

FIVE STAR QUALITY CARE INC

Form 10-Q

October 28, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

Commission File Number 001-16817

FIVE STAR QUALITY CARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Incorporation)

04-3516029
(IRS Employer Identification No.)

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400 Centre Street, Newton, Massachusetts 02458

(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code): **617-796-8387**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Number of registrant's shares of common stock, \$.01 par value, outstanding as of October 27, 2011: 47,557,362.

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FORM 10-Q

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As used herein the terms "we", "us", "our" and "Five Star" include Five Star Quality Care, Inc. and its consolidated subsidiaries unless otherwise expressly stated or the context otherwise requires.

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FIVE STAR QUALITY CARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except share data)
(unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,946	\$ 20,770
Accounts receivable, net of allowance of \$5,761 and \$5,224 at September 30, 2011 and December 31, 2010, respectively	59,972	64,806
Investments in available for sale securities, of which \$6,012 and \$1,022 are restricted as of September 30, 2011 and December 31, 2010, respectively	17,283	13,854
Restricted cash	5,171	6,594
Prepaid expenses and other current assets	21,001	17,084
Assets of discontinued operations	8,812	12,857
Total current assets	154,185	135,965
Property and equipment, net	353,639	201,223
Equity investment in Affiliates Insurance Company	5,245	5,076
Restricted cash	4,306	14,535
Restricted investments in available for sale securities	12,987	3,259
Goodwill and other intangible assets	15,383	15,722
Other long term assets	3,334	4,014
	\$ 549,079	\$ 379,794
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 21,512	\$ 20,356
Accrued expenses	27,433	21,449
Accrued compensation and benefits	44,091	37,783
Due to related persons	16,306	17,841
Mortgage notes payable	1,012	
Bridge loan from Senior Housing Properties Trust	48,000	
Accrued real estate taxes	14,833	9,258
Security deposit liability	10,677	10,783
Other current liabilities	15,477	11,563
Liabilities of discontinued operations	8,854	8,878
Total current liabilities	208,195	137,911

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Long term liabilities:

Mortgage notes payable	38,977	
Convertible senior notes	37,282	37,905
Continuing care contracts	2,068	2,247
Accrued self insurance obligations	27,074	27,928
Other long term liabilities	7,715	9,036
Total long term liabilities	113,116	77,116

Commitments and contingencies

Shareholders' equity:

Common stock, par value \$.01; 47,557,362 and 36,019,864 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	476	360
Additional paid in capital	352,501	297,715
Accumulated deficit	(129,983)	(138,783)
Cumulative other comprehensive income	4,774	5,475
Total shareholders' equity	227,768	164,767
	\$ 549,079	\$ 379,794

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Senior living revenue	\$ 275,605	\$ 259,767	\$ 803,647	\$ 770,729
Rehabilitation hospital revenue	26,273	24,756	78,235	73,917
Institutional pharmacy revenue	18,914	20,280	57,824	59,770
Management fee revenue	359		383	
Reimbursed costs incurred on behalf of managed communities	8,324		8,887	
Total revenues	329,475	304,803	948,976	904,416
Operating expenses:				
Senior living wages and benefits	136,135	129,071	398,975	382,095
Other senior living operating expenses	68,669	62,487	193,123	182,791
Costs incurred on behalf of managed communities	8,324		8,887	
Rehabilitation hospital expenses	23,300	22,579	70,798	68,196
Institutional pharmacy expenses	18,472	19,717	56,003	58,223
Rent expense	50,140	47,176	145,480	140,809
General and administrative	14,418	13,751	42,242	40,975
Depreciation and amortization	5,858	4,047	14,779	11,872
Total operating expenses	325,316	298,828	930,287	884,961
Operating income	4,159	5,975	18,689	19,455
Interest, dividend and other income	368	321	1,017	1,621
Interest and other expense	(1,034)	(578)	(2,405)	(2,050)
Acquisition related costs	(226)		(1,530)	
Gain on investments in trading securities				4,856
Loss on UBS put right related to auction rate securities				(4,714)
Equity in income (losses) of Affiliates Insurance Company	28	35	111	(17)
Gain on early extinguishment of debt		66	1	484
Gain on sale of available for sale securities	529		656	
Income from continuing operations before income taxes	3,824	5,819	16,539	19,635
(Provision) benefit for income taxes	(186)	123	(1,006)	(930)
Income from continuing operations	3,638	5,942	15,533	18,705
Loss from discontinued operations	(4,166)	(784)	(6,733)	(1,309)
Net income (loss)	\$ (528)	\$ 5,158	\$ 8,800	\$ 17,396
Weighted average shares outstanding - basic	47,557	35,724	40,294	35,698

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Weighted average shares outstanding - diluted	47,557	38,937	43,169	39,302
Basic income (loss) per share from:				
Continuing operations	\$ 0.08	\$ 0.17	\$ 0.39	\$ 0.52
Discontinued operations	(0.09)	(0.02)	(0.17)	(0.03)
Net income (loss) per share - basic	\$ (0.01)	\$ 0.15	\$ 0.22	\$ 0.49
Diluted income (loss) per share from:				
Continuing operations	\$ 0.08	\$ 0.16	\$ 0.38	\$ 0.51
Discontinued operations	(0.09)	(0.02)	(0.16)	(0.03)
Net income (loss) per share - diluted	\$ (0.01)	\$ 0.14	\$ 0.22	\$ 0.48

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	Nine months ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 8,800	\$ 17,396
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	14,779	11,872
Gain on early extinguishment of debt	(1)	(484)
Loss from discontinued operations	6,733	1,309
Gain on investments in trading securities		(4,856)
Loss on UBS put right related to auction rate securities		4,714
Gain on sale of available for sale securities	(656)	
Equity in (income) losses of Affiliates Insurance Company	(111)	17
Stock-based compensation	949	514
Provision for losses on receivables	5,536	(6)
Changes in assets and liabilities:		
Accounts receivable	(662)	(1,068)
Prepaid expenses and other assets	(2,760)	1,243
Investment securities		74,425
Accounts payable and accrued expenses	6,975	(11,248)
Accrued compensation and benefits	6,308	10,205
Due to related persons	(1,535)	105
Other current and long term liabilities	5,400	5,838
Net cash provided by operating activities	49,755	109,976
Net cash used in discontinued operations	(2,703)	(597)
Cash flows from investing activities:		
Acquisition of property and equipment	(45,005)	(37,127)
Acquisition of senior living communities, net of working capital assumed	(107,165)	(13,232)
Payments from restricted cash and investment accounts, net	(3,117)	(32)
Investment in Affiliates Insurance Company		(75)
Proceeds from disposition of property and equipment held for sale	25,877	23,768
Proceeds from sale of available for sale securities	2,504	514
Net cash used in investing activities	(126,906)	(26,184)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	53,953	
Proceeds from borrowings on credit facilities	12,000	10,649
Repayments of borrowings on credit facilities	(12,000)	(49,790)
Proceeds from borrowing on the Bridge loan from Senior Housing Properties Trust	80,000	
Repayments of borrowing on the Bridge loan from Senior Housing Properties Trust	(32,000)	
Purchase and retirement of convertible senior notes	(623)	(7,778)
Repayments of mortgage notes payable	(300)	(4,584)
Net cash provided by (used in) financing activities	101,030	(51,503)

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Change in cash and cash equivalents during the period		21,176		31,692
Cash and cash equivalents at beginning of period		20,770		5,017
Cash and cash equivalents at end of period	\$	41,946	\$	36,709
Supplemental cash flow information:				
Cash paid for interest	\$	1,454	\$	1,527
Cash paid for income taxes	\$	1,257	\$	987
Non-cash activities:				
Issuance of common stock	\$	298	\$	174
Real estate acquisition	\$	(40,289)	\$	
Assumption of mortgage notes payable	\$	40,289	\$	

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share data)

(unaudited)

Note 1. Basis of Presentation and Organization

The accompanying condensed consolidated financial statements of Five Star Quality Care, Inc. and its subsidiaries, which we refer to as the Company, we, us or our, are unaudited. Certain information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying financial statements should be read in conjunction with the financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2010, or our Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. All material intercompany transactions and balances have been eliminated. Our operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. For discussion of our liquidity and capital resources see Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q.

We operate and manage senior living communities, including independent living communities, assisted living communities and skilled nursing facilities, or SNFs. As of September 30, 2011, we operated and managed 236 senior living communities containing 25,181 living units, including 198 primarily independent and assisted living communities with 21,758 living units and 38 SNFs with 3,423 living units. We own and operate 31 communities (2,954 living units), we lease and operate 191 communities (20,811 living units) and we manage 14 communities (1,416 living units). Our 236 senior living communities included 7,263 independent living apartments, 12,535 assisted living suites and 5,383 skilled nursing units. Two SNFs owned and operated by us containing 271 living units and one assisted living community leased from Senior Housing Properties Trust, or SNH, and operated by us containing 103 living units that we have classified as discontinued operations are excluded from all the preceding data in this paragraph.

We also lease and operate two rehabilitation hospitals with 321 beds that provide inpatient rehabilitation services to patients at the two hospitals and at three satellite locations. In addition, we lease and operate 13 outpatient clinics affiliated with these rehabilitation hospitals. We also own and operate five institutional pharmacies.

Note 2. Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board issued an accounting standards update requiring healthcare entities to change the presentation of their statements of operations by reclassifying any provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. The update also requires enhanced disclosure about policies for recognizing revenue and assessing bad debts. The update is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this update is not expected to cause any material changes to our condensed consolidated financial statements.

Note 3. Property and Equipment

Property and equipment, at cost, consists of the following:

	September 30, 2011	December 31, 2010
Land	\$ 21,849	\$ 14,254
Buildings and improvements	284,609	155,552
Furniture, fixtures and equipment	100,212	71,225
	406,670	241,031
Accumulated depreciation	(53,031)	(39,808)
	\$ 353,639	\$ 201,223

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As of September 30, 2011 and December 31, 2010, we had assets of \$4,722 and \$7,752, respectively, included in our property and equipment that we intend to sell to SNH for increased rent pursuant to the terms of our leases with SNH; however, we are not obligated to make these sales and SNH is not obligated to purchase the property and equipment.

Note 4. Other Comprehensive Income

Other comprehensive income for the three and nine months ended September 30, 2011 and 2010 is summarized below:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income (loss)	\$ (528)	\$ 5,158	\$ 8,800	\$ 17,396
Net change in unrealized appreciation of investments	(1,435)	1,593	(759)	2,114
Our share of Affiliates Insurance Company's other comprehensive income	15		58	
Comprehensive income (loss)	\$ (1,948)	\$ 6,751	\$ 8,099	\$ 19,510

Cumulative other comprehensive income represents the net unrealized appreciation of investments and our share of Affiliates Insurance Company's, or AIC's, (see Note 14), other comprehensive income.

Note 5. Financial Data by Segment

Our reportable segments consist of our senior living community business and our rehabilitation hospital business. In the senior living community segment we operate for our own account, manage for the account of SNH and manage for the account of an unaffiliated third party, independent living communities, assisted living communities and SNFs that are subject to centralized oversight and provide housing and services generally to elderly residents. Our rehabilitation hospital segment provides inpatient rehabilitation services to patients at two hospital locations and at three satellite locations and outpatient rehabilitation services at 13 affiliated outpatient clinics. We do not consider our institutional pharmacy operations to be a material, separately reportable segment of our business. Consequently, we report our institutional pharmacy revenues and expenses as separate items within our corporate and other activities. All of our operations and assets are located in the United States, except for the operations of our captive insurance company, which participates in our workers' compensation, liability and automobile insurance programs and which operates in the Cayman Islands.

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We use segment operating profit as a means to evaluate our performance and for our business decision making purposes. Segment operating profit excludes interest, dividend and other income, interest and other expense, and corporate expenses.

Our revenues by segments and a reconciliation of segment operating profit (loss) to income from continuing operations for the three and nine months ended September 30, 2011 and 2010 are as follows:

	Senior Living Communities	Rehabilitation Hospitals	Corporate and Other(1)	Total
Three months ended September 30, 2011				
Revenues	\$ 275,605	\$ 26,273	\$ 18,914	\$ 320,792
Management fee revenue	359			359
Reimbursed costs incurred on behalf of managed communities	8,324			8,324
Total segment revenues	284,288	26,273	18,914	329,475
Segment expenses:				
Operating expenses	204,804	23,300	18,472	246,576
Costs incurred on behalf of managed communities	8,324			8,324
Rent expense	47,543	2,597		50,140
Depreciation and amortization	4,923	46	889	5,858
Total segment expenses	265,594	25,943	19,361	310,898
Segment operating profit	18,694	330	(447)	18,577
General and administrative expenses(2)			(14,418)	(14,418)
Operating income (loss)	18,694	330	(14,865)	4,159
Interest, dividend and other income	19		349	368
Interest and other expense	(294)		(740)	(1,034)
Acquisition related costs			(226)	(226)
Equity in income of Affiliates Insurance Company			28	28
Gain on sale of available for sale securities			529	529
Provision for income taxes			(186)	(186)
Income (loss) from continuing operations	\$ 18,419	\$ 330	\$ (15,111)	\$ 3,638
Total Assets as of September 30, 2011	\$ 454,938	\$ 14,104	\$ 80,037	\$ 549,079

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share data)

(unaudited)

	Senior Living Communities	Rehabilitation Hospitals	Corporate and Other(1)	Total
Three months ended September 30, 2010				
Revenues	\$ 259,767	\$ 24,756	\$ 20,280	\$ 304,803
Segment expenses:				
Operating expenses	191,558	22,579	19,717	233,854
Rent expense	44,635	2,541		47,176
Depreciation and amortization	3,156	35	856	4,047
Total segment expenses	239,349	25,155	20,573	285,077
Segment operating profit (loss)	20,418	(399)	(293)	19,726
General and administrative expenses(2)			(13,751)	(13,751)
Operating profit (loss)	20,418	(399)	(14,044)	5,975
Interest, dividend and other income	21		300	321
Interest and other expense	(29)		(549)	(578)
Equity in income of Affiliates Insurance Company			35	35
Gain on early extinguishment of debt			66	66
Benefit for income taxes			123	123
Income (loss) from continuing operations	\$ 20,410	\$ (399)	\$ (14,069)	\$ 5,942

	Senior Living Communities	Rehabilitation Hospitals	Corporate and Other(1)	Total
Nine months ended September 30, 2011				
Revenues	\$ 803,647	\$ 78,235	\$ 57,824	\$ 939,706
Management fee revenue	383			383
Reimbursed costs incurred on behalf of managed communities	8,887			8,887
Total segment revenues	812,917	78,235	57,824	948,976
Segment expenses:				
Operating expenses	592,098	70,798	56,003	718,899
Costs incurred on behalf of managed communities	8,887			8,887
Rent expense	137,722	7,758		145,480
Depreciation and amortization	12,159	132	2,488	14,779
Total segment expenses	750,866	78,688	58,491	888,045
Segment operating profit (loss)	62,051	(453)	(667)	60,931
General and administrative expenses(2)			(42,242)	(42,242)
Operating income (loss)	62,051	(453)	(42,909)	18,689
Interest, dividend and other income	100		917	1,017
Interest and other expense	(509)		(1,896)	(2,405)
Acquisition related costs			(1,530)	(1,530)

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Equity in income of Affiliates Insurance Company				111		111
Gain on early extinguishment of debt				1		1
Gain on sale of available for sale securities				656		656
Provision for income taxes				(1,006)		(1,006)
Income (loss) from continuing operations	\$	61,642	\$	(453)	\$	15,533

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share data)

(unaudited)

	Senior Living Communities	Rehabilitation Hospitals	Corporate and Other(1)	Total
Nine months ended September 30, 2010				
Revenues	\$ 770,729	\$ 73,917	\$ 59,770	\$ 904,416
Segment expenses:				
Operating expenses	564,886	68,196	58,223	691,305
Rent expense	133,373	7,436		140,809
Depreciation and amortization	9,028	97	2,747	11,872
Total segment expenses	707,287	75,729	60,970	843,986
Segment operating profit (loss)	63,442	(1,812)	(1,200)	60,430
General and administrative expenses(2)			(40,975)	(40,975)
Operating profit (loss)	63,442	(1,812)	(42,175)	19,455
Interest, dividend and other income	174		1,447	1,621
Interest and other expense	(199)		(1,851)	(2,050)
Gain on investments in trading securities			4,856	4,856
Loss on UBS put right related to auction rate securities			(4,714)	(4,714)
Equity in losses of Affiliates Insurance Company			(17)	(17)
Gain on early extinguishment of debt			484	484
Provision for income taxes			(930)	(930)
Income (loss) from continuing operations	\$ 63,417	\$ (1,812)	\$ (42,900)	\$ 18,705

(1) Corporate and Other includes operations that we do not consider a material, separately reportable segment of our business and income and expenses that are not attributable to a reportable specific segment.

(2) General and administrative expenses are not attributable to a reportable specific segment and include items such as corporate payroll and benefits and expenses of our home office activities.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share data)

(unaudited)

Note 6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill and other intangible assets from January 1, 2011 to September 30, 2011 are as follows:

	Senior Living Communities(1)	Corporate and Other(2)	Total
Balance as of January 1, 2011	\$ 11,695	\$ 4,027	\$ 15,722
Amortization of intangibles	(68)	(271)	(339)
Balance as of September 30, 2011	\$ 11,627	\$ 3,756	\$ 15,383

(1) Goodwill and other intangible assets in our Senior Living Communities segment relate to management agreements and trademarks we acquired in connection with one of the leases we initiated with SNH in 2009 and goodwill we recorded in connection with our senior living community acquisitions in previous years.

(2) Intangible assets in our Corporate and Other segment relate to customer agreements we acquired in connection with our pharmacy acquisitions.

Note 7. Income Taxes

We do not currently recognize the benefit of all of our deferred tax assets, including tax loss carry forwards that may be used to offset future taxable income because we currently do not believe that it is more likely than not that we will realize such benefit. In measuring our deferred tax assets, we considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed for all or a portion of the deferred tax assets. Judgment is required in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is unnecessary. In order to realize these deferred tax assets, we need future taxable income. We believe that our history of losses coupled with the uncertainties surrounding the current changes to the healthcare industry and our recently declining occupancy rates is sufficient evidence for these purposes that realization of the necessary future taxable income is not more likely than not. As a result, we believe a full valuation allowance against our deferred tax assets is required. When we believe that we will more likely than not realize the benefit of our deferred tax assets, we will record deferred tax assets as an income tax benefit in our consolidated statement of

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operations, which will affect our results of operations. As of December 31, 2010, our federal net operating loss carry forward, which begins to expire in 2025 if unused, was approximately \$107,507, and our tax credit carry forward, which begins to expire in 2022 if unused, was approximately \$5,315. Our net operating loss carry forwards and tax credit carry forwards are subject to audit and adjustments by the Internal Revenue Service.

For the nine months ended September 30, 2011, we recognized tax expenses of \$1,006, which includes tax expense of \$892 for state taxes on operating income that are payable without regard to our tax loss carry forwards. Tax expense also includes \$114 related to a non-cash deferred liability arising from the amortization of goodwill for tax purposes but not for book purposes.

Note 8. Earnings Per Share

We computed basic earnings per share, or EPS, for the three and nine months ended September 30, 2011 and 2010 using the weighted average number of shares outstanding during the periods. Diluted EPS for the periods ended September 30, 2011 and 2010 reflects additional shares of our common stock, \$.01 par value per share, or our common shares, related to our convertible senior notes due in 2026, or the Notes, that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income applicable to common shareholders that would result from their assumed issuance. The weighted average shares outstanding used to calculate basic and diluted EPS include 485,720 and 435,090 unvested common shares as of September 30, 2011 and 2010, respectively, issued to our officers and others under our 2001 Stock Option and Stock Plan.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share data)

(unaudited)

The following table provides a reconciliation of income from continuing operations and loss from discontinued operations and the number of common shares used in the computations of diluted EPS:

	Three Months Ended September 30,					
	2011			2010		
	Income (loss)	Shares	Per Share	Income (loss)	Shares	Per Share
Income from continuing operations	\$ 3,638	47,557,362	\$ 0.08	\$ 5,942	35,723,814	\$ 0.17
Effect of the Notes				380	3,212,985	
Diluted income from continuing operations	\$ 3,638	47,557,362	\$ 0.08	\$ 6,322	38,936,799	\$ 0.16
Diluted loss from discontinued operations	\$ (4,166)	47,557,362	\$ (0.09)	\$ (784)	38,936,799	\$ (0.02)

	Nine Months Ended September 30,					
	2011			2010		
	Income (loss)	Shares	Per Share	Income (loss)	Shares	Per Share
Income from continuing operations	\$ 15,533	40,294,221	\$ 0.39	\$ 18,705	35,697,624	\$ 0.52
Effect of the Notes	1,007	2,874,868		1,266	3,604,788	
Diluted income from continuing operations	\$ 16,540	43,169,089	\$ 0.38	\$ 19,971	39,302,412	\$ 0.51
Diluted loss from discontinued operations	\$ (6,733)	43,169,089	\$ (0.16)	\$ (1,309)	39,302,412	\$ (0.03)

Note 9. Fair Values of Assets and Liabilities

The following table presents the assets and liabilities measured at fair value at September 30, 2011, categorized by the level of inputs used in the valuation of each asset:

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long lived assets held for sale (1)	\$ 4,722	\$	\$ 4,722	\$

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Available for sale securities (2)

Equity securities					
Financial services industry	7,512		7,512		
REIT industry	3,190		3,190		
Insurance industry	1,037		1,037		
Other	1,326		1,326		
Total equity securities	13,065		13,065		
Debt securities					
International bond fund	2,225		2,225		
Industrial bonds	7,499		7,499		
Government bonds	5,520		5,520		
Financial bonds	1,086		1,086		
Other	875		875		
Total debt securities	17,205		17,205		
Total available for sale securities	30,270		30,270		
Total	\$ 34,992	\$	30,270	\$	4,722 \$

(1) Long lived assets held for sale consist of property and equipment we intend to sell to SNH for increased rent pursuant to the terms of our leases with SNH; however, we are not obligated to make these sales and SNH is not obligated to purchase the property and equipment. We have either recently acquired the assets or the assets are part of active construction projects and we expect that any sale of these assets to SNH would be for an amount equal to their recorded cost. Accordingly, the cost of these assets approximates their fair value.

(2) Investments in available for sale securities are reported on our balance sheet as current and long term investments in available for sale securities and are carried as of September 30, 2011, at fair value, as of that date, of \$17,283 and \$12,987, respectively. We determine the estimated fair value of our available for sale securities by reviewing each security's current market price, the ratings of the security, the financial condition of the issuer and our intent and ability to retain the investment during temporary market price fluctuations or until maturity. In evaluating the factors described above, we presume a decline in value to be an other than temporary impairment if the quoted market price of the security is below the security's cost basis for an extended period. However, this presumption may be overcome if there is persuasive evidence indicating the value decline is temporary in nature, such as when the operating performance of the obligor is strong or if the market price of the security is historically volatile. When we believe that a change in fair value of an available for sale security is temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains or losses. When we determine that an impairment in the fair value of an available for sale security is an other than temporary impairment, we record a charge to earnings.

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Our investments in available for sale securities with amortized costs of \$25,552 and \$11,638 as of September 30, 2011 and December 31, 2010, respectively, had unrealized gains of \$4,842 and \$5,515 as of September 30, 2011 and December 31, 2010, respectively, and had unrealized losses of \$124 and \$40 as of September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, ten of the securities we hold, with a total carrying value of \$5,309, have been in a loss position for one to six months. Since these securities have not been in a loss period for an extended period of time, we do not believe these securities are impaired. During the three months ended September 30, 2011, we received proceeds of \$1,225 in connection with the sale of available for sale securities and recorded a realized gain totaling \$529.

During the nine months ended September 30, 2011, we did not change the type of inputs used to determine the fair value of any of our assets and liabilities that we measure at fair value. Accordingly, there were no transfers of assets or liabilities between levels of the fair value hierarchy during the period ended September 30, 2011.

The carrying values of accounts receivable, acquisition deposits, the equity investment in AIC and our mortgage notes payable approximate fair value as of September 30, 2011 and December 31, 2010. The carrying value and fair value of the Notes was \$37,282 and \$35,045, respectively, as of September 30, 2011, and \$37,905 and \$35,631, respectively, as of December 31, 2010. We estimate the fair value of the Notes using quoted market data for these securities. We measured the fair value of our equity investment in AIC by considering, among other things, the individual assets and liabilities held by AIC, AIC's overall financial condition and earning trends, and the financial condition and prospects for the insurance industry generally.

Note 10. Acquisitions

In May 2011, we agreed to purchase the majority of the assets of six senior living communities located in Indiana, or the Indiana Communities, containing 738 living units for an aggregate purchase price, excluding closing costs, of \$122,760. The Indiana Communities primarily offer independent and assisted living services, which are primarily paid by residents from their private resources. In June 2011, we completed our acquisitions of the majority of the assets of two of these Indiana Communities containing 197 living units for an aggregate purchase price, excluding closing costs, of \$40,360 and funded the acquisitions with proceeds of a bridge loan, or the Bridge Loan, from SNH (see Note 11) and the assumption of net working capital liabilities of those two Indiana Communities. In July 2011, we completed our acquisition of the majority of the assets of an additional Indiana Community containing 151 living units for a purchase price, excluding closing costs, of \$30,400 and funded the acquisition with a portion of the proceeds of a public offering of our common shares, or the Public Offering, (see Note 12), by borrowing an additional \$15,000 under the Bridge Loan and by assuming net working capital liabilities of that Indiana Community. In September 2011, we completed our acquisitions of the majority of the assets of the remaining three Indiana Communities containing 390 living units for an

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aggregate purchase price, excluding closing costs, of \$52,000. We funded these acquisitions with \$24,000 of borrowings under the Bridge Loan, by assuming approximately \$19,260 of mortgage notes secured by these three Indiana Communities, by assuming net working capital liabilities of those three Indiana Communities and with cash on hand, including a portion of the proceeds of the Public Offering. We recorded the acquired land, building and equipment of these Indiana Communities at estimated fair value.

For the nine months ended September 30, 2011, we incurred \$1,530 in acquisition related costs. These costs include transaction closing costs, professional fees (legal and accounting) and other acquisition related expenses for completed transactions.

Note 11. Indebtedness

We have a \$35,000 revolving secured line of credit, or our Credit Agreement, that matures on March 18, 2013 when all amounts outstanding under that agreement are due. Borrowings under our Credit Agreement are available for acquisitions, working capital and general business purposes. Funds available under our Credit Agreement may be drawn, repaid and redrawn until maturity and no principal payment is due until maturity. We borrow in U.S. dollars and borrowings under our Credit Agreement bear interest at LIBOR (with a floor of 2% per annum) plus 400 basis points, or 6% as of September 30, 2011. We are the borrower under our Credit Agreement and certain of our subsidiaries guarantee our obligations under our Credit Agreement, which is secured by our and our guarantor subsidiaries' accounts receivable and related collateral. Our Credit Agreement contains covenants requiring us to maintain certain financial ratios, places limits on our ability to incur or assume debt or create liens with respect to certain of our properties and has other customary provisions. Our Credit Agreement also provides for acceleration of payment of all amounts due thereunder or upon the occurrence and continuation of certain events of default. As of September 30, 2011, no amounts were outstanding under our Credit Agreement. As of September 30, 2011, we believe we are in compliance with all applicable covenants under our Credit Agreement. We incurred interest expense and other associated costs related to our Credit Agreement of \$185 and \$137 for the three months ended September 30, 2011 and 2010, respectively, and \$548 and \$355 for the nine months ended September 30, 2011 and 2010, respectively.

In May 2011, we and SNH entered into a Bridge Loan agreement, under which SNH agreed to lend us up to \$80,000 to fund a part of the purchase price for the acquisitions of the majority of the assets of the Indiana Communities described above. In June 2011, we completed our acquisitions of the majority of the assets of two of the Indiana Communities and, in connection with the acquisitions, borrowed \$41,000 under the Bridge Loan. We subsequently repaid \$32,000 of this advance in June 2011 with proceeds from the Public Offering. We borrowed an additional \$39,000 under the Bridge Loan in connection with our acquisitions of the majority of the assets of the remaining four Indiana Communities. No additional amounts are available for borrowing by us under the Bridge Loan. The Bridge Loan is secured by mortgages on seven of our senior living communities. The Bridge Loan matures on July 1, 2012 and bears interest at a rate equal to the annual rates of interest applicable to SNH's borrowings under its revolving credit facility, plus 1%. As of September 30, 2011, the interest rate was 2.8% under the Bridge Loan. The Bridge Loan agreement contains various covenants, including restrictions on our ability to incur liens upon or dispose of the collateral securing the Bridge Loan. The Bridge Loan agreement also contains events of default including non-payment, a change in control of us and certain events of insolvency, as determined under the Bridge Loan. As of September 30, 2011, an aggregate principal amount of \$48,000 was outstanding under the Bridge Loan. As of September 30, 2011, we believe we are in compliance with all applicable covenants in the Bridge

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Loan agreement. We incurred interest expense and other associated costs related to the Bridge Loan of \$187 and \$245 for the three and nine months ended September 30, 2011, respectively.

On July 1, 2010 we repaid our outstanding balance and terminated our non-recourse credit facility with UBS AG, or UBS. Interest expense and other associated costs related to this facility was \$0 for the three months ended September 30, 2011 and 2010, respectively, and \$0 and \$149 for the nine months ended September 30, 2011 and 2010, respectively.

In October 2006, we issued \$126,500 principal amount of the Notes. Our net proceeds from this issuance were approximately \$122,600. The Notes bear interest at a rate of 3.75% per annum and are convertible at the election of the holders of the Notes into our common shares at any time. The initial and current conversion rate, which is subject to

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adjustment, is 76.9231 common shares per \$1 principal amount of the Notes, which represents a conversion price of \$13.00 per share. The Notes are guaranteed by certain of our wholly owned subsidiaries. The Notes mature on October 15, 2026. We may prepay the Notes at any time after October 20, 2011 and the holders may require that we purchase all or a portion of these Notes on each of October 15 of 2013, 2016 and 2021. If a fundamental change, as defined in the indenture governing the Notes, occurs, holders of the Notes may require us to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest and, in certain circumstances, plus a make whole premium as defined in the indenture governing the Notes. We incurred interest expense and other associated costs related to the Notes of \$366 and \$412 for the three months ended September 30, 2011 and 2010, respectively, and \$1,102 and \$1,346 for the nine months ended September 30, 2011 and 2010, respectively. We issued these Notes pursuant to an indenture, which contains various customary covenants. As of September 30, 2011, we believe we are in compliance with all applicable covenants of this indenture.

During the nine months ended September 30, 2011, we purchased and retired \$623 par value of the outstanding Notes and recorded a gain of \$1, net of related unamortized costs, on early extinguishment of debt. We funded these purchases principally with available cash. As a result of these purchases and other purchases we made in prior years, \$37,282 in principal amount of the Notes remain outstanding.

As of September 30, 2011, two of our communities, which are included in discontinued operations, were encumbered by United States Department of Housing and Urban Development, or HUD, insured mortgage notes, one of our communities was encumbered by a Federal National Mortgage Association, or FNMA, mortgage note, and three of our communities were encumbered by Federal Home Loan Mortgage Corporation, or FMCC, mortgage notes, totaling \$47,713. These mortgages contain HUD, FNMA and FMCC standard mortgage covenants. We recorded a mortgage premium in connection with our assumption of the FNMA and FMCC mortgage notes in order to record the assumed mortgage notes at their estimated fair value. We are amortizing the mortgage premiums as a reduction of interest expense until the maturity of the respective mortgage notes. The weighted average interest rate on these notes was 6.69% as of September 30, 2011. Payments of principal and interest are due monthly until maturities at varying dates ranging from June 2023 to May 2039. We incurred mortgage interest expense, including premium amortization, of \$405 and \$141 for the three months ended September 30, 2011 and 2010, respectively, and \$842 and \$538 for the nine months ended September 30, 2011 and 2010, respectively, including interest expense recorded in discontinued operations. As of September 30, 2011, we believe we are in compliance with all applicable covenants under these mortgages.

Note 12. Shareholders' Equity

In June 2011, we issued 11,500,000 of our common shares in the Public Offering, raising net proceeds of approximately \$53,953. We used proceeds from the Public Offering to repay outstanding borrowings under the Bridge Loan and to fund a portion of the cash purchase price of the Indiana Communities described above.

Note 13. Off Balance Sheet Arrangements

As of September 30, 2011, we had no off balance sheet arrangements that have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, except for the pledge of certain of our assets, such as accounts receivable, with a carrying value of \$19,536 arising from our operation of 56 properties owned by SNH and leased to us which secures SNH's borrowings from its lender, FNMA.

Note 14. Related Person Transactions

SNH is our former parent company and our largest landlord, and we manage senior living communities for SNH. SNH is also our largest stockholder and, as of the date of this report, SNH owned 4,235,000 of our common shares which represent approximately 8.9% of our outstanding common shares. As of September 30, 2011, we leased 187 senior living communities and two rehabilitation hospitals from SNH and managed 13 senior living communities for the

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account of SNH. Under our leases with SNH, we generally pay SNH rent based on minimum annual rent amounts plus percentage rent based on increases in gross revenues at certain properties.

In March 2011, SNH agreed to acquire, from an unrelated party, 20 senior living communities with 2,111 living units located in five states in the southeastern United States. These senior living communities primarily offer independent and assisted living services, which are primarily paid by residents from their private resources. On May 12, 2011, we entered into long term contracts with SNH to manage 15 of these communities, or the Managed Communities, and agreed to lease the remaining five communities, or the Leased Communities, when SNH acquired them. As of September 30, 2011, we are leasing the five Leased Communities with 651 living units from SNH and are managing 13 of the Managed Communities with 1,214 living units for SNH's account. Of the remaining two of the 15 Managed Communities, which are not currently owned by SNH, we are currently managing one of those Managed Communities with 67 living units, and we may agree to manage the other Managed Community with 224 living units, for the account of the existing owner, pending SNH's acquisition of those two Managed Communities. SNH's acquisitions of those two remaining Managed Communities are subject to conditions and may not occur. We added the Leased Communities to our existing leases with SNH, which have current terms expiring at varying dates ranging from April 2017 to June 2026. There have been no changes in the terms of our management contracts with SNH for the Managed Communities from those described in our prior reports filed with the Securities and Exchange Commission, or SEC. For the three and nine months ended September 30, 2011, we recorded \$326 and \$351, respectively, in management fee revenue and \$8,008 and \$8,570, respectively, of reimbursed costs incurred in connection with the Managed Communities that we manage on behalf of SNH. Special committees of each of our Board of Directors and SNH's board of trustees composed solely of our Independent Directors and SNH's independent trustees who are not also Directors or trustees of the other party and who were represented by separate counsel reviewed and approved the terms of the management contracts. We expect we may enter into additional similar management arrangements with SNH for additional senior living communities SNH may acquire in the future.

Our total rent expense under all of our leases with SNH was \$144,988 and \$141,214 for the nine months ended September 30, 2011 and 2010, respectively, net of \$659 amortization of a lease inducement from SNH in each period. During the three and nine months ended September 30, 2011, pursuant to the terms of our leases with SNH, we sold \$10,554 and \$25,877, respectively of improvements made to our properties leased from SNH, and, as a result, our annual rent payable to SNH increased by approximately \$845 and \$2,073, respectively. Our total minimum annual rent payable to SNH under our leases with SNH as of September 30, 2011 was \$194,598, excluding percentage rent. Additional information regarding our leases with SNH appears in Item 2 of our Annual Report under the section captioned "Our SNH Leases".

As discussed in Note 11, in May 2011, we and SNH entered into a Bridge Loan agreement, under which SNH agreed to lend us up to \$80,000. As of September 30, 2011, there was \$48,000 aggregate principal amount outstanding under the Bridge Loan. No additional amounts are available for borrowing by us under the Bridge Loan. We recognized interest expense of \$187 and \$245 for the three and nine months ended September 30, 2011, which is included in interest and other expenses on our condensed consolidated statement of operations.

Reit Management & Research LLC, or RMR, provides management services to both us and SNH. One of our Managing Directors, Barry Portnoy, is Chairman and majority owner of RMR and serves as managing trustee of SNH. Our other Managing Director, Gerard Martin, is a

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director of RMR. Our President and Chief Executive Officer, our Treasurer and Chief Financial Officer and our Vice President, General Counsel and Secretary are officers of RMR. Mr. Portnoy's son, Adam Portnoy, is an owner, President, Chief Executive Officer and a director of RMR and serves as a managing trustee of SNH. SNH's executive officers are officers of RMR and SNH's president and chief operating officer is also a director of RMR. Some of our Independent Directors also serve as independent directors or independent trustees of other public companies to which RMR provides management services. Mr. Portnoy serves as a managing director or managing trustee of those companies and his son serves as a managing trustee of a majority of those companies.

RMR provides us with certain business management and shared services under a business management and shared services agreement, or the Business Management Agreement. There have been no changes in the terms of the Business

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Management Agreement from those described in our prior reports filed with the SEC (other than as may be described in those reports). We incurred expenses for these services of approximately \$3,021 and \$2,880 for each of the three months ended September 30, 2011 and 2010, respectively, and \$8,668 and \$8,424 for each of the nine months ended September 30, 2011 and 2010, respectively. These amounts are included in general and administrative expenses in our condensed consolidated statement of operations.

We lease our headquarters from an affiliate of RMR for annual rent of approximately \$730. For more information concerning this lease, please see our Current Report on Form 8-K filed with the SEC on May 13, 2011, which is available at the SEC's website at www.sec.gov. We also lease a regional management office in Atlanta, Georgia from CommonWealth REIT, another company to which RMR provides management services, for annual rent of approximately \$64.

We and the other six current shareholders currently each own approximately 14.29% of AIC's outstanding equity. The other shareholders of AIC are RMR and five other companies, including SNH, to which RMR provides management services. All of our Directors, all of the trustees and directors of the other publicly held AIC shareholders and nearly all of the directors of RMR currently serve on the board of directors of AIC. RMR provides management and administrative services to AIC. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Directors are also directors of AIC. As of September 30, 2011, we have invested approximately \$5,209 in AIC. We may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we are not obligated to do so. Our investment had a carrying value of \$5,245 and \$5,076 as of September 30, 2011 and December 31, 2010, respectively. During the three and nine months ended September 30, 2011 and 2010 we recognized income of \$28 and \$111 and income of \$35 and a loss of \$17, respectively, related to this investment. In 2010, AIC designed a combination property insurance program for us and other AIC shareholders in which AIC participated as a reinsurer. This program was modified and extended in June 2011 for a one year term. Our total premiums under this program for the policy years expiring May 31, 2011 and 2012 were approximately \$2,900 and \$4,500, respectively. The amounts we expensed in relation to those insurance premiums for the nine months ended September 30, 2011 and 2010, were \$2,667 and \$707, respectively, and for the three months ended September 30, 2011 and 2010, were \$1,489 and \$707, respectively. We are currently investigating the possibilities to expand our insurance relationships with AIC to include other types of insurance. By participating in this insurance business with RMR and the other companies to which RMR provides management services, we expect that we may benefit financially by possibly reducing our insurance expenses or by realizing our pro-rata share of any profits of this insurance business.

For more information about these and other relationships among us, our Directors, our executive officers, SNH, RMR, AIC, other companies to which RMR provides management services, and others affiliated with or related to them and about the risks which may arise as a result of those and other related person transactions and relationships, please see elsewhere in this Quarterly Report on Form 10-Q, including "Related Person Transactions" in Part I, Item 2 and "Warning Concerning Forward Looking Statements", and our Annual Report, our Proxy Statement for our 2011 Annual Meeting of Stockholders dated February 23, 2011, or our Proxy Statement and our other filings with the SEC, including the sections captioned "Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Related Person Transactions" and "Warnings Concerning Forward Looking Statements", in our Annual Report, and the information regarding our Directors and executive officers and the section captioned "Related Person Transactions and Company Review of Such Transactions" in our Proxy Statement. In addition, please see the "Risk Factors" section of our Annual Report for a description of risks which may arise from these transactions and relationships. Our filings with the SEC, including our Annual Report and our Proxy Statement, are available at the SEC's website at www.sec.gov. In addition,

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copies of certain of our agreements with these parties are also publicly available as exhibits to our public filings with the SEC and accessible at the SEC's website, including our lease agreements, Bridge Loan agreement and form of management agreement and related pooling agreement we have with SNH and our Business Management Agreement with RMR.

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Note 15. Discontinued Operations

Early in 2011, we decided to offer for sale two SNFs that we own located in Michigan with a total of 271 living units. In March 2011, we agreed to sell these communities but this sale was not completed. In September 2011, we recorded an asset impairment charge of \$3,938 to reduce the carrying value of these two SNFs to their estimated fair value based upon expected sales prices less costs to sell. While we continue to market these properties, we can provide no assurance that a sale of these SNFs will be completed.

In August 2011, we agreed with SNH that it should sell one assisted living community located in Pennsylvania with 103 living units, which we lease from SNH. We and SNH are in the process of selling this assisted living community and, if sold, our annual minimum rent payable to SNH will decrease by 9.0% of the net proceeds of the sale to SNH, in accordance with the terms of our lease with SNH.

We have reclassified the consolidated statement of operations for all periods presented to show the results of operations of the communities which are expected to be sold or have been sold as discontinued. Below is a summary of the operating results of these discontinued operations included in the financial statements for the three and nine months ended September 30, 2011 and 2010:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 6,294	\$ 11,335	\$ 25,208	\$ 36,981
Expenses	(10,460)	(12,119)	(31,941)	(38,290)
Net loss	\$ (4,166)	\$ (784)	\$ (6,733)	\$ (1,309)

Note 16. Unaudited Pro Forma Financial Information

The following table shows operating results attributable to the Indiana Communities we acquired during 2011 that are included in our condensed consolidated statement of operations for the three and nine months ended September 30, 2011.

	Three months	Nine months
Revenues	\$ 3,481	\$ 4,107
Net income	\$ 771	\$ 1,098

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The pro forma financial information in the table below gives effect to the following transactions as if they had occurred as of January 1, 2011 for the 2011 information and as if they had occurred as of January 1, 2010 for the 2010 information: (i) our acquisition of the majority of the assets of the Indiana Communities; (ii) our assumption of \$19,260 of mortgage notes with respect to three of the Indiana Communities; (iii) our net borrowings of \$48,000 under the Bridge Loan in connection with our acquisition of the assets of these Indiana Communities; (iv) our assumption of net working capital liabilities of the Indiana Communities; and (v) the Public Offering. This pro forma financial information includes estimated information for the period September 1, 2011 through our acquisition date of September 29, 2011 for the three Indiana Communities acquired on September 29, 2011 since the actual information is not yet available.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 331,859	\$ 310,100	\$ 961,934	\$ 920,088
Income from continuing operations	3,785	6,560	15,958	20,443
Weighted average shares outstanding - basic	47,557	47,224	47,539	47,198
Weighted average shares outstanding - diluted	47,557	50,437	47,539	50,802
Earnings per share from continuing operations:				
Basic	\$ 0.08	\$ 0.14	\$ 0.34	\$ 0.43
Diluted	\$ 0.08	\$ 0.14	\$ 0.34	\$ 0.43

This pro forma financial information is presented for informational purposes only and is not necessarily indicative of our consolidated operating results that would have been reported had the transactions been completed as described herein, and the pro forma financial information is not necessarily indicative of our consolidated operating results for any future period.

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Our reportable segments consist of our senior living community business and our rehabilitation hospital business. In the senior living community segment we operate for our own account, manage for the account of SNH and manage for the account of an unaffiliated third party, independent living communities, assisted living communities and SNFs that are subject to centralized oversight and provide housing and services generally to elderly residents. Our rehabilitation hospital segment provides inpatient rehabilitation services to patients at two hospital locations and at three satellite locations and outpatient rehabilitation services at 13 affiliated outpatient clinics. We do not consider our institutional pharmacy operations to be a material, separately reportable segment of our business. Consequently, we report our institutional pharmacy revenues and expenses as separate items within our corporate and other activities. All of our operations and assets are located in the United States, except for the operations of our captive insurance company, which participates in our workers' compensation, liability and automobile insurance programs and which operates in the Cayman Islands.

We use segment operating profit as a means to evaluate our performance and for our business decision making purposes. Segment operating profit excludes interest, dividend and other income, interest and other expense, and corporate expenses.

Key Statistical Data For the Three Months Ended September 30, 2011 and 2010:

The following tables present a summary of our operations for the three months ended September 30, 2011 and 2010:

Senior living communities:

(dollars in thousands, except average daily rate)	Three months ended September 30,			
	2011	2010	\$ Change	% Change
Senior living revenue	\$ 275,605	\$ 259,767	\$ 15,838	6.1%
Management fee revenue	359		359	100.0%
Reimbursed costs incurred on behalf of managed communities	8,324		8,324	100.0%
Total revenue	284,288	259,767	24,521	9.4%
Senior living wages and benefits	(136,135)	(129,071)	(7,064)	(5.5)%
Other senior living operating expenses	(68,669)	(62,487)	(6,182)	(9.9)%
Costs incurred on behalf of managed communities	(8,324)		(8,324)	100.0%
Rent expense	(47,543)	(44,635)	(2,908)	(6.5)%
Depreciation and amortization expense	(4,923)	(3,156)	(1,767)	(56.0)%
Interest and other expense	(294)	(29)	(265)	(913.8)%
Interest, dividend and other income	19	21	(2)	(9.5)%
Senior living income from continuing operations	\$ 18,419	\$ 20,410	\$ (1,991)	(9.8)%

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Total number of communities (end of period):

Leased and owned communities	222	209	13	6.2%
Managed communities	14		14	100.0%
Number of total communities	236	209	27	12.9%

Total number of living units (end of period):

Leased and owned living units	23,765	22,176	1,589	7.2%
Managed living units	1,416		1,416	100.0%
Number of total living units	25,181	22,176	3,005	13.6%

Leased and owned communities:

Occupancy %	86.0%	86.2%	n/a	(0.2)%
Average daily rate	\$ 147.46	\$ 146.55	\$ 0.91	0.6%
Percent of senior living revenue from Medicaid	12.3%	13.8%	n/a	(1.5)%
Percent of senior living revenue from Medicare	14.7%	13.8%	n/a	0.9%
Percent of senior living revenue from private and other sources	73.0%	72.4%	n/a	0.6%

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Comparable communities (senior living communities that we have leased or owned and operated continuously since July 1, 2010):

(dollars in thousands, except average daily rate)	Three months ended September 30,			
	2011	2010	\$ Change	% Change
Senior living revenue	\$ 265,002	\$ 259,134	\$ 5,868	2.3%
Senior living wages and benefits	(132,307)	(128,807)	(3,500)	(2.7)%
Other senior living operating expenses	(65,969)	(62,317)	(3,652)	(5.9)%
No. of communities (end of period)	208	208	n/a	
No. of living units (end of period)	22,066	22,066	n/a	
Occupancy %	85.6%	86.2%	n/a	(0.6)%
Average daily rate	\$ 150.92	\$ 146.74	\$ 4.18	2.8%
Percent of senior living revenue from Medicaid	12.8%	13.8%	n/a	(1.0)%
Percent of senior living revenue from Medicare	15.2%	13.8%	n/a	1.4%
Percent of senior living revenue from private and other sources	72.0%	72.4%	n/a	(0.4)%

Rehabilitation hospitals:

(dollars in thousands)	Three months ended September 30,			
	2011	2010	\$ Change	% Change
Rehabilitation hospital revenues	\$ 26,273	\$ 24,756	\$ 1,517	6.1%
Rehabilitation hospital expenses	(23,300)	(22,579)	(721)	(3.2)%
Rent expense	(2,597)	(2,541)	(56)	(2.2)%
Depreciation and amortization expense	(46)	(35)	(11)	(31.4)%
Rehabilitation hospital income (loss) from continuing operations	\$ 330	\$ (399)	\$ 729	182.7%

Corporate and Other:(1)

(dollars in thousands)	Three months ended September 30,			
	2011	2010	\$ Change	% Change
Institutional pharmacy revenue	\$ 18,914	\$ 20,280	\$ (1,366)	(6.7)%
Institutional pharmacy expenses	(18,472)	(19,717)	1,245	6.3%
Depreciation and amortization expense	(889)	(856)	(33)	(3.9)%
General and administrative expense(2)	(14,418)	(13,751)	(667)	(4.9)%
Acquisition related costs	(226)		(226)	100.0%
Equity in income of Affiliates Insurance Company	28	35	(7)	20.0%
Gain on early extinguishment of debt		66	(66)	(100.0)%
Gain on sale of available for sale securities	529		529	100.0%
Interest, dividend and other income	349	300	49	16.3%
Interest and other expense	(740)	(549)	(191)	(34.8)%
(Provision) benefit for income taxes	(186)	123	(309)	251.2%
Corporate and Other loss from continuing operations	\$ (15,111)	\$ (14,069)	\$ (1,042)	(7.4)%

(1) Corporate and Other includes operations that we do not consider a material, separately reportable segment of our business and income and expenses that are not attributable to a reportable specific segment.

(2) General and administrative expenses are not attributable to a reportable specific segment and include items such as corporate payroll and benefits and expenses of our home office activities.

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Consolidated:

(dollars in thousands)	Three months ended September 30,			
	2011	2010	\$ Change	% Change
Summary of revenue:				
Senior living communities	\$ 284,288	\$ 259,767	\$ 24,521	9.4%
Rehabilitation hospital revenue	26,273	24,756	1,517	6.1