305	8,034	8,339	234	11/19/2004	1998
Chesapeake	VA	160	1,498	170		160	1,668	1,828	123	5/30/2003	1987
Fredericksburg	VA	287	8,480	385		287	8,865	9,152	810	10/25/2002	1998
Midlothian	VA	1,103	13,133	28		1,103	13,161	14,263	400	11/19/2004	1996
Newport News	VA	581	6,924	13		581	6,937	7,518	211	11/19/2004	1998
Poquoson	VA	220	2,041	85		220	2,126	2,346	160	5/30/2003	1987
Richmond	VA	134	3,191	208		134	3,399	3,533	307	10/25/2002	1998
Richmond	VA	732	8,721	37		732	8,758	9,490	266	11/19/2004	1999
Virginia Beach	VA	881	7,926	140		893	8,055	8,947	2,340	5/16/1994	1990
Williamsburg	VA	270	2,468	219		270	2,687	2,957	189	5/30/2003	1987

Location	State	Initial Cost to Company Land	Initial Cost to Company Building and Equipment	Costs Capitalized Subsequent to Acquisition	Impairment	Cost amount Carried at Close of Period 12/31/05 Land	Cost amount Carried at Close of Period 12/31/05 Building and Equipment	(1) Total	(2) Accumulated Depreciation	(3) Date Acquired	Original Construction Date
Seattle	WA	256	4,869	68		256	4,936	5,193	1,853	11/1/1993	1964
Brookfield	WI	834	3,849	8,476	(6,552)	832	5,774	6,607	1,597	12/28/1990	1964
Clintonville	WI	49	1,625	232		30	1,876	1,906	732	12/28/1990	1965
Clintonville	WI	14	1,695	289		14	1,984	1,998	740	12/28/1990	1960
Madison	WI	144	1,633	477		144	2,110	2,254	743	12/28/1990	1920
Milwaukee	WI	277	3,883	(625)	(1,762)	277	1,496	1,773	(0)	3/27/1992	1969
Pewaukee	WI	984	2,432	389		984	2,820	3,805	1,034	9/10/1998	1963
Waukesha	WI	68	3,452	2,543		68	5,994	6,063	2,096	12/28/1990	1958
Laramie	WY	191	3,632	478		191	4,109	4,301	1,475	12/30/1993	1964
Worland	WY	132	2,503	860		132	3,364	3,495	1,134	12/30/1993	1970
Total		$ 181,645	$ 1,459,434	$ 77,824	$ (32,734)	$ 185,819	$ 1,500,350	$ 1,686,169	$ 239,031		

(1) Aggregate cost for federal income tax purposes is approximately $1.86 billion.

(2) Depreciation is provided on buildings and improvements for periods ranging up to 40 years and on equipment up to 12 years.

(3) Includes acquisition dates of HRPT Properties Trust, our predecessor.

(4) These properties are subject to our $6.4 million of capital leases.

(5) These properties are collateral for our $46.1 million of mortgage notes.

(6) This property is collateral for our $14.7 million of mortgage bonds.

Analysis of the carrying amount of real estate and equipment and accumulated depreciation during the period:

	Real Estate and Equipment	Accumulated Depreciation
Balance at December 31, 2002	$ 1,238,487	$ 125,039
Additions	181,542	35,728
Disposals	(1,788)	(341)
Balance at December 31, 2003	$ 1,418,241	$ 160,426
Additions	187,887	39,301
Disposals	(5,176)	(495)
Balance at December 31, 2004	$ 1,600,952	$ 199,232
Additions	97,480	43,694
Disposals	(8,861)	(2,255)
Impairment	(3,402)	(1,640)
Balance at December 31, 2005	$ 1,686,169	$ 239,031

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SENIOR HOUSING PROPERTIES TRUST

By: /s/ David J. Hegarty
David J. Hegarty
President and Chief Operating Officer
Dated: February 2, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David J. Hegarty David J. Hegarty	President and Chief Operating Officer	February 2, 2007
/s/ John R. Hoadley John R. Hoadley	Treasurer and Chief Financial Officer (principal financial officer and principal accounting officer)	February 2, 2007
/s/ Frank J. Bailey Frank J. Bailey	Trustee	February 2, 2007
/s/ John L. Harrington John L. Harrington	Trustee	February 2, 2007
/s/ Gerard M. Martin Gerard M. Martin	Trustee	February 2, 2007
/s/ Barry Portnoy Barry Portnoy	Trustee	February 2, 2007
/s/ Frederick N. Zeytoonjian Frederick N. Zeytoonjian	Trustee	February 2, 2007