

FIVE STAR QUALITY CARE INC
Form 8-K/A
November 22, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K/A

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

Date of Report (Date of earliest event reported): **October 11, 2006**

FIVE STAR QUALITY CARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or other jurisdiction of incorporation)

Commission File No. 1-16817

400 Centre Street, Newton, Massachusetts
(Address of Principal Executive Offices)

04-3516029
(IRS Employer
Identification No.)
02458
(Zip Code)

Registrant's telephone number, including area code: **(617) 796-8387**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- /
 - / Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - /
 - / Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - /
 - / Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - /
 - / Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01. Other Events.

This Current Report on Form 8-K/A amends and restates, in its entirety, Item 8.01 of our Current Report on Form 8-K dated October 11, 2006, or the October 2006 8-K, which we filed with the Securities and Exchange Commission to report (i) summary historical and pro forma financial data for the six months ended June 30, 2006, (ii) selected financial data for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2005 and 2006, (iii) consolidating subsidiary financial information related to us, our guarantor subsidiaries and our non-guarantor subsidiaries for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2005 and 2006 and (iv) unaudited pro forma financial information for the six months ended June 30, 2006. We are amending the consolidating subsidiary financial information related to us, our guarantor subsidiaries and our non-guarantor subsidiaries to reflect certain reclassifications with respect to our guarantor and non-guarantor subsidiaries. All of the other financial information set forth in the October 2006 8-K, as well as Item 9.01 of the October 2006 8-K, remains the same. These reclassifications do not affect our consolidated financial statements.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS CURRENT REPORT ON FORM 8-K/A CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS, INCLUDING WITH RESPECT TO OUR INTENDED USE OF THE PROCEEDS FROM OUR ISSUANCE OF THE 3.75% CONVERTIBLE SENIOR NOTES DUE 2026. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT EXPECTATIONS, BUT THESE STATEMENTS AND THE IMPLICATIONS OF THESE STATEMENTS ARE NOT GUARANTEED.

Summary historical, pro forma and selected financial data of the Company; consolidating subsidiary financial information.

Summary historical and pro forma financial data

The following summary financial data related to our continuing operations has been derived from our historical financial statements for the six months ended June 30, 2006, and shows, for the period or date presented, our summary historical and our pro forma income statement and balance sheet data, giving effect to (1) our April 2006 offering of 11.5 million of our common shares, or the April 2006 equity offering; (2) the reduction in our management fees payable in respect of 10 Sunrise Senior Living Services, Inc., or SLS, management agreements that we terminated in June 2006; and (3) the October 2006 private placement of \$80.0 million of our 3.75% convertible senior notes due 2026, or the convertible senior notes (assuming the initial purchasers over-allotment option is not exercised and not giving effect to conversion of the notes), as if these events had been completed as of the beginning of the period presented. The following data should be read in conjunction with, and is qualified in its entirety by reference to, our historical financial statements incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained therein, and our unaudited pro forma financial statements contained in this Current Report on Form 8-K. Our six month historical financial information contains normal recurring adjustments and is not necessarily indicative of results to be expected in a full year. Comparability of financial results from period to period is affected by acquisitions, closures and our termination of SLS management agreements. Pro forma financial information may not be reflective of what our financial results or financial position would have been had the April 2006 equity offering, the reduction in our management fees payable in respect of 10 SLS management agreements that we terminated in June 2006 and the October 2006

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private placement of our convertible senior notes been completed as of the dates indicated in our pro forma financial statements. Our pro forma financial information does not give pro forma effect to certain transactions, including, without limitation, the eight senior living communities we began to operate in September and October 2006 and the two rehabilitation hospitals we began to operate in October 2006. You should not place undue reliance on our pro forma financial information.

For the six months ended June 30, 2006

	Historical	Adjusted for April 2006 equity offering	Adjusted for April 2006 equity offering and 2006 Sunrise terminations	Adjusted for April 2006 equity offering, 2006 Sunrise terminations and convertible senior notes offering
(amounts in thousands, except per share data)				
Statement of Income Data				
REVENUES:				
Net revenues from residents	\$ 365,398	\$ 365,398	\$ 365,398	\$ 365,398
Pharmacy revenue	24,410	24,410	24,410	24,410
Total revenues	389,808	389,808	389,808	389,808
OPERATING EXPENSES:				
Community level operating expenses	281,381	281,381	281,381	281,381
Termination payment to SLS	89,833	89,833	89,833	89,833
Pharmacy expenses	23,189	23,189	23,189	23,189
Management fee to SLS	6,392	6,392	3,059	3,059
Rent expense	52,563	52,563	52,563	52,563
General and administrative	14,635	14,635	14,635	14,635
Depreciation and amortization	4,561	4,561	4,561	4,561
Total operating expenses	472,554	472,554	469,221	469,221
Operating loss	(82,746)	(82,746)	(79,413)	(79,413)
Interest and other income	1,140	1,140	1,140	1,140
Interest expense	(1,633)	(1,633)	(1,633)	(3,294) ⁽¹⁾
Loss from continuing operations before income taxes	(83,239)	(83,239)	(79,906)	(81,567)
Provision for income taxes				
Loss from continuing operations	\$ (83,239)	\$ (83,239)	\$ (79,906)	\$ (81,567)
Weighted Average Shares Outstanding:				
Basic	25,551	31,581	31,581	31,581
Fully Diluted	25,551	31,581	31,581	31,581

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Basic and diluted income per share from continuing operations:

Basic	\$	(3.26)	\$	(2.64)	\$	(2.53)	\$	(2.58) ⁽²⁾
Fully Diluted	\$	(3.26)	\$	(2.64)	\$	(2.53)	\$	(2.58) ⁽²⁾

EBITDA

Loss from continuing operations	\$	(83,239)	\$	(83,239)	\$	(79,906)	\$	(81,567)
Add: income taxes								
Add: depreciation and amortization		4,561		4,561		4,561		4,561
Add: interest expense		1,633		1,633		1,633		3,294
Less: interest and other income		(1,140)		(1,140)		(1,140)		(1,140)

EBITDA ⁽³⁾	\$	(78,185)	\$	(78,185)	\$	(74,852)	\$	(74,852)
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As of June 30, 2006

Actual	Adjusted for convertible senior notes offering
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(dollars in thousands)

Balance Sheet Data

Cash and cash equivalents	\$	23,576	\$	101,126
Total current assets		111,806		189,356
Total assets		252,334		332,334
Total current liabilities		83,889		83,889
Total long term liabilities		71,472		151,472
Total shareholders' equity	\$	96,973	\$	96,973

(1) We have used an assumed interest rate of 4.0% per annum for the convertible senior notes.

(2) The loss per share includes a loss of \$(2.84) per share relating to the termination fees we incurred for the six months ended June 30, 2006 in connection with our termination of 10 SLS management agreements.

(3) We consider earnings before interest, taxes, depreciation and amortization, or EBITDA, to be an indicative measure of our operating performance. We believe EBITDA is also useful in measuring our ability to service debt, fund capital expenditures and expand our business. Furthermore, we believe that EBITDA is a meaningful disclosure that may help shareholders to understand better our financial performance, including comparing our performance to other companies. However, EBITDA as presented may not be comparable to amounts calculated by other companies. This information should not be considered as an alternative to net income, income from continuing operations, operating profit, cash flow from operations, or any other operating or liquidity performance measure prescribed by accounting principles generally accepted in the United States. Other income excluded from EBITDA consists primarily of amortization of deferred gains.

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Selected financial data

The following table presents selected financial data related to our continuing operations which has been derived from our historical financial statements for the years ended December 31, 2003, 2004 and 2005, and for the six months ended June 30, 2005 and 2006, all of which have been adjusted to remove the operations of two skilled nursing home communities in the state of Connecticut that we classified as discontinued operations in June 2006. The following information should be read in connection with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005 and from our Quarterly Reports on Form 10-Q for the three months ended March 31, 2006 and the six months ended June 30, 2006. The six month information contains normal recurring adjustments and is not necessarily indicative of the results that may be expected in a full year. Additionally, comparability of financial results from period to period is affected by acquisitions, closures and our termination of SLS management agreements. Accordingly, you should not place undue reliance on our historical financial information.

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
(amounts in thousands, except per share data)					
Revenues:					
Net revenues from residents	\$ 543,610	\$ 584,615	\$ 700,891	\$ 340,795	\$ 365,398
Pharmacy revenue	1,770	13,209	33,476	12,356	24,410
Total revenues	545,380	597,824	734,367	353,151	389,808
Operating expenses:					
Community level operating expenses	434,530	455,755	537,062	260,061	281,381
Pharmacy expenses	1,666	12,093	32,167	11,451	23,189
Management fee to SLS	17,272	19,293	21,256	11,240	6,392
Termination expense for certain SLS management agreements			86,286		89,833
Rent expense	76,962	82,453	98,890	48,460	52,563
General and administrative	15,892	18,473	26,559	12,702	14,635
Depreciation and amortization	3,201	3,371	7,113	3,384	4,561
Impairment of assets			2,333		
Total operating expenses	549,523	591,438	811,666	347,298	472,554
Operating (loss) income	(4,143)	6,386	(77,299)	5,853	(82,746)
Interest and other income	503	1,666	1,543	566	1,140
Interest expense	(1,439)	(1,172)	(3,741)	(1,860)	(1,633)
(Loss) income from continuing operations before income taxes	(5,079)	6,880	(79,497)	4,559	(83,239)
Provision for income taxes		(120)		(73)	
(Loss) income from continuing operations	\$ (5,079)	\$ 6,760	\$ (79,497)	\$ 4,486	\$ (83,239)
Weighted average shares outstanding	8,482	8,716	14,879	12,219	25,551
Basic and diluted (loss) income per share from:					
Continuing operations	\$ (0.60)	\$ 0.78	\$ (5.34)	\$ 0.37	\$ (3.26)
(Loss) income from continuing operations	\$ (5,079)	\$ 6,760	\$ (79,497)	\$ 4,486	\$ (83,239)
Add: income taxes		120		73	
Add: depreciation and amortization	3,201	3,371	7,113	3,384	4,561
Add: interest expense	1,439	1,172	3,741	1,860	1,633
Less: interest and other income	(503)	(1,666)	(1,543)	(566)	(1,140)
EBITDA	\$ (942)	\$ 9,757	\$ (70,186)	\$ 9,237	\$ (78,185)

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Consolidating financial information related to the Company, its guarantor subsidiaries and non-guarantor subsidiaries as of June 30, 2006 and 2005 are reflected below.

Unaudited Condensed Consolidating Statement of Operations
For the six months ended June 30, 2006
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
REVENUES:					
Net revenues from residents	\$	\$ 163,152	\$ 202,246	\$	\$ 365,398
Pharmacy revenue			24,410		24,410
Total revenues		163,152	226,656		389,808
OPERATING EXPENSES:					
Wages and benefits		69,435	117,526		186,961
Other operating expenses		47,203	47,217		94,420
Termination payment to SLS		89,833			89,833
Pharmacy expenses			23,189		23,189
Management fee to SLS		6,392			6,392
Rent expense		32,240	20,323		52,563
General and administrative		4,241	10,394		14,635
Depreciation and amortization		1,964	2,597		4,561
Total operating expenses		251,308	221,246		472,554
Operating (loss) income		(88,156)	5,410		(82,746)
Interest and other income		142	998		1,140
Interest expense		(3)	(1,630)		(1,633)
Equity in earnings of subsidiaries	(85,532)			85,532	
(Loss) income from continuing operations before income taxes	(85,532)	(88,017)	4,778	85,532	(83,239)
Provision for income taxes					
(Loss) income from continuing operations	(85,532)	(88,017)	4,778	85,532	(83,239)
Loss from discontinued operations		(94)	(2,199)		(2,293)
Net (loss) income	\$ (85,532)	\$ (88,111)	\$ 2,579	\$ 85,532	\$ (85,532)

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Unaudited Condensed Consolidating Statement of Operations
 For the six months ended June 30, 2005
 (amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
REVENUES:					
Net revenues from residents	\$	\$ 156,454	\$ 184,341	\$	\$ 340,795
Pharmacy revenue			12,356		12,356
Total revenues		156,454	196,697		353,151
OPERATING EXPENSES:					
Wages and benefits		65,697	108,629		174,326
Other operating expenses		42,815	42,920		85,735
Pharmacy expenses			11,451		11,451
Management fee to SLS		11,240			11,240
Rent expense		32,201	16,259		48,460
General and administrative			12,702		12,702
Depreciation and amortization		1,246	2,138		3,384
Total operating expenses		153,199	194,099		347,298
Operating income		3,255	2,598		5,853
Interest and other income		114	452		566
Interest expense			(1,860)		(1,860)
Equity in earnings of subsidiaries	2,420			(2,420)	
Income (loss) from continuing operations before income taxes	2,420	3,369	1,190	(2,420)	4,559
Provision for income taxes			(73)		(73)
Income (loss) from continuing operations	2,420	3,369	1,117	(2,420)	4,486
Loss from discontinued operations		(71)	(1,995)		(2,066)
Net income (loss)	\$ 2,420	\$ 3,298	\$ (878)	\$ (2,420)	\$ 2,420

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Unaudited Condensed Consolidating Balance Sheet
As of June 30, 2006
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
ASSETS					
Current Assets					
Cash	\$	\$ 2,499	\$ 21,077	\$	\$ 23,576
Accounts receivable, net		13,892	32,448		46,340
Prepaid expenses and other current assets		3,309	38,581		41,890
Total current assets		19,700	92,106		111,806
Property and equipment, net		19,820	82,230		102,050
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400)	
Restricted cash			13,697		13,697
Intercompany	227,808			(227,808)	
Mortgage notes receivable			3,725		3,725
Goodwill			16,901		16,901
Other long term assets		402	3,753		4,155
Total assets	\$ 228,008	\$ 39,922	\$ 212,612	\$ (228,208)	\$ 252,334
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable and other current liabilities	\$	\$ 27,898	\$ 55,365	\$	\$ 83,263
Current mortgage notes payable			626		626
Total current liabilities		27,898	55,991		83,889
Long term liabilities:					
Mortgage notes payable			44,423		44,423
Notes payable to related parties	200			(200)	
Other long term liabilities		7,128	19,921		27,049
Total long term liabilities	200	7,128	64,344	(200)	71,472
Total shareholders' equity	227,808	4,896	92,277	(228,008)	96,973
Total liabilities and shareholders' equity	\$ 228,008	\$ 39,922	\$ 212,612	\$ (228,208)	\$ 252,334

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Unaudited Condensed Consolidating Balance Sheet
As of June 30, 2005
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
ASSETS					
Current Assets					
Cash	\$	\$ 12,698	\$ 6,006	\$	\$ 18,704
Accounts receivable, net		11,937	27,315		39,252
Prepaid expenses and other current assets		10,395	16,309		26,704
Total current assets		35,030	49,630		84,660
Property and equipment, net		13,858	133,303		147,161
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400)	
Restricted cash			16,631		16,631
Intercompany	56,654			(56,654)	
Mortgage notes receivable			6,036		6,036
Goodwill			16,746		16,746
Other long term assets		402	(402)		
Total assets	\$ 56,854	\$ 49,290	\$ 222,144	\$ (57,054)	\$ 271,234
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable and other current liabilities	\$	\$ 32,403	\$ 41,015	\$	\$ 73,418
Current mortgage notes payable			6,051		6,051
Total current liabilities		32,403	47,066		79,469
Long term liabilities:					
Mortgage notes payable			69,056		69,056
Notes payable to related parties	200			(200)	
Other long term liabilities		6,770	17,345		24,115
Total long term liabilities	200	6,770	86,401	(200)	93,171
Total shareholders' equity	56,654	10,117	88,677	(56,854)	98,594
Total liabilities and shareholders' equity	\$ 56,854	\$ 49,290	\$ 222,144	\$ (57,054)	\$ 271,234

Unaudited Condensed Consolidating Cash Flow Statement
For the six months ended June 30, 2006
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
Cash Flows from operating activities:					
Net (loss) income	\$ (85,532)	\$ (88,111)	\$ 2,579	\$ 85,532	\$ (85,532)
Undistributed equity in earnings of subsidiaries	85,532			(85,532)	
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities, net		84,949	(91,142)		(6,193)
Net cash used in operating activities		(3,162)	(88,563)		(91,725)
Cash Flows from investing activities:					
Capital expenditures		(8,323)	(15,263)		(23,586)
Proceeds from the sale of property and equipment		5,746	5,331		11,077
Other, net		1,012	(3,710)		(2,698)
Net cash used in investing activities		(1,565)	(13,642)		(15,207)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net			114,059		114,059
Change in borrowings, net			(280)		(280)
Other, net					
Net cash provided by financing activities			113,779		113,779
Change in cash and cash equivalents		(4,727)	11,574		6,847
Cash and cash equivalents at beginning of period		7,226	9,503		16,729
Cash and cash equivalents at end of period	\$	\$ 2,499	\$ 21,077	\$	\$ 23,576

Unaudited Condensed Consolidating Cash Flow Statement
For the six months ended June 30, 2005
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
Cash Flows from operating activities:					
Net income (loss)	\$ 2,420	\$ 3,298	\$ (878)	\$ (2,420)	\$ 2,420
Undistributed equity in earnings of subsidiaries	(2,420)			2,420	
Adjustments to reconcile net income (loss) to cash provided by operating activities, net		3,666	12,687		16,353
Net cash provided by operating activities		6,964	11,809		18,773
Cash Flows from investing activities:					
Capital expenditures		(7,012)	(79,802)		(86,814)
Proceeds from the sale of property and equipment		3,988	25,574		29,562
Other, net		371	(6,656)		(6,285)
Net cash used in investing activities		(2,653)	(60,884)		(63,537)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net					
Change in borrowings, net			32,526		32,526
Other, net					
Net cash provided by financing activities			32,526		32,526
Change in cash and cash equivalents		4,311	(16,549)		(12,238)
Cash and cash equivalents at beginning of period		8,387	22,555		30,942
Cash and cash equivalents at end of period	\$	\$ 12,698	\$ 6,006	\$	\$ 18,704

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Consolidating financial information related to the Company, its guarantor subsidiaries and non-guarantor subsidiaries as of December 31, 2005, 2004 and 2003 are reflected below.

Unaudited Condensed Consolidating Statement of Operations
For the year ended December 31, 2005
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
REVENUES:					
Net revenues from residents	\$	\$ 314,764	\$ 386,127	\$	\$ 700,891
Pharmacy revenue			33,476		33,476
Total revenues		314,764	419,603		734,367
OPERATING EXPENSES:					
Wages and benefits		133,150	223,217		356,367
Other operating expenses		90,382	90,313		180,695
Termination payment to SLS		86,286			86,286
Pharmacy expenses			32,167		32,167
Management fee to SLS		21,256			21,256
Rent expense		64,556	34,334		98,890
General and administrative			26,559		26,559
Depreciation and amortization		2,552	4,561		7,113
Impairment of assets			2,333		2,333
Total operating expenses		398,182	413,484		811,666
Operating (loss) income		(83,418)	6,119		(77,299)
Interest and other income		308	1,235		1,543
Interest expense			(3,741)		(3,741)
Equity in earnings of subsidiaries	(84,159)			84,159	
(Loss) income from continuing operations before income taxes	(84,159)	(83,110)	3,613	84,159	(79,497)
Provision for income taxes					
(Loss) income from continuing operations	(84,159)	(83,110)	3,613	84,159	(79,497)
Loss from discontinued operations		(272)	(4,390)		(4,662)
Net (loss) income	\$ (84,159)	\$ (83,382)	\$ (777)	\$ 84,159	\$ (84,159)

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Unaudited Condensed Consolidating Statement of Operations
For the year ended December 31, 2004
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
REVENUES:					
Net revenues from residents	\$	\$ 301,550	\$ 283,065	\$	\$ 584,615
Pharmacy revenue			13,209		13,209
Total revenues		301,550	296,274		597,824
OPERATING EXPENSES:					
Wages and benefits		126,868	175,414		302,282
Other operating expenses		88,338	65,135		153,473
Pharmacy expenses			12,093		12,093
Management fee to SLS		19,293			19,293
Rent expense		64,023	18,430		82,453
General and administrative			18,473		18,473
Depreciation and amortization		1,245	2,126		3,371
Total operating expenses		299,767	291,671		591,438
Operating income		1,783	4,603		6,386
Interest and other income		110	1,556		1,666
Interest expense			(1,172)		(1,172)
Equity in earnings of subsidiaries	3,291			(3,291)	
Income (loss) from continuing operations before income taxes	3,291	1,893	4,987	(3,291)	6,880
Provision for income taxes			(120)		(120)
Income (loss) from continuing operations	3,291	1,893	4,867	(3,291)	6,760
Loss from discontinued operations		(692)	(2,777)		(3,469)
Net income (loss)	\$ 3,291	\$ 1,201	\$ 2,090	\$ (3,291)	\$ 3,291

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Unaudited Condensed Consolidating Statement of Operations
For the year ended December 31, 2003
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
REVENUES:					
Net revenues from residents	\$	\$ 292,165	\$ 251,445	\$	\$ 543,610
Pharmacy revenue			1,770		1,770
Total revenues		292,165	253,215		545,380
OPERATING EXPENSES:					
Wages and benefits		126,177	165,457		291,634
Other operating expenses		86,464	56,432		142,896
Pharmacy expenses			1,666		1,666
Management fee to SLS		17,272			17,272
Rent expense		63,728	13,234		76,962
General and administrative			15,892		15,892
Depreciation and amortization		416	2,785		3,201
Total operating expenses		294,057	255,466		549,523
Operating loss		(1,892)	(2,251)		(4,143)
Interest and other income		75	428		503
Interest expense			(1,439)		(1,439)
Equity in earnings of subsidiaries	(7,939)			7,939	
(Loss) income from continuing operations before income taxes	(7,939)	(1,817)	(3,262)	7,939	(5,079)
Provision for income taxes					
(Loss) income from continuing operations	(7,939)	(1,817)	(3,262)	7,939	(5,079)
Loss from discontinued operations		(803)	(2,057)		(2,860)
Net (loss) income	\$ (7,939)	\$ (2,620)	\$ (5,319)	\$ 7,939	\$ (7,939)

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Unaudited Condensed Consolidating Balance Sheet
As of December 31, 2005
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
ASSETS					
Current assets					
Cash	\$	\$ 7,226	\$ 9,503	\$	\$ 16,729
Accounts receivable, net		15,535	30,589		46,124
Prepaid expenses and other current assets		9,485	22,542		32,027
Total current assets		32,246	62,634		94,880
Property and equipment, net		19,200	77,543		96,743
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400)	
Restricted cash			12,957		12,957
Intercompany	113,749			(113,749)	
Mortgage notes receivable			5,971		5,971
Goodwill			14,059		14,059
Other long term assets		402	3,928		4,330
Total assets	\$ 113,949	\$ 51,848	\$ 177,292	\$ (114,149)	\$ 228,940
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable and other current liabilities	\$	\$ 32,103	\$ 57,239	\$	\$ 89,342
Current mortgage notes payable			626		626
Total current liabilities		32,103	57,865		89,968
Long term liabilities:					
Mortgage notes payable			44,703		44,703
Notes payable to related parties	200			(200)	
Other long term liabilities		7,086	18,379		25,465
Total long term liabilities	200	7,086	63,082	(200)	70,168
Total shareholders' equity	113,749	12,659	56,345	(113,949)	68,804
Total liabilities and shareholders' equity	\$ 113,949	\$ 51,848	\$ 177,292	\$ (114,149)	\$ 228,940

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Unaudited Condensed Consolidating Balance Sheet
As of December 31, 2004
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
ASSETS					
Current assets					
Cash	\$	\$ 8,387	\$ 22,555	\$	\$ 30,942
Accounts receivable, net		10,892	25,850		36,742
Prepaid expenses and other current assets		11,191	16,783		27,974
Total current assets		30,470	65,188		95,658
Property and equipment, net		12,085	83,104		95,189
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400)	
Restricted cash			10,749		10,749
Intercompany	56,551			(56,551)	
Mortgage notes receivable			6,099		6,099
Goodwill			11,548		11,548
Other long term assets		402	3,340		3,742
Total assets	\$ 56,751	\$ 42,957	\$ 180,228	\$ (56,951)	\$ 222,985
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable and other current liabilities	\$	\$ 28,033	\$ 38,402	\$	\$ 66,435
Current mortgage notes payable			463		463
Total current liabilities		28,033	38,865		66,898
Long term liabilities:					
Mortgage notes payable			42,118		42,118
Notes payable to related parties	200			(200)	
Other long term liabilities		6,191	11,874		18,065
Total long term liabilities	200	6,191	53,992	(200)	60,183
Total shareholders' equity	56,551	8,733	87,371	(56,751)	95,904
Total liabilities and shareholders' equity	\$ 56,751	\$ 42,957	\$ 180,228	\$ (56,951)	\$ 222,985

Unaudited Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2005
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
Cash Flows from operating activities:					
Net (loss) income	\$ (84,159)	\$ (83,382)	\$ (777)	\$ 84,159	\$ (84,159)
Undistributed equity in earnings of subsidiaries	84,159			(84,159)	
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities, net		93,244	(65,962)		27,282
Net cash provided by (used in) operating activities		9,862	(66,739)		(56,877)
Cash Flows from investing activities:					
Capital expenditures		(20,392)	(89,962)		(110,354)
Proceeds from the sale of property and equipment		7,769	88,379		96,148
Other, net		1,600	(4,091)		(2,491)
Net cash used in investing activities		(11,023)	(5,674)		(16,697)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net			56,613		56,613
Change in borrowings, net			2,748		2,748
Other, net					
Net cash provided by financing activities			59,361		59,361
Change in cash and cash equivalents		(1,161)	(13,052)		(14,213)
Cash and cash equivalents at beginning of period		8,387	22,555		30,942
Cash and cash equivalents at end of period	\$	\$ 7,226	\$ 9,503	\$	\$ 16,729

Unaudited Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2004
(amounts in thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>FVE Consolidated</u>
Cash Flows from operating activities:					
Net income (loss)	\$ 3,291	\$ 1,201	\$ 2,090	\$ (3,291)	\$ 3,291
Undistributed equity in earnings of subsidiaries	(3,291)			3,291	
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities, net		(4,276)	627		(3,649)
Net cash (used in) provided by operating activities		(3,075)	2,717		(358)
Cash Flows from investing activities:					
Capital expenditures		(12,269)	(130,192)		(142,461)
Proceeds from the sale of property and equipment		5,746	126,393		132,139
Other, net		4,679	(2,901)		1,778
Net cash used in investing activities		(1,844)	(6,700)		(8,544)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net			27,685		27,685
Change in borrowings, net			(5,452)		(5,452)
Other, net					
Net cash provided by financing activities			22,233		22,233
Change in cash and cash equivalents		(4,919)	18,250		13,331
Cash and cash equivalents at beginning of period		13,306	4,305		17,611
Cash and cash equivalents at end of period	\$	\$ 8,387	\$ 22,555	\$	\$ 30,942

Unaudited Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2003
(amounts in thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
Cash Flows from operating activities:					
Net (loss) income	\$ (7,939)	\$ (2,620)	\$ (5,319)	\$ 7,939	\$ (7,939)
Undistributed equity in earnings of subsidiaries	7,939			(7,939)	
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities, net		23,843	3,008		26,851
Net cash provided by (used in) operating activities		21,223	(2,311)		18,912
Cash Flows from investing activities:					
Capital expenditures		(7,753)	(11,134)		(18,887)
Proceeds from the sale of property and equipment		2,750	24,335		27,085
Other, net		(5,568)	(8,514)		(14,082)
Net cash (used in) provided by investing activities		(10,571)	4,687		(5,884)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net					
Change in borrowings, net			(5,687)		(5,687)
Other, net					
Net cash used in financing activities			(5,687)		(5,687)
Change in cash and cash equivalents		10,652	(3,311)		7,341
Cash and cash equivalents at beginning of period		2,654	7,616		10,270
Cash and cash equivalents at end of period	\$	\$ 13,306	\$ 4,305	\$	\$ 17,611

Five Star Quality Care, Inc.

UNAUDITED PRO FORMA FINANCIAL INFORMATION
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As of June 30, 2006
(dollars in thousands)

	Historical	Adjustments for convertible senior notes offering	Adjusted for convertible senior notes offering
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 23,576	\$ 77,550 ^(A)	\$ 101,126
Accounts receivable, net	46,340		46,340
Prepaid expenses and other current assets	41,890		41,890
	<u> </u>	<u> </u>	<u> </u>
Total current assets	111,806	77,550	189,356
Property and equipment, net	102,050		102,050
Restricted cash	13,697		13,697
Mortgage notes receivable	3,725		3,725
Goodwill	16,901		16,901
Other long term assets	4,155	2,450 ^(B)	6,605
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 252,334	\$ 80,000	\$ 332,334
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Total current liabilities	\$ 83,889		\$ 83,889
Mortgage notes payable	44,423		44,423
% Convertible Senior Notes due 2026		80,000 ^(C)	80,000
Other long term liabilities	27,049		27,049
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	155,361	80,000	235,361
Total shareholders' equity	96,973		96,973
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 252,334	\$ 80,000	\$ 332,334
	<u> </u>	<u> </u>	<u> </u>

Five Star Quality Care, Inc.

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT
For the six months ended June 30, 2006
(dollars in thousands)

	<u>Historical</u>	<u>Adjustments for April 2006 equity offering</u>	<u>Adjusted for April 2006 equity offering</u>	<u>Adjustments for 2006 Sunrise termination</u>	<u>Adjusted for April 2006 equity offering and 2006 Sunrise termination</u>	<u>Adjustments for convertible senior note offering</u>	<u>Adjusted for April 2006 equity offering, 2006 Sunrise termination and convertible senior note offering</u>
REVENUES:							
Net revenues from residents	\$ 365,398		\$ 365,398		\$ 365,398		\$ 365,398
Pharmacy revenue	24,410		24,410		24,410		24,410
Total revenues	389,808		389,808		389,808		389,808
OPERATING EXPENSES:							
Property level operating expenses	281,381		281,381		281,381		281,381
Termination payment to SLS	89,833		89,833		89,833		89,833
Pharmacy expenses	23,189		23,189		23,189		23,189
Management fee to SLS	6,392		6,392	(3,333) ^(E)	3,059		3,059
Rent expense	52,563		52,563		52,563		52,563
General and administrative	14,635		14,635		14,635		14,635
Depreciation and amortization	4,561		4,561		4,561		4,561
Total operating expenses	472,554		472,554	(3,333)	469,221		469,221
Operating (loss) income	(82,746)		(82,746)	3,333	(79,413)		(79,413)
Interest and other income	1,140		1,140		1,140		1,140
Interest expense	(1,633)		(1,633)		(1,633)	(1,661) ^(F)	(3,294)
(Loss) income from continuing operations before income taxes	(83,239)		(83,239)	3,333	(79,906)	(1,661)	(81,567)
Provision for income taxes							
(Loss) income from continuing operations	\$ (83,239)		\$ (83,239)	\$ 3,333	\$ (79,906)	\$ (1,661)	\$ (81,567)
Weighted Average Shares Outstanding:							
Basic	25,551	6,030 ^(D)	31,581		31,581		31,581
Fully Diluted	25,551	6,030	31,581		31,581		31,581
Basic and diluted loss per share from:							
Basic	\$ (3.26)		\$ (2.64)		\$ (2.53)		\$ (2.58)
Fully Diluted	\$ (3.26)		\$ (2.64)		\$ (2.53)		\$ (2.58)

Five Star Quality Care, Inc.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except share and per share amounts)

INTRODUCTION TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated balance sheet as of June 30, 2006, presents the consolidated financial position of Five Star as if our October 2006 private placement of our convertible senior notes had been completed as of June 30, 2006, as described in the notes thereto. The unaudited pro forma consolidated statement of operations for the six months ended June 30, 2006, presents the consolidated results of operations of Five Star as if (1) our April 2006 equity offering; (2) the reduction in our management fees payable in respect of 10 SLS management agreements that we terminated in June 2006; and (3) our October 2006 private placement of our convertible senior notes (assuming the initial purchasers' over-allotment option is not exercised and not giving effect to the conversion of the notes), had been completed as of January 1, 2006, as described in the notes thereto.

These unaudited pro forma consolidated financial statements do not represent our consolidated financial condition or results of operations for any future date or period. Actual future results may be materially different from pro forma results. Differences could arise from many factors, including, but not limited to, those set forth under "Warning concerning forward looking statements." These unaudited pro forma consolidated financial statements should be read in conjunction with our historical financial statements incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2005 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" contained therein. These unaudited pro forma consolidated financial statements do not give pro forma effect to certain transactions, including, without limitation, the eight senior living communities we began to operate in September and October 2006 and the two rehabilitation hospitals we began to operate in October 2006.

Pro forma consolidated balance sheet as of June 30, 2006 adjustments

- A. Represents the proceeds we received from our October 2006 private placement of our convertible senior notes as follows:

Convertible senior notes issued	\$ 80,000
Initial purchasers discount and commissions and other offering costs, estimated	2,450
	<hr style="width: 100%;"/>
Net proceeds	\$ 77,550
	<hr style="width: 100%;"/>

- B. Represents deferred finance costs we expect to incur as a result of our October 2006 private placement of our convertible senior notes. Amounts represent estimated initial purchasers discount and commissions and other offering costs which will be amortized over the expected term of the convertible senior notes.
- C. Represents the principal amount of the convertible senior notes.

Pro forma consolidated statement of operations for the six months ended June 30, 2006 adjustments

- D. Represents our issuance of common shares in our April 2006 equity offering. The adjustment has been weighted to reflect shares actually outstanding as of June 30, 2006.

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E. Represents the elimination of the contractual management fee with SLS. In connection with the termination of 10 management agreements with SLS, we will no longer be required to make these payments.

F. Represents the interest expense we will incur on the convertible senior notes, as well as amortization of deferred finance fees. The adjustment is calculated as follows:

Interest expense for six months on the \$80,000 of convertible senior notes at an assumed rate of 4.0% per annum	(1,600)
Amortization of deferred finance fees (see Note B) for six months. Deferred finance costs amortized over expected term of the convertible senior notes, or 20 years	(61)
	<u> </u>
Total adjustment	\$ (1,661)
	<u> </u>

SIGNATURES

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

FIVE STAR QUALITY CARE, INC.

BY: /S/ BRUCE J. MACKEY JR.

Name: Bruce J. Mackey Jr.
Title: Treasurer and Chief Financial Officer

Date: November 22, 2006

QuickLinks

Five Star Quality Care, Inc. UNAUDITED PRO FORMA FINANCIAL INFORMATION UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET As of June 30, 2006 (dollars in thousands)

Five Star Quality Care, Inc. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT For the six months ended June 30, 2006 (dollars in thousands)

SIGNATURES