

FIVE STAR QUALITY CARE INC
Form S-1
March 01, 2002

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As filed with the Securities and Exchange Commission on March 1, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIVE STAR QUALITY CARE, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

8051
(Primary Standard Industrial Classification Code Number)
400 Centre Street
Newton, Massachusetts 02458
(617) 796-8387

04-3516029
(I.R.S. Employer Identification Number)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Evrett W. Benton, President
Five Star Quality Care, Inc.
400 Centre Street
Newton, Massachusetts 02458
(617) 796-8387

(Name, address, including zip code, telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. //

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. //

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Common Stock, \$.01 par value	3,450,000(1)	\$8.38	\$28,911,000	\$2,660

(1) Includes 450,000 shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average high and low prices of the Registrant's common stock on February 25, 2002, as reported by the American Stock Exchange.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS

Subject to completion

March [], 2002

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

3,000,000 Shares

Common Stock

We are selling all of the 3,000,000 shares of common stock offered in this prospectus.

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Our common shares are traded on the American Stock Exchange, under the symbol "FVE". On February 28, 2002, the last reported sale price of our common shares on the American Stock Exchange was \$8.29 per share.

Investment in our shares involves a high degree of risk. You should read carefully this entire prospectus, including the section entitled "Risk factors" that begins on page 5 of this prospectus, which describes the material risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase from us up to an additional 450,000 shares, at the public offering price less the underwriting discount, to cover over-allotments, if any, within 30 days from the date of this prospectus.

The underwriters are offering our shares as described in "Underwriting". Delivery of the shares will be made on or about March , 2002.

**UBS
Warburg**

**Jefferies & Company,
Inc.**

Wachovia Securities

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate as of the date on the cover. Changes may occur after that date and we may not update this information except as required by applicable law.

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References in this prospectus to "we", "us", "our", the "Company" or "Five Star" mean Five Star Quality Care, Inc. and its subsidiaries. In presenting "as adjusted" information in this prospectus, we have assumed that this offering has been completed and that we have applied the net proceeds as described in this prospectus. References in this prospectus to "Marriott" mean Marriott Senior Living Services, Inc., a subsidiary of Marriott International, Inc.

Prospectus summary

The following summary highlights information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information you should consider before investing in our common shares. You should read the entire prospectus carefully including "Risk factors" and the financial statements and related notes before making an investment decision.

OUR COMPANY

We operate independent living and congregate care communities, assisted living facilities and nursing homes. We were formed in 2000 as a subsidiary of Senior Housing Properties Trust, a publicly traded real estate investment trust, or REIT, with \$1.2 billion of assets. On December 31, 2001, Senior Housing distributed substantially all of our common shares to its shareholders in a spin-off transaction and we became a separate publicly traded company. We currently operate 87 senior living facilities, all of which we lease from Senior Housing. Marriott manages 31 of these facilities for us. We recently agreed to acquire five additional senior living communities for \$45.5 million. We intend to use substantially all of the proceeds from this offering to partially fund this acquisition. The following chart summarizes our operations for 2001, on a pro forma basis as if we had conducted our current operations, and had completed our pending acquisition, as of the beginning of that year:

	Facilities		Living Units		Other Data
Indep. liv. apts. and mixed communities	30	Indep. liv. apts.	4,591	Revenues:	\$521 million
Asst. liv. facilities		Asst. living suites		-from residents' private resources	60%
	8		1,939	-from Medicare / Medicaid	40%
Nursing homes	54	Spec. care beds	294	Occupancy at 12/31/01	90%
Total:	92	Nursing beds	6,578	Locations	22 states
		Total:	13,402		

THE MARKET OPPORTUNITY

We believe significant opportunities exist for us to expand because of current conditions in the senior living industry, including:

A large number of senior living facilities are for sale. As a result of excessive development of senior living facilities in the 1990s, many operators experienced lower than expected occupancy. Newly developed facilities attracted residents from established facilities. These factors resulted in increased financial pressure on operators who had incurred significant debts to finance their growth. Further, significant Medicare rate reductions forced many nursing homes into bankruptcy. These factors have caused many operators to offer facilities for sale or to seek to exit the industry.

The senior living business is improving. New development of senior living facilities has been curtailed and many outdated facilities have closed. At the same time, the U.S. population continues to age. These factors have created increased occupancy at many existing senior living facilities. Labor is a major cost at senior living facilities and the current economic slow-down has lessened wage pressures. Also, nursing homes are adjusting their operations to new payment levels.

Many of our competitors are financially weak. As a result of financial difficulties resulting from the factors described above, many of our competitors have recently been focused more upon reorganizing their debt than upon growth. Many senior living companies started in the 1990s have experienced failed business plans and have had difficulty attracting new capital. Some of our competitors cannot access growth capital because they are in or have recently emerged from bankruptcy and are now controlled by their former creditors.

OUR GROWTH STRATEGY

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Our growth strategy is to acquire facilities that provide high quality services to residents who pay with private resources. In January 2002, we leased 31 senior living communities from Senior Housing. Approximately 88% of the revenues from these communities is paid by residents from their private resources. At the five communities we have agreed to acquire, all of the revenues are paid by residents from private resources. Our nursing homes derive a majority of their revenue from Medicare and Medicaid. In the future we may decide to expand our nursing home operations; however, if we do so, we expect to price such acquisitions at levels which take account of the increased risks associated with Medicare and Medicaid revenues.

Our senior management team has significant experience in the senior living industry. Although we have substantial lease obligations, we currently have zero debt. We believe our relationship with our former parent company, Senior Housing, may provide us with capital to finance some acquisitions. We believe that this combination of our experienced management, our financial position and our relationship with Senior Housing will enable us to expand our operations and compete successfully in the senior living industry.

OUR HISTORY

We were formed in 2000 as a subsidiary of Senior Housing. In July 2000, Senior Housing repossessed senior living properties from former tenants and we began to operate those facilities. Between July 2000 and December 2001, we closed unprofitable facilities and stabilized operations of other facilities. At year end 2001, substantially all of our shares were distributed to Senior Housing shareholders and we became a separate company listed on the American Stock Exchange.

At the time of our spin-off we leased 56 senior living facilities which we formerly operated for Senior Housing, consisting of 54 nursing homes and two assisted living communities with 5,211 living units. Our 2001 pro forma revenues from these facilities are \$227 million, and our rent is \$7 million annually.

In January 2002, we leased 31 up-market retirement communities with 7,487 living units, a majority of which are independent living apartments. These communities are managed by Marriott. Our pro forma 2001 revenues from these facilities are \$277 million, and our rent is \$63 million annually plus a percentage of gross revenues which is escrowed as a capital expenditure reserve.

In January 2002, we agreed to acquire five senior living communities for \$45.5 million. These five communities are located in five states and contain 704 living units, including 531 independent living apartments and 173 assisted living suites. These communities are 88% occupied and 100% of their revenues are paid from residents' private resources. We expect to finance this acquisition with the proceeds of this offering and our cash on hand. Before or after this acquisition is closed, we may enter a financing transaction for some or all of these properties. We expect this acquisition will be completed in April 2002, but there is no assurance that it will close. The closing of this acquisition is subject to completion of various state licensing matters and other customary closing conditions. This offering is not contingent upon our closing this acquisition.

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The offering

Common stock being offered	3,000,000 shares
Common stock to be outstanding after the offering	7,624,333 shares
Use of proceeds	The net proceeds to us from this offering will be \$23.4 million, assuming a public offering price of \$8.29 per share. We intend to use these net proceeds for our pending acquisition. If this acquisition does not occur, we will use these proceeds for general business purposes, possibly including other acquisitions which have not yet been identified.
American Stock Exchange symbol	FVE
Risk factors	An investment in our common shares involves significant risks. Before making an investment in our common shares, you should carefully review the information under the caption "Risk factors".

The number of shares to be outstanding after the offering is based on 4,624,333 shares outstanding on February 28, 2002. If the underwriters exercise their over-allotment option in full, we will issue an additional 450,000 shares.

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Unless otherwise stated, all information contained in this prospectus assumes no exercise of the over-allotment option we granted to the underwriters.

We are a Maryland corporation. Our principal place of business is 400 Centre Street, Newton, Massachusetts 02458, and our telephone number is (617) 796-8387.

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Summary historical and pro forma financial data

The following summary financial data has been derived from the financial statements included elsewhere in this prospectus, and shows, for the period or date presented, our summary historical and pro forma income statement and balance sheet data, giving effect to this offering and the transactions which have occurred and transactions that we expect to occur as described in detail in the footnotes to our pro forma financial statements included elsewhere in this prospectus. As discussed under "Risk factors" and "Management's discussion and analysis of financial condition and results of operations", we are a relatively new company and our historical financial information is not reflective of our current operations. Accordingly, you should not place undue reliance on our historical financial information. In addition, pro forma financial information may not be reflective of what our financial results or financial position would have been had these transactions been consummated as of the dates indicated in our pro forma financial statements.

Year Ended December 31, 2001

Statement of operations data	Historical	After giving pro forma effect to the spin off, the FSQ merger and the lease of 31 Marriott communities	As adjusted for this offering and after giving pro forma effect to the spin off, the FSQ merger and the lease of 31 Marriott communities	As adjusted for this offering and after giving pro forma effect to the spin off, the FSQ merger, the lease of 31 Marriott communities and the pending acquisition
(\$ in thousands, except per share data)				
Revenues	\$229,235	\$506,734	\$506,734	\$520,951
Expenses:				
Property operating expenses	211,850	396,892	396,892	405,397
Rent		77,354	77,354	77,354
Depreciation and amortization	1,274	406	406	1,441
Interest, net	(43)			
General and administrative	15,627	32,137	32,137	32,222
Total expenses	228,708	506,789	506,789	516,414
Income before income taxes	527	(55)	(55)	4,537
Provision for income taxes		(20)	(20)	1,587
Net income	\$527	\$(35)	\$(35)	\$2,950

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Year Ended December 31, 2001

Net income per share	\$0.12	\$(0.01)	\$0.00	\$0.39
Weighted average shares	4,374	4,624	7,624	7,624
Other data:				
Occupancy	88%	90%	90%	90%
Total units	5,211	12,698	12,698	13,402
Private pay % of revenues	24%	59%	59%	60%
EBITDA (1)	1,758	351	351	5,978

Balance sheet data At December 31, 2001

(\$ in thousands)				
Cash and cash equivalents	\$24,943	\$30,608	\$53,986	\$7,986
Total assets	68,043	81,297	104,675	104,675
Total debt				
Total liabilities	17,810	32,018	32,018	32,018
Shareholders' equity	\$50,233	\$49,279	\$72,657	\$72,657

(1) EBITDA consists of earnings before interest, taxes, depreciation and amortization. We consider EBITDA to be an indicative measure of our operating performance. 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 will help shareholders and the investment community 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, operating profit, cash from operations, or any other operating or liquidity performance measure prescribed by accounting principles generally accepted in the United States. Cash expenditures for various long term assets, interest expense and income taxes have been or will be incurred which are not reflected in EBITDA.

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Risk factors

Investing in our common shares entails significant risk. You should carefully consider the risks and uncertainties described below and elsewhere in this prospectus before making an investment decision. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks or uncertainties actually occur, our business could be adversely affected. In this event, the trading price of our common shares could decline and you could lose part or all of your investment.

We have a short operating history.

We are a recently formed company, have a limited operating history, limited historical financial data, and we have operated as an independent public company only since December 31, 2001. Accordingly, we may be unable to execute our business plans effectively. Also, you should not place undue reliance on our historical financial information.

We cannot predict the trading market of our common shares.

Although a trading market exists for our common shares on the American Stock Exchange, our shares recently began trading. We are selling 3,000,000 common shares, assuming the underwriters do not exercise their over-allotment option, which equals 65% of our outstanding common shares before the offering. We can make no prediction as to the effect, if any, that market sales of our common shares or the availability of common shares for sale will have on liquidity, or your ability to readily buy or sell our common shares without adversely affecting the market

price, or on the market prices prevailing from time to time. Sales of substantial amounts of our common shares in the public market, or the perception that such sales could occur, could adversely affect the liquidity of the market for our common shares and their price. The liquidity of the market and price of our common shares may be also adversely affected by changes in our financial performance or prospects, or in the prospects for companies in our industry generally.

Our operating margins are narrow and a small percentage decline in our revenues or increase in our expenses can have a large percentage impact upon our profits.

Our pro forma operating revenues for 2001 are \$507 million, and our pro forma loss before income taxes for 2001 is \$55,000. Assuming the pending acquisition is completed, our pro forma operating revenues for 2001 are \$521 million, and our pro forma income before income taxes is \$4.5 million. A small percentage decline in our revenues or increase in our expenses might have a dramatic negative impact upon our income, may produce losses or may produce a need for additional capital which may not be available on acceptable terms or at all.

Our pending purchase of five senior living communities may not be completed.

We have agreed to purchase five senior living communities with 704 living units for \$45.5 million. We intend to use the proceeds of this offering to partially fund this purchase. This purchase is subject to licensing and other customary conditions. Although we expect to complete this purchase during April 2002 it may not occur by then if at all. If this purchase does not occur, we intend to use the proceeds of this offering for our general business purposes including possibly other acquisitions which have not been identified. Any alternative use of the proceeds of this offering may be less profitable to us than the pending acquisition.

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Our growth strategy may not succeed.

Our business plan includes acquiring additional senior living facilities, some of which will be owned and some of which will be leased. An acquisition strategy involves risks. For example:

- > we may be unable to locate facilities available for purchase at acceptable prices;
- > we may be unable to obtain waivers of Senior Housing's rights of first refusal if the acquisition involves real estate;
- > we may be unable to access the capital to acquire or operate additional facilities because we have limited financeable assets, because our charter prohibits ownership of greater than 9.8% of our shares by any party or for other reasons;
- > acquired operations may bring with them contingent liabilities which mature; and
- > combining our present operations with newly acquired operations may be disruptive.

For these reasons and others, our business plan to grow may not succeed, the benefits which we hope to achieve by growing may not be achieved and our existing operations could suffer from a lack of management attention or financial resources if such attention and resources are devoted to a failed growth strategy.

Medicare or Medicaid rate reductions or a failure of those rates to match increasing costs could cause us to earn less or become unprofitable.

At some of our facilities, operating revenues are received from the Medicare and Medicaid programs. On a pro forma basis, giving effect to all of the transactions described in the notes to our pro forma financial statements, 40% of our total revenues in 2001, 41% if our pending acquisition does not close, was derived from these programs. Since 1998, a Medicare prospective payment system has generally lowered Medicare rates paid for services at facilities such as those that we operate. Many states have adopted formulas to limit Medicaid rates. As a result, in some instances Medicare and Medicaid rates no longer cover costs incurred by operators, including us. Eleven of our nursing homes generated operating expenses in excess of operating revenues for 2001. These eleven facilities derived an average of 81% of their revenues from

Medicare or Medicaid programs during 2001. At present there is an active debate within the federal government and within many state governments regarding whether current Medicare and Medicaid rates should remain at their current level. Medicare or Medicaid rate reductions or a failure of those rates to match our increasing costs could cause us to earn less or become unprofitable.

Nursing home and senior living operators like us are being subjected to increased litigation and insurance costs.

There are various federal and state laws prohibiting fraud by healthcare providers, including criminal provisions that prohibit filing false claims for Medicare and Medicaid payments and laws that govern patient referrals. The state and federal governments seem to be devoting increasing resources to anti-fraud initiatives against healthcare providers. In some states, advocacy groups have been created to monitor the quality of care at senior living facilities, and these groups have brought litigation against operators. Also, in several instances private litigation by nursing home patients has succeeded in winning very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to increase materially the costs of monitoring and reporting quality of care compliance. In addition, the cost of medical malpractice insurance has increased and may continue to

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increase so long as the present litigation environment affecting the operations of nursing homes and other senior living facilities continues. We may be unable to increase the rates which we are paid to cover these increased costs and we may become unprofitable.

If we fail to comply with complex regulations which govern our operations we may be unable to operate profitably.

Physical characteristics of senior living facilities are mandated by various governmental authorities. Changes in these regulations may require significant expenditures. Our leases with Senior Housing require us to maintain our facilities in compliance with applicable laws. In the future, our facilities may require significant expenditures to address ongoing required maintenance and make them attractive to residents. Our available financial resources may be insufficient to fund these expenditures.

State licensing and Medicare and Medicaid laws also require operators of nursing homes and assisted living facilities to comply with extensive standards governing operations. Federal and State agencies administering these laws regularly inspect such facilities and investigate complaints. During the past three years, the Federal Centers for Medicare and Medicaid Services, or the Federal Centers, have increased their efforts to enforce Medicare and Medicaid standards and their oversight of state survey agencies which inspect senior living facilities and investigate complaints. When deficiencies are identified, sanctions and remedies such as denials of payment for new Medicare and Medicaid admissions, civil money penalties, state oversight and loss of Medicare and Medicaid participation may be imposed. The Federal Centers and the states are increasingly using such sanctions and remedies when deficiencies, especially those involving findings of substandard care or repeat violations, are identified. We and Marriott receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed on some of our nursing homes and assisted living facilities from time to time. Sanctions imposed on us or Marriott for deficiencies which are identified in the future, may have adverse financial consequences to us.

We are subject to possible conflicts of interest.

Our creation was, and our continuing business is, subject to possible conflicts of interest, as follows:

- > All of our directors were members of the Board of Trustees of Senior Housing at the time we were created.
- > Four of our five current directors are members of the Board of Trustees of Senior Housing.
- > Our Chief Executive Officer and our Chief Financial Officer are also part time employees of Reit Management & Research LLC. Reit Management is the investment manager for Senior Housing, HRPT Properties Trust and Hospitality Properties Trust and we purchase various services from Reit Management pursuant to a shared services agreement.
- > Our Managing Directors, Barry M. Portnoy and Gerard M. Martin, are also Managing Trustees of Senior Housing and of other REITs managed by Reit Management. Messrs. Portnoy and Martin also own Reit Management and another entity that leases office space to us, and they owned FSQ, Inc. at the time of our merger with FSQ, Inc.

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These conflicts may have caused, and in the future may cause, our business to be adversely affected, including as follows:

- > The leases we entered with Senior Housing may be on terms less favorable to us than leases which would have been entered as a result of arm's length negotiations.

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- > The terms of our merger with FSQ, Inc., our shared services agreement with Reit Management or our office lease with another entity owned by Messrs. Portnoy and Martin may be less favorable to us than we could have achieved on an arm's length basis; specifically, the consideration we paid in the merger of 250,000 of our shares, our payments to Reit Management of 0.6% of our total revenues for shared services, equal to \$3.1 million on a pro forma basis for 2001 after giving effect to the transactions described in the footnotes to our pro forma financial statements, or office rent of \$531,069 per year may be greater than they would have been had these matters been negotiated with third parties.
- > Future business dealings between us and Senior Housing, Reit Management, Messrs. Portnoy and Martin and their affiliates may be on terms less favorable to us than we could achieve on an arm's length basis.
- > We have to compete with Senior Housing and Reit Management for the time and attention of our directors and officers, including Messrs. Portnoy and Martin.

For more information regarding transactions involving us and related parties, you should read the information under the caption "Certain relationships".

Anti-takeover provisions in our governing documents and material agreements may prevent you from receiving a takeover premium for your shares.

Our charter prohibits any party from owning more than 9.8% of our outstanding common shares. Our leases with Senior Housing, our shared services agreement with Reit Management and the transaction agreement we entered in connection with our spin-off from Senior Housing also restrict our share ownership and prohibit any change of control of us. Our charter and bylaws contain other provisions that may increase the difficulty of acquiring control of us by means of a tender offer, open market purchases, a proxy fight or otherwise, if the acquisition is not approved by our Board of Directors. These other anti-takeover provisions include the following:

- > a staggered Board of Directors with separate terms for each class of directors;
- > the availability, without a shareholders' vote, of additional shares and classes of shares that our Board of Directors may authorize and issue on terms that it determines;
- > a 75% shareholder vote required for removal of directors for cause; and
- > advance notice procedures with respect to nominations of directors and shareholder proposals.

For all of these reasons, you may be unable to realize a change of control premium for the common shares that you purchase in this offering.

Our business is highly competitive.

We compete with numerous other companies which provide senior living alternatives, including home healthcare companies and other real estate based service providers. Historically, nursing homes have been somewhat protected from competition by state laws requiring certificates of need to develop new facilities; however, these barriers are being eliminated in many states. Also, there are few barriers to competition for home healthcare or for independent and assisted living services. Growth in availability of nursing home alternatives, including assisted living facilities, has and may in the future have the effect of reducing the occupancy or operating profitability at nursing homes including those we operate. Many of our existing competitors are larger and have greater financial resources than we do. Accordingly, we cannot provide any

assurances that we will be able to attract a sufficient number of

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residents to our facilities or that we will be able to attract employees and keep wages and other employee costs at levels which will allow us to operate profitably, and we do not know whether we will be able to grow our business by acquiring additional operations.

Default provisions in our leases may magnify the impact of a default in other agreements.

We lease a substantial number of facilities from Senior Housing under two leases. In addition to being cross-defaulted with one another, events of default under each of these leases include, among other things, our failure to pay obligations under agreements other than the leases. In the future, if Senior Housing finances other facilities for us, we may agree to add facilities to existing leases or we may agree to further cross-default provisions. The existence of these cross-default provisions may create situations that we are unable to evaluate individually or that cause simultaneous defaults of several agreements, either of which could have a material impact upon our business.

Our existing contracts with Senior Housing and others may inhibit our ability to grow.

In connection with our recent spin-off from Senior Housing, we entered agreements which prohibit us from acquiring or financing real estate in competition with Senior Housing, HRPT Properties, Hospitality Properties or other real estate entities managed by Reit Management, unless those investment opportunities are first offered to Senior Housing, HRPT Properties, Hospitality Properties or those real estate entities. Although we have obtained the necessary waivers to allow us to complete the pending acquisition of the five communities described in this prospectus, these agreements may make it difficult, more expensive or impossible for us to acquire additional facilities in the future. In addition, certain provisions of our leases with Senior Housing, such as the provisions limiting our ability to discontinue operations in any of the facilities or assign the leases, limit our operating flexibility. Also, because of our various relationships with Senior Housing and Reit Management, competitors of those companies may be unwilling to lease senior living facilities to us or conduct business with us. These circumstances may prevent us from realizing some growth opportunities.

Senior Housing creditors may have the right to cancel our leases.

Our leases with Senior Housing are subordinated to mortgages and other indebtedness of Senior Housing totaling \$33.1 million at December 31, 2001, and may be subordinated to additional indebtedness that Senior Housing incurs. In the event Senior Housing defaults upon debts to which our leases are subordinated, we may lose our rights to operate the leased properties.

Our management team has limited experience working together.

Our management team has been assembled for less than two years. We do not have employment agreements with any of our executive officers. Two of our executive officers have other business interests which may prevent them from working full time on our business. All of our directors have other business interests which will prevent them from working full time on our business. These conditions may make it difficult for us to carry out our business plans.

Our owned and leased properties are subject to real estate risks.

Our leases require that we pay for and indemnify Senior Housing from all liabilities associated with the ownership or operation of the facilities we lease from Senior Housing which arise prior to or

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during the terms of our leases. Also, we may own real estate in the future, including as a result of our pending acquisition. Accordingly, our business is subject to risks associated with real estate, including:

- > costs associated with uninsured damages, including damages for which insurance may be unavailable or unavailable on commercially reasonable terms;

- > costs and damages caused by eminent domain takings;
- > costs that may be required for maintenance and repair; and
- > the need to make expenditures due to changes in laws and other regulations, including the Americans with Disabilities Act.

Our business exposes us to environmental risks.

Under various laws in the United States, operators of real estate may be required to investigate and clean up hazardous substances present at their leased properties, including but not limited to medical waste, mishandled petroleum products and asbestos containing materials, and may be held liable for property damage or personal injuries that result from such contamination. These laws also expose us to the possibility that we become liable to reimburse the government for damages and costs it incurs in connection with the contamination. As the owner of real estate leased to us, Senior Housing may be also subject to similar liabilities, and we have agreed to indemnify Senior Housing from costs it incurs at our leased properties related to environmental hazards which arise prior to or during the terms of our leases. We can give you no assurance that environmental liabilities are not present in our operated facilities or that costs we incur to remediate contamination or the presence of asbestos will not have a material adverse effect on our business and financial condition.

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Forward-looking statements

We have made statements that are not historical facts in this prospectus that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements concern:

- > our ability to successfully close the pending acquisition on negotiated terms or at all;
- > our ability to manage effectively the 56 facilities we lease from Senior Housing and the communities we intend to acquire;
- > Marriott's ability to manage effectively the 31 retirement communities we lease from Senior Housing;
- > our ability to generate revenues in excess of our operating expenses and the sufficiency of these and other resources to provide capital for our growth or to pay our liabilities, including rent, as they come due;
- > our ability to close our pending \$20 million line of credit;
- > our ability to access additional capital to fund our operations and growth;
- > our ability to acquire and operate successfully additional senior living businesses; and
- > our ability to operate successfully as a separate public company.

Also, whenever we use words such as "believe", "expect", "anticipate", "estimate" or similar expressions, we are making forward-looking statements. Forward-looking statements are not guaranteed to occur and involve risks and uncertainties. Our expected results may not be achieved, and actual results may differ materially from our expectations. This may be a result of various factors, including risks outlined under "Risk factors".

Investors should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations which may or may not occur.

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Use of proceeds

The net proceeds to us from this offering, assuming a public offering price of \$8.29 and after deduction of the underwriting discount and estimated offering expenses payable by us, are estimated to be \$23.4 million (\$26.9 million if the underwriters' over-allotment option is exercised in full). We intend to use these net proceeds to fund a portion of our pending acquisition of five communities for \$45.5 million. Until we complete our pending acquisition, we may deposit all or a portion of the net proceeds in interest bearing accounts or invest them in short term securities, including securities that may not be investment grade rated. In the event this acquisition is not completed we intend to use the net proceeds for general business purposes, including possibly other acquisitions which have not been identified.

Market price of common shares

Our common shares are traded on the American Stock Exchange under the symbol "FVE." The following table presents the high and low closing price for our common shares as reported on the American Stock Exchange for each calendar quarter since they began to trade:

Period	Low	High
December 13 to 31, 2001	\$6.12	\$7.50
January 1 to February 28, 2002	6.97	8.75

On February 28, 2002 the last reported sale price of our common shares on the American Stock Exchange was \$8.29 per share. As of February 28, 2002, there were approximately 5,000 shareholders of record of our common shares.

Dividend policy

We do not expect to pay dividends in the foreseeable future.

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Capitalization

The following table describes our capitalization as of December 31, 2001, on a historical basis, and on a pro forma basis after giving effect to the transactions described in the footnotes to our pro forma financial statements appearing elsewhere in this prospectus:

At December 31, 2001

Historical	After giving pro forma effect to the FSQ merger and the lease of 31 Marriott communities	As adjusted for this Offering and after giving pro forma effect to the FSQ merger and the lease of 31 Marriott communities	As adjusted for this Offering and after giving pro forma effect to the FSQ merger, the lease of 31 Marriott communities and the pending acquisition
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At December 31, 2001

(\$ in thousands)				
Cash	\$24,943	\$30,608	\$53,986	\$7,986
Debt				
Shareholders' equity:				
Common Stock, par value \$0.01, shares outstanding: 4,374,333 historical; 4,624,333 pro forma; and 7,624,333 pro forma as adjusted				
Total shareholders' equity:	50,233	49,279	72,657	72,657
Total capitalization	\$50,233	\$49,279	\$72,657	\$72,657

Dilution

The recent trading price of our common shares is less than their book value per share determined according to generally accepted accounting principles, or GAAP. Accordingly, assuming that you purchase our shares at the price set forth on the cover of this prospectus, you will not suffer dilution in book value. Book value per share at December 31, 2001, was \$11.48; as adjusted for this offering, assuming a public offering price of \$8.29 per share, book value per share will be \$9.53.

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Selected financial data

The following table presents selected financial data which has been derived from our historical financial statements for the period from April 27, 2000 (the date we commenced operations) through December 31, 2001. The following data should be read in conjunction with our financial statements and the notes thereto included elsewhere in this prospectus, and "Management's discussion and analysis of financial condition and results of operations". As discussed under "Risk factors" and "Management's discussion and analysis of financial condition and results of operations", we are a relatively new company and our historical financial information is not reflective of our current operations. Accordingly, you should not place undue reliance on our historical financial information.

	Year ended December 31, 2001	Period from April 27, 2000 through December 31, 2000
(\$ in thousands)		
Five Star Quality Care, Inc.		
Operating data		
Total revenues	\$229,235	\$2,520
Net income (loss)	527	(1,316)
Earnings (loss) per share	\$ 0.12	\$ (0.30)
Balance sheet data		

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Period from
April 27, 2000
through
December 31, 2000

Year ended
December 31, 2001

Total assets \$68,043 \$54,788

The following table presents selected financial data of our two predecessors and has been derived from historical financial statements of those predecessors included elsewhere in this prospectus. The following data should be read in conjunction with the financial statements and notes thereto entitled Combined Financial Statements of Forty-Two Facilities acquired by Senior Housing Properties Trust from Integrated Health Services, Inc. and Combined Financial Statements of Certain Mariner Post-Acute Network Facilities (Operated by Subsidiaries of Mariner Post-Acute Network) included elsewhere in this prospectus, and "Management's discussion and analysis of financial condition and results of operations - Historical results of operations - Mariner Predecessor" and "Historical results of operations - Integrated Predecessor". The following table presents the information from 1997 to 2000.

	Year ended December 31,			
	2000	1999	1998	1997
(in thousands)				
Integrated Predecessor				
Operating data				
Operating revenues	\$135,378	\$130,333	\$140,116	\$104,727
Net loss	(25,252)	(126,939)	(17,183)	(10,432)
Balance sheet data				
Total assets	\$34,942	\$61,274	\$190,553	\$174,954
Long term liabilities		17,500	17,751	18,006
Mariner Predecessor				
Operating data				
Operating revenues	\$85,325	\$86,945	\$105,486	\$107,829
Net loss	(7,421)	(43,804)	(7,710)	(9,453)
Balance sheet data				
Total assets	\$23,052	\$17,433	\$62,502	\$84,119
Long term liabilities	32,091	28,603	33,195	15,498

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Management's discussion and analysis of financial condition and results of operations

You should read the following discussion in conjunction with our historical and pro forma financial statements and the financial statements of our predecessors and others included elsewhere in this prospectus.

OVERVIEW

We were incorporated in April 2000 as a Delaware corporation and reincorporated in Maryland in September 2001. We were formed as a 100% owned subsidiary of Senior Housing. Effective July 1, 2000, we assumed the operations of healthcare facilities from two bankrupt former tenants of Senior Housing. At the time we assumed operations of these facilities, we had not received substantially all of the required licenses for these facilities. As a result, for the period from July 1, 2000, through December 31, 2000, we accounted for the operations of these facilities using the equity method of accounting and we only recorded the net income from these operations. Since that time, we have obtained all necessary licenses to operate these facilities, and on January 1, 2001, we began to consolidate the results of operations of these facilities. On December 31, 2001, Senior Housing distributed substantially all of our shares to its shareholders in a spin-off transaction and we became an independent public company.

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Since we succeeded to substantially all of the business formerly conducted by subsidiaries or units of two former tenants of Senior Housing, these subsidiaries and units are considered to be our predecessors. We have included the financial statements of these predecessors in this prospectus and discuss their results of operations. Our predecessors' financial statements are entitled: Certain Mariner Post-Acute Network Facilities (referred to herein as Mariner Predecessor); and Forty-Two Facilities Acquired by Senior Housing Properties Trust from Integrated Health Services, Inc. (referred to herein as Integrated Predecessor).

Our revenues consist primarily of payments for services provided to residents at our facilities. The payments are either paid for by the residents, their families or insurers, or by the Medicare and Medicaid programs. The substantial majority of our historical revenues have been paid by the Medicare and Medicaid programs. The substantial majority of the revenues associated with the 31 Marriott facilities are paid by the patients, or private pay. On a pro forma basis, after giving effect to the new lease which we entered for the 31 Marriott facilities in January 2002 and the pending acquisition of five facilities, for the year ended December 31, 2001, private pay revenues would have represented 60% of our total revenues, or 59% if our pending acquisition does not close. Our expenses consist primarily of wages and benefits of personnel, food, supplies and other patient care costs, as well as taxes, insurance and other property related costs.

We were a subsidiary of Senior Housing until December 31, 2001. The 2001 results presented in this prospectus are for a period during which we were a subsidiary of Senior Housing and they are not necessarily indicative of what our results would have been as a separate public company. Similarly these results are not indicative of future financial performance. Our future results of operations are expected to differ materially from the historical results presented in this prospectus. Material differences are expected because our future operations will include, among other factors, rent expense on leases to Senior Housing, general and administrative costs incurred by us as a separate company, revenues and expenses related to our lease entered in January 2002 for 31 retirement communities operated by Marriott and from the pending acquisition, if it closes.

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We accounted for our merger with FSQ as the termination of a management contract rather than as a business combination. As a result, at the closing of the merger, because the FSQ liabilities assumed plus the value of our common shares issued in connection with the FSQ acquisition exceeded the fair value of FSQ's assets acquired, we recognized an expense of \$2.8 million. For this purpose, the fair value of our common shares was based on the average of the high and low price of our shares on the day of the merger, or \$7.50 per share.

OUR HISTORICAL RESULTS OF OPERATIONS

As described above, we operated, until completion of the spin-off, as a subsidiary of Senior Housing. Our past operations as Senior Housing's subsidiary differ from our current operations as an independent public company as follows:

- > our historical operating business included certain facilities, assets and activities which we do not own or conduct and did not include such other factors discussed above; and
- > the principal source of financing for these operating businesses was intercompany advances from Senior Housing, an entity with financial resources substantially in excess of ours.

We believe that because of these differences, the historical results of operations described below are not comparable to our current operations or our expected future operations. Specifically, in the historical periods discussed we operated only 56 properties for Senior Housing, which owned the real estate as well as the operations. Effective December 31, 2001, we leased these 56 facilities from Senior Housing which continued to own the real estate. On January 11, 2002, we began to lease an additional 31 facilities from Senior Housing. Moreover, we now conduct our own affairs and incur costs as a separate public company some of which are more and some of which are less than the costs incurred by Senior Housing and allocated to us in the historical periods.

Years ended December 31, 2001 and 2000

We did not begin to operate the senior living facilities of our predecessors or generate revenue until July 1, 2000. Therefore, our results for the year ended December 31, 2001, are not comparable to the year ended December 31, 2000.

Revenues for the year ended December 31, 2001, were \$229.2 million. On a combined basis, the two predecessor entities had revenues of \$220.7 million for the year ended December 31, 2000. This increase was due mainly to an increase in the average daily rate received during these periods.

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Expenses for the year ended December 31, 2001, were \$228.8 million. On a combined basis, the predecessor entities had expenses of \$253.4 million for the year ended December 31, 2000. The decrease is due primarily to rent and interest expenses which were included in the 2000 expenses of our predecessors but were zero in 2001 because, after Senior Housing's repossessions and foreclosures, rent and interest payments on the leases and mortgages ceased.

Period from April 27, 2000 (date operations commenced) through December 31, 2000

This period was our first period of operations and, therefore, there is no comparable period.

During 2000 we accounted for our investment in these operating businesses using the equity method of accounting. As a result, the reported revenues included our equity in earnings of these investees. Revenues for 2000 were \$2.5 million and represent the net amount of net patient revenues in excess of expenses of these operations for the 2000 period. Net patient revenues at the operating businesses for the six months ended December 31, 2000, were \$114.5 million and expenses incurred for the period were \$112.0 million.

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LIQUIDITY AND CAPITAL RESOURCES

On a historical basis our expenditures, including capital expenditures and for working capital, were provided by Senior Housing. We maintained no financing sources apart from Senior Housing.

At the time of our spin off from Senior Housing on December 31, 2001, we had cash of \$24.9 million, operating accounts receivable of \$36.4 million and accrued operating expenses and other liabilities totaling \$17.8 million.

We lease all of our current facilities from Senior Housing. Our leases with Senior Housing require us to pay a total of \$70 million of base rent annually. Percentage rent on our current leases does not begin until 2003 and 2004. We expect these increases to be modest relative to our overall liquidity. Payments required of us under our lease for 31 Marriott facilities also include a percentage of revenues for a capital expenditure reserve. If events of default under the leases occur, Senior Housing has the ability to accelerate our rent payments. Our leases with Senior Housing are cross-defaulted with one another, and events of default include: our failure to pay rent when due; our default under any indebtedness which gives the holder the right to accelerate; our default under the Marriott management agreements; and our being declared ineligible to receive reimbursement under Medicare and Medicaid programs for any of the leased facilities.

On January 10, 2002, we accepted a non-binding letter of intent from a lender for a \$20 million line of credit to be secured by our accounts receivable. This financing is subject to lender diligence, final documentation and other customary conditions. We expect this financing to close on or before March 31, 2002, but it may not close before that date or at all.

On January 23, 2002, we agreed to acquire five communities for \$45.5 million. We expect to fund this acquisition with our cash, the proceeds of this offering and possibly also with proceeds of our proposed secured line of credit. We have also had preliminary discussions with Senior Housing concerning its providing interim or long term financing for this acquisition in the event that the funds available to us are not sufficient to close this acquisition; however, we have not reached any agreement with Senior Housing concerning such interim or long term financing.

Other than our leases with Senior Housing and our agreement to acquire five communities, we have no individually material contractual or commercial obligations or commitments.

Our primary source of cash to fund operating expenses, including rent and routine capital expenditures, is the resident revenues we generate at our facilities. Changes in laws and regulations which impact Medicare or Medicaid rates, on which many of our properties rely for substantial amounts of revenues, or changes in insurance costs caused by recent, material litigation awards in some states may materially affect our future results. We believe that our revenues will be sufficient to allow us to meet our ongoing operating expenses, working capital needs and rent payments to Senior Housing in the short term, or next 12 months, and long term, whether or not we arrange for a line of credit secured by our receivables, as described above. Despite this belief, our operating cash flow as a percentage of our revenues is small; a small percentage decline in revenue or increase in our operating expenses could eliminate or reduce our operating cash flow. If our other resources, such as our cash on hand, or our pending \$20 million line of credit, are not available or insufficient, the decline in operating cash flow may cause lease defaults or other material consequences.

Our shared services agreement with Reit Management allows us to defer payments to Reit Management under the shared services agreement if necessary to make rent payments to Senior Housing. On a pro forma basis, assuming completion of our January 2002 lease for 31 Marriott facilities and our pending acquisition, payments to Reit Management for shared services would have totaled \$3.1 million during the year ended

December 31, 2001.

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SEASONALITY

Our business is subject to modest effects of seasonality. During the calendar fourth quarter holiday periods nursing home and assisted living residents are sometimes discharged to join family celebrations and admission decisions are often deferred. The first quarter of each calendar year usually coincides with increased illness among nursing home and assisted living residents which can result in increased costs or discharges to hospitals. As a result of these factors, nursing home and assisted living operations sometimes produce greater earnings in the second and third quarters of a calendar year and lesser earnings in the first and fourth quarters. We do not believe that this seasonality will cause fluctuations in our revenues or operating cash flow to such an extent that we will have difficulty paying our expenses, including rent, which do not fluctuate seasonally.

INFLATION AND DEFLATION

Inflation in the past several years in the United States has been modest. Future inflation might have both positive or negative impacts on our business. Rising price levels may allow us to increase occupancy charges to residents, but may also cause our operating costs, including our percentage rent, to increase.

Deflation would likely have a negative impact upon us. A large component of our expenses consist of minimum rental obligations to Senior Housing. Accordingly we believe that a general decline in price levels which could cause our charges to residents to decline would likely not be fully offset by a decline in our expenses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no obligations for funded debt and as such are not directly affected by changes in market interest rates. However, as discussed above, we expect to enter a \$20 million revolving credit facility secured by our accounts receivable. We expect that this loan facility will require interest on drawn amounts at floating rates based upon a spread above LIBOR. Accordingly, whenever borrowing are outstanding under such a credit facility we may be exposed to market changes in interest rates, especially market changes in short term LIBOR rates. For example, if the full amount of a \$20 million line of credit were drawn and interest rates rose by 1% per annum, our interest expense would increase by \$200,000 per year, or \$0.04 per share.

We may from time to time consider our exposure to interest rate risks if we have or expect to have material amounts of floating rate obligations. As a result of these considerations we may decide to purchase interest rate caps or other hedging instruments.

CRITICAL ACCOUNTING POLICIES

Our most critical accounting policies regard revenue recognition and our assessment of the net realizable value of our accounts receivable. These policies involve significant judgments based upon our experience, including judgments about changes in payment methodology, contract modifications and economic conditions that may affect the collectibility of our accounts receivable. In the future we may need to revise our assessment to incorporate information which is not yet known and such revisions could increase or decrease our net revenues or cause us to adjust the net carrying value of our accounts receivable.

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HISTORICAL RESULTS OF OPERATIONS MARINER PREDECESSOR

The Mariner Predecessor conducted operations of 17 facilities leased from Senior Housing. The operations of the Mariner Predecessor during the period prior to its acquisition by Senior Housing differ from our operations as follows:

>

The business of the Mariner Predecessor was conducted by its then parent, Mariner Post-Acute Network, an entity with a capital structure, corporate overhead costs, and operating systems substantially different than ours.

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- > During the period of Mariner's operation of this business, significant write offs of goodwill and other long lived assets of the Mariner Predecessor occurred and Mariner filed for bankruptcy.

We believe that because of these differences, the historical results of operations described below are not comparable to our operations. Specifically, the historical operations described below include: revenues and operating expenses for only 17 facilities, one of which has since been closed, while currently we generate revenues and incur operating expenses at present at 87 facilities; revenues prior to 1999 which were based in part upon Medicare rates established prior to the completion of the phase-in of the new Medicare prospective payment system; depreciation expenses which relate to real estate and amortization expenses which relate to goodwill, while we do not have substantial depreciable assets; expenses related to allocation of corporate overhead by the parent of these operations, while we incur different corporate expenses; rent expense under a lease which has been cancelled; charges for impairments of long lived assets of substantial amounts, while we do not have substantial long lived assets and have not incurred similar changes; and interest expense incurred on debt, while we have no debt as of the date of this prospectus.

Years ended December 31, 2000 and 1999 Mariner Predecessor

Revenues for the year ended December 31, 2000, were \$85.3 million. These revenues represent a decrease of \$1.6 million from the revenues in the 1999 period. This decrease is attributable primarily to a slight decrease in occupancy at the facilities in operation during both periods and to the closing of one facility.

Expenses for the year ended December 31, 2000, were \$92.6 million, a decrease of \$1.6 million over the 1999 period, excluding non-recurring or unusual charges and write offs incurred in 1999. This decrease is attributable primarily to decreases in general and administrative costs and provision for bad debts and rent, offset by an increase in salary, wages and benefits.

Net loss for the year ended December 31, 2000, was \$7.4 million, a decrease in loss of \$36.4 million over the 1999 period. This decrease in loss is principally attributable to the impact of unusual charges related to the impairment of long lived assets in 1999.

HISTORICAL RESULTS OF OPERATIONS INTEGRATED PREDECESSOR

The Integrated Predecessor conducted operations of 42 facilities leased from or mortgaged to Senior Housing. The operations of the Integrated Predecessor during the period prior to its acquisition by Senior Housing differ from our operations as follows:

- > The business of the Integrated Predecessor was conducted by its then parent, Integrated Health Services, Inc., an entity with a capital structure, corporate overhead costs, and operating systems substantially different than ours.

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- > During the period of Integrated Health Services' operation of this business, significant write offs of goodwill and other long lived assets of the Integrated Predecessor occurred and Integrated Health Services filed for bankruptcy.

We believe that because of these differences, the historical results of operations described below are not comparable to our operations. Specifically, the historical operations described below include: revenues and operating expenses for only 42 facilities, one of which has since been closed, while we currently generate revenues and incur operating expenses at 87 facilities; revenues prior to 1999 which were based in part upon Medicare rates established prior to the completion of the phase in of the new Medicare prospective payment system; depreciation expenses which relate to real estate and amortization expenses which relate to intangible assets, while we do not have substantial depreciable assets; expenses related to corporate overhead and management fees charged by the parent of the Integrated Predecessor, while we incur different corporate expenses; rent expense under a lease which has been cancelled; charges for impairments of long lived assets of substantial amounts, while we do not have substantial long lived assets and have not incurred similar charges; and interest expense incurred on debt, while we have no debt as of the date of this prospectus.

Years ended December 31, 2000 and 1999 Integrated Predecessor

Revenues for the year ended December 31, 2000, were \$135.4 million. These revenues represent an increase of \$5.0 million over the revenues in the 1999 period. This increase resulted primarily from an increase in Medicaid rates and an increase in occupancy at the Integrated Predecessor facilities.

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Expenses for the year ended December 31, 2000, excluding non-recurring or unusual charges and write offs of \$16.7 million as discussed in the next paragraph, were \$144.0 million, a decrease of \$2.1 million from the 1999 period. This decrease is attributable primarily to a decrease in rent, depreciation and amortization at the Integrated Predecessor facilities offset by increased operating expenses.

During the 2000 period, the Integrated Predecessor incurred unusual charges related to a loss on settlement of lease and mortgage obligations of \$16.7 million. These charges were a result of the bankruptcy settlement between Integrated and Senior Housing and represent the carrying value of the tangible and intangible assets of the facilities conveyed to Senior Housing, less the debts due Senior Housing which were not paid. During the 1999 period, the Integrated Predecessor incurred write-offs and unusual charges related to a loss on impairment of long lived assets of \$120.0 million.

Net loss for the year ended December 31, 2000, was \$25.3 million, a decrease of \$101.7 million from the net loss of \$126.9 million in 1999. This decrease in loss is attributable to the decreases in rent, depreciation and amortization and the impact of unusual charges discussed above.

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Business

GENERAL

We are in the business of operating senior living facilities, including independent living and congregate care communities, assisted living facilities and nursing homes. We lease and operate 56 senior living facilities. We lease 31 communities that Marriott manages. Combined, these 87 facilities, which we lease from Senior Housing, include 4,060 independent living apartments, 1,766 assisted living suites, 294 special care beds and 6,578 nursing beds; 59% of their revenues in 2001 was paid from residents' private resources and 41% was paid by Medicare and Medicaid.

We have recently agreed to purchase five senior living communities which we will own and operate. In combination with our existing facilities, these 92 facilities include 4,591 independent living apartments, 1,939 assisted living suites, 294 special care beds and 6,578 nursing beds. Sixty percent of our pro forma revenues from these 92 facilities in 2001 was paid from residents' private resources and 40% was paid by Medicare and Medicaid:

**FIVE STAR UNITS AFTER
COMPLETION OF PENDING ACQUISITION**

**FIVE STAR REVENUES AFTER
COMPLETION OF PENDING ACQUISITION**

OUR BUSINESS AND GROWTH STRATEGY

Our growth strategy is to acquire facilities that provide high quality services to residents who pay with private resources. In January 2002, we leased 31 senior living communities from Senior Housing. Approximately 88% of the revenues from these communities is paid by residents from their private resources. At the five communities we have agreed to acquire, all of the revenues are paid by residents from private resources. Our nursing homes derive a majority of their revenue from Medicare and Medicaid. In the future we may decide to expand our nursing home operations; however, if we do so, we expect to price such acquisitions at levels which take account of the increased risks associated with Medicare and Medicaid revenues.

Our senior management team has significant experience in the senior living industry. Although we have substantial lease obligations, we currently have zero debt. We believe our relationship with our former parent company, Senior Housing, may provide us with capital to finance some acquisitions. We believe that this combination of our experienced management, our financial position and our relationship with Senior Housing will enable us to expand our operations and compete successfully in the senior living industry.

OUR HISTORY

In July 2000, Senior Housing repossessed or acquired senior living facilities from two former tenants. We were created by Senior Housing in 2000 as a 100% subsidiary to conduct the businesses of operating these facilities. Under the amended Internal Revenue Code, or IRC, Senior Housing was required to engage an independent operating company to manage the healthcare businesses which we owned. Messrs. Portnoy and Martin formed FSQ, Inc. to manage these facilities. During the past year, we believe the combined operations at these 56 facilities have stabilized and improved.

In August 2001, Senior Housing agreed to acquire 31 Marriott senior living facilities. The operations at these 31 communities are managed by Marriott under long term management contracts. The operating income generated by these facilities is not REIT qualified income under applicable IRC rules. To complete this acquisition and remain a REIT, Senior Housing was required to identify a taxable entity to lease these facilities.

On December 31, 2001, Senior Housing distributed substantially all of our outstanding shares to its shareholders and we became a separate publicly owned company listed on the American Stock Exchange. Pursuant to the transaction agreement governing this spin-off:

- > Senior Housing capitalized us with \$50 million of equity, consisting of cash and working capital, primarily operating receivables net of operating payables;
- > we leased 56 facilities from Senior Housing;
- > we agreed to merge with FSQ, Inc. in order to acquire the personnel, systems and assets necessary to operate these 56 facilities; and
- > we agreed to lease the 31 Marriott communities from Senior Housing when they were acquired by Senior Housing.

Effective January 2, 2002, we completed our merger with FSQ, Inc. As consideration for this merger Messrs. Portnoy and Martin each received 125,000 of our common shares.

On January 10, 2002, we entered a non-binding letter of intent for a new, three year, \$20 million credit line which will be secured by our accounts receivable. Although the closing of this transaction is subject to customary contingencies, we expect it to occur on or before March 31, 2002.

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On January 11, 2002, Senior Housing completed its acquisition of the 31 Marriott communities, and we leased these facilities from Senior Housing.

On January 23, 2002, we agreed to acquire five senior living communities for \$45.5 million. The closing of this acquisition is subject to completion of various state licensing matters and other customary closing conditions, and although we expect it to be completed during April

2002, we can give no assurances that it will close. We intend to use the proceeds of this offering to partially fund this acquisition.

TYPES OF FACILITIES

Our present business plan contemplates the leasing and management of senior apartments, independent living apartments, assisted living facilities, congregate care communities and nursing homes. Some facilities combine more than one type of service in a single building or campus.

Senior apartments

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

Independent living apartments

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

Assisted living facilities

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

Nursing homes

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

During the past few years, nursing home operators have faced two significant business challenges. First, the rapid expansion of the assisted living industry which started in the early 1990s has attracted a number of residents away from nursing homes. This was especially significant because the residents who chose assisted living facilities often previously had been the most profitable residents in the

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nursing homes. These residents required a lesser amount of care and were able to pay higher private rates rather than government rates.

The second major challenge arose as a result of Medicare and Medicaid cost containment laws, particularly 1997 federal legislation that required the Medicare program to implement a prospective payment program for various subacute services provided in nursing homes. Implementation of this Medicare prospective payment program began on July 1, 1998. Prior to the prospective payment program, Medicare generally paid nursing home operators based upon audited costs for services provided. The new prospective payment system sets Medicare rates based upon government estimated costs of treating specified medical conditions. Although it is possible that a nursing home may increase its profit if it is able to provide services at below average costs, we believe that the effect of the Medicare prospective payment system has been and will be to reduce the profitability of Medicare services in nursing homes. This belief is based upon our observation of the impact of similar Medicare changes that were implemented for hospitals during the 1980s and the large number of bankruptcies which have occurred in the nursing home industry since the implementation of the Medicare prospective payment system began.

OUR SENIOR LIVING FACILITIES

Assuming we close our pending acquisition of five communities, we will lease or operate 92 senior living facilities: five facilities which we expect to own and operate directly; 56 facilities included in one lease which we operate directly; and 31 communities included in a second lease which are managed by Marriott:

Ownership	No. of Units					Year ended December 31, 2001	
	Independent Living Apartments	Assisted Living Suites	Specialty Care Beds	Nursing Beds	Total	Rent	Revenues (\$ in thousands)
Pending acquisition (5 facilities owned and operated by us)	531	173			704	N/A	\$14,194(2)
Senior Housing Lease No. 1 (56 facilities operated by us)	79	153		4,979	5,211	\$7,000	227,044
Senior Housing Lease No. 2 (31 facilities managed by Marriott)	3,981	1,613	294	1,599	7,487	63,000(1)	277,413
Total units:	4,591	1,939	294	6,578	13,402		

(1)

In addition to the \$63 million of rent, we are required to pay a percentage of our gross revenue as an escrowed reserve for recurring capital expenditures. In 2001 this pro forma amount was \$7.3 million.

(2)

For the twelve months ended November 30, 2001.

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PENDING ACQUISITION

In January 2002, we agreed to purchase five senior living communities. Our acquisition of these five communities is subject to completion of various state licensing matters and other customary closing conditions. At this time we expect to own and operate these communities directly. In the future we may decide to finance these properties with Senior Housing or another third party. These five communities contain 704 living units and are located in five states. The following table provides additional information about these five communities and their current operations:

Location	No. of units	Type of units	Occupancy(1)	Revenues(2)	Percent of revenues from private pay sources
(\$ in thousands)					
1. Stockton, CA	84	ind. liv. apts.			
	80	asst. liv. suites			
	164	total units	94%	\$ 3,406	100%
2. Ft. Myers, FL	186	ind. liv. apts.			
	20	asst. liv. suites			

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Location	No. of units	Type of units	Occupancy(1)	Revenues(2)	Percent of revenues from private pay sources
	206	total units	90%	\$ 4,107	100%
3. Overland Park, KS	141	ind. liv. apts.	91%	\$ 2,887	100%
4. Florissant, MO	120	ind. liv. apts.	81%	\$ 1,974	100%
5. Omaha, NE	73	asst. liv. suites	82%	\$ 1,820	100%
Totals: 5 communities in 5 states	531	ind. liv. apts.			
	173	asst. liv. suites			
	704	units	88%	\$14,194	100%

(1) As of November 30, 2001.

(2) For the twelve months ended November 30, 2001.

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SENIOR HOUSING LEASE NO. 1 FACILITIES

We lease and operate 56 senior living facilities which are owned by Senior Housing. These 56 facilities include 54 nursing homes and two assisted living facilities; four of the nursing homes also contain some assisted living units. These 56 facilities have 5,211 beds or living units and they are located in 12 states. The following table provides additional information about these facilities and their current operations as of and for the year ended December 31, 2001:

Location/Units	Occpy.	Revenues (\$ in 000s)	Percent of revenues from Medicare/Medicaid
1. Phoenix, AZ 119 nursing beds	80%	\$4,367	80%
2. Yuma, AZ 125 nursing beds	92%	6,080	80%
3. Yuma, AZ 52 asst. liv. suites	84%	576	0%
4. Arleta, CA 85 asst. liv. suites	87%	1,473	0%
5. Lancaster, CA 99 nursing beds	94%	4,860	67%
6. Stockton, CA 116 nursing beds	97%	6,620	72%
7. Thousand Oaks, CA 124 nursing beds	94%	7,142	72%
8.	97%	2,835	83%

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Location/Units	Occupy.	Revenues (\$ in 000s)	Percent of revenues from Medicare/ Medicaid
Van Nuys, CA 58 nursing beds			
9. Canon City, CO 85 nursing beds 48 ind. liv. apts.	91%	3,576	62%
10. Cherrelyn, CO 198 nursing beds	90%	9,272	83%
11. Colorado Springs, CO 75 nursing beds	100%	3,833	75%
12. Delta, CO 76 nursing beds 16 asst. liv. suites	78%	3,572	83%
13. Grand Junction, CO 95 nursing beds	87%	4,152	62%
14. Grand Junction, CO 82 nursing beds	93%	4,221	71%
15. Lakewood, CO 125 nursing beds	86%	5,677	82%
16. New Haven, CT 150 nursing beds	98%	10,101	95%
17. Waterbury, CT 150 nursing beds	95%	10,109	93%
18. College Park, GA 99 nursing beds	91%	3,163	98%
19. Dublin, GA 130 nursing beds	85%	3,798	97%
20. Glenwood, GA 61 nursing beds	81%	1,694	95%
21. Marietta, GA 109 nursing beds	87%	3,745	88%
22. Clarinda, IA 96 nursing beds	60%	2,366	70%
23. Council Bluffs, IA 62 nursing beds	95%	2,428	87%
24. Des Moines, IA 85 nursing beds	88%	3,862	80%
25. Glenwood, IA 116 nursing beds	100%	6,754	99%
26. Mediapolis, IA 62 nursing beds	89%	2,299	66%
27. Pacific Junction, IA 12 nursing beds	100%	733	96%
28. Winterset, IA 98 nursing beds 19 ind. liv. apts.	70%	2,637	50%
29. Ellinwood, KS 55 nursing beds 4 ind. liv. apts.	93%	1,821	56%
30. Farmington, MI 149 nursing beds	76%	9,985	78%
31. Howell, MI 149 nursing beds	88%	9,999	86%
32. Tarkio, MO 75 nursing beds	69%	1,936	70%
33. Ainsworth, NE 48 nursing beds	87%	1,652	71%

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Location/Units	Occpy.	Revenues (\$ in 000s)	Percent of revenues from Medicare/ Medicaid
34. Ashland, NE 101 nursing beds	94%	4,423	69%
35. Blue Hill, NE 63 nursing beds	85%	2,136	69%
36. Campbell, NE 45 nursing beds	85%	1,538	76%
37. Central City, NE 65 nursing beds	95%	2,310	73%
38. Columbus, NE 48 nursing beds	98%	2,087	63%

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39. Edgar, NE 52 nursing beds	86%	1,680	66%
40. Exeter, NE 48 nursing beds	87%	1,489	58%
41. Grand Island, NE 76 nursing beds	98%	3,091	66%
42. Gretna, NE 61 nursing beds	93%	2,459	67%
43. Lyons, NE 63 nursing beds	81%	1,822	57%
44. Milford, NE 54 nursing beds	90%	1,950	69%
45. Sutherland, NE 62 nursing beds	92%	2,354	80%
46. Utica, NE 40 nursing beds	96%	1,715	75%
47. Waverly, NE 50 nursing beds	86%	2,003	49%
48. Brookfield, WI 224 nursing beds	95%	11,612	73%
49. Clintonville, WI 103 nursing beds	87%	3,634	74%
50. Clintonville, WI 61 nursing beds	94%	3,264	67%
51. Madison, WI 63 nursing beds	74%	2,891	59%
52. Milwaukee, WI 154 nursing beds	80%	6,816	76%
53. Pewaukee, WI 175 nursing beds	84%	7,275	71%
54. Waukesha, WI 105 nursing beds	96%	5,327	56%
55. Laramie, WY 98 nursing beds	92%	4,416	70%
56. Worland, WY 85 nursing beds 8 ind. liv. apts.	84%	3,414	71%

Totals: 56 facilities in 12 states, 5,211 units 88% \$227,044 76%

After it repossessed or acquired the foregoing facilities from former tenants, Senior Housing undertook to correct deferred maintenance which had been allowed to occur by former operators. Between July 2000 and December 2001, \$8.3 million was spent by Senior Housing under this

program. At the time of our spin off from Senior Housing, Senior Housing provided us cash of \$1.6 million to fund the estimated costs of these projects which remained unfinished. During the course of these projects, parts of these facilities are sometimes closed and these closings can adversely impact occupancy; however, we believe these projects are necessary for continuing operations at these facilities and may make the facilities more attractive to residents. We expect this correction of deferred maintenance projects to be completed in 2002.

OUR LEASE FOR THE 56 FACILITIES

One of our subsidiaries leases the 56 facilities described above; and we have guaranteed our subsidiary's obligations under the lease. The lease has been filed as an exhibit to the registration statement of which this prospectus is a part. If you want more information about the lease terms, you should read the entire lease. The following is a summary of material terms of this lease:

Operating costs

The lease is a so-called "triple-net" lease which requires us to pay all costs incurred in the operation of the facilities, including the costs of personnel, service to residents, insurance and real estate and personal property taxes.

Minimum rent

Our minimum rent is \$7 million per year.

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Percentage rent

Starting in 2004, we are required to pay additional rent with respect to each lease year in an amount equal to three percent (3%) of net patient revenues at each leased facility in excess of net patient revenues at the facility during 2003.

Term

The initial term expires on December 31, 2018.

Renewal option

We have the option to renew the lease for all but not less than all the 56 facilities for one renewal term ending on December 31, 2033, by notice on or before December 31, 2015. We may not exercise this renewal option unless we also exercise our renewal option under our lease for the Marriott facilities.

Rent during renewal term

Rent during the renewal term is a continuation of minimum rent and percentage rent payable during the initial term.

Maintenance and alterations

We are required to operate continuously and maintain, at our expense, the leased facilities in good order and repair, including structural and nonstructural components. We may request Senior Housing to fund amounts needed for repairs and renovations in return for rent adjustments to provide Senior Housing a return on its investment according to a formula set forth in the lease. At the end of the lease term, we are required to surrender the leased facilities in substantially the same condition as existed on the commencement date of the lease, subject to any permitted alterations and subject to ordinary wear and tear.

Assignment and subletting

Senior Housing's consent is generally required for any direct or indirect assignment or sublease of any of the facilities. In the event of any assignment or subletting, we will remain liable under the lease.

Environmental matters

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We are required, at our expense, to remove and dispose of any hazardous substance at the leased facilities in compliance with all applicable environmental laws and regulations. We have indemnified Senior Housing for any liability which may arise as a result of the presence of hazardous substances at any leased facilities and from any violation or alleged violation of any applicable environmental law or regulation.

Indemnification and insurance

With limited exceptions, we are required to indemnify Senior Housing from all liabilities which may arise from the ownership or operation of the facilities. We generally are required to maintain commercially reasonable insurance, including:

- > "all-risk" property insurance, in an amount equal to 100% of the full replacement cost of the facilities;
 - > business interruption insurance;
 - > comprehensive general liability insurance, including bodily injury and property damage, in amounts as are generally maintained by companies providing senior living services;
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- > flood insurance if any facility is located in whole or in part in a flood plain;
- > worker's compensation insurance if required by law; and
- > such additional insurance as may be generally maintained by companies providing senior living services.

The lease requires that Senior Housing be named as an additional insured under these policies.

Damage, destruction or condemnation

If any of the leased facilities is damaged by fire or other casualty or taken for a public use, we are generally obligated to rebuild unless the facility cannot be restored. If the facility cannot be restored, Senior Housing will generally receive all insurance or taking proceeds and we are liable to Senior Housing for the amount of any deductible or deficiency between the replacement cost and the insurance proceeds.

Events of default

Events of default under the lease include the following:

- > our failure to pay rent or any other sum when due;
- > our failure to maintain the insurance required under the lease;
- > the occurrence of certain events with respect to our insolvency;
- > the institution of a proceeding for our dissolution;
- > any person or group of affiliated persons acquiring ownership of more than 9.8% of us without Senior Housing's consent;
- >

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any change in our control or sale of a material portion of our assets without Senior Housing's consent;

- > our default under the lease for the Marriott facilities;
- > our default under any indebtedness which gives the holder the right to accelerate;
- > our being declared ineligible to receive reimbursement under Medicare or Medicaid programs for any of the leased facilities; and
- > our failure to perform any terms, covenants or agreements of the lease and the continuance thereof for a specified period of time after written notice.

Remedies

Upon the occurrence of any event of default, the lease provides that, among other things, Senior Housing may, to the extent legally permitted:

- > accelerate the rent;
- > terminate the lease;
- > terminate the other lease which we have with Senior Housing;
- > enter the property and take possession of any and all our personal property and retain or sell the same at a public or private sale; and
- > make any payment or perform any act required to be performed by us under the lease.

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We are obligated to reimburse Senior Housing for all costs and expenses incurred in connection with any exercise of the foregoing remedies.

Management

We may not enter into, amend or modify any management agreement affecting any leased property without the prior written consent of Senior Housing.

Lease subordination

Our lease may be subordinated to any mortgages of the leased properties by Senior Housing.

Financing limitations; security

We may not incur debt secured by our investments in our subsidiary tenant. Further, our tenant subsidiary is prohibited from incurring liabilities other than operating liabilities incurred in the ordinary course of business, those liabilities secured by accounts receivables or purchase money debt. We are required to pledge 100% of the equity interests of our tenant subsidiary to Senior Housing or its lenders.

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SENIOR HOUSING LEASE NO. 2 FACILITIES

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We lease 31 senior living facilities from Senior Housing which are managed by Marriott. These facilities contain 7,487 living units and are located in 13 states. The following table provides additional information about these facilities and their current operations as of and for the year ended December 28, 2001:

		Year ended December 28, 2001							
Location	Ind. liv. apts.	Asst. liv. suites	Spec. care beds	Nursing beds	Totals	Occupancy	Revenues (\$ in 000s)	Percent of revenues from private pay resources	
1	Peoria, AZ	155	79		57	291	90%	\$9,087	93%
2	Scottsdale, AZ	167	33		96	296	91%	10,942	91%
3	Tucson, AZ	202	30	27	67	326	96%	11,828	92%
4,5	San Diego, CA	246	100		59	405	93%	18,380	98%
6	Newark, DE	62	26		110	198	97%	9,865	66%
7	Wilmington, DE	140	37		66	243	97%	11,495	82%
8	Wilmington, DE	71	44		46	161	94%	6,064	93%
9	Wilmington, DE	62	15		82	159	93%	7,664	66%
10	Wilmington, DE		51	26	31	108	72%	3,258	100%
11	Coral Springs, FL	184	62		35	281	91%	9,311	84%
12	Deerfield Beach, FL	198	33		60	291	88%	10,335	69%
13	Ft. Lauderdale, FL		109			109	90%	2,096	100%
14	Ft. Myers, FL		85			85	90%	2,232	100%
15	Palm Harbor, FL	230	87			317	82%	7,182	100%
16	West Palm Beach, FL	276	64			340	84%	7,132	100%
17	Indianapolis, IN	117		30	74	221	93%	10,619	82%
18	Overland Park, KS	117	30		60	207	94%	8,087	90%
19	Lexington, KY	140	9			149	94%	4,128	100%
20	Lexington, KY		22		111	133	95%	6,951	66%
21	Louisville, KY	240	44		40	324	97%	10,465	82%
22	Winchester, MA		125			125	99%	5,566	100%
23	Lakewood, NJ	217	108	31	60	416	80%	15,039	88%
24	Albuquerque, NM	114	34		60	208	99%	9,235	95%
25	Columbus, OH	143	87	25	60	315	93%	13,374	93%
26	Myrtle Beach, SC		60	36	68	164	84%	5,740	66%
27	Dallas, TX	190	38		90	318	92%	13,062	83%
28	El Paso, TX	123		15	120	258	86%	9,499	71%
29	Houston, TX	197	71	60	87	415	96%	17,491	93%
30	San Antonio, TX	151	30	28	60	269	96%	10,788	95%
31	Woodlands, TX	239	100	16		355	93%	10,498	100%
Totals: 31 facilities in 13 states		3,981	1,613	294	1,599	7,487	91%	\$277,413	88%

OUR LEASE FOR THE MARRIOTT FACILITIES

The lease for the Marriott facilities has been filed as an exhibit to the registration statement of which this prospectus is a part. If you want more information about lease terms, you should read the entire lease. The material terms of our lease for the Marriott facilities are substantially the same as those of our lease for the 56 facilities, except as follows:

Minimum rent

Our minimum rent is \$63 million per year.

Percentage rent

Starting in 2003, we are required to pay additional rent with respect to each lease year in an amount equal to five percent (5%) of net patient revenues at each leased facility in excess of net patient revenues at the facility during 2002.

FF&E reserves

We are required to maintain accounts for replacements and improvements as described below in "Marriott management FF&E reserves and capital improvements".

Term

The initial term expires on December 31, 2017.

Renewal options

We have two options to renew the lease for all but not less than all the facilities: the first for 10 years ending on December 31, 2027, and the second for five years ending on December 31, 2032. We may not exercise these renewal options unless we have exercised our renewal option under the lease for the 56 facilities. The first renewal option must be exercised by notice two years prior to the expiration of the initial term. The second renewal option must be exercised by notice at least 11 months before the then current term expires.

Events of default

In addition to the events of default described under our lease for the 56 facilities, the lease for the Marriott facilities include the following events of default:

- > our default under any Marriott management agreement; and
- > our default under the lease for the 56 facilities owned by Senior Housing.

MARRIOTT MANAGEMENT

The 31 Marriott facilities are each subject to a management agreement with Marriott. The following is a description of the material terms of the management agreements. If you want more information about these agreements, you should read the representative form of management agreement which has been filed as an exhibit to the registration statement of which this prospectus is a part.

Term

Generally each of the management agreements has an initial term expiring in 2027, with one five-year renewal term at Marriott's option.

Facility services

Marriott has responsibility and authority for all day-to-day operations of the managed facilities, including obtaining and maintaining all licenses necessary for operations, insurance, establishing resident care policies and procedures, carrying out and supervising all necessary repairs and maintenance, procuring food, supplies, equipment, furniture and fixtures, and establishing prices, rates and charges for services provided. Marriott also recruits, employs and directs all facility based employees, including managerial employees.

Central services

Marriott also furnishes certain central administrative services, which are provided on a central or regional basis to all senior living facilities managed by Marriott. Such services include: (i) marketing

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and public relations; (ii) human resources program development; (iii) information systems development and support; and (iv) centralized computer payroll and accounting.

Working capital

We are required to maintain working capital at each of the managed facilities at levels consiste