FIVE STAR QUALITY CARE INC
Form 424B5
June 08, 2011

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus Supplement dated June 8, 2011

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 27, 2009)

10,000,000 Shares

Common Stock

We are offering 10,000,000 of our common shares.

Our common shares are listed on the New York Stock Exchange under the symbol "FVE." The last reported sale price of our common shares on June 7, 2011, was $7.29 per share.

Investing in our common shares involves risks that are described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions[1]	$	$
Proceeds, before expenses, to us	$	$

(1)

Our former parent, Senior Housing Properties Trust, or SNH, has indicated to us its intention to purchase from the underwriters 1,000,000 of the 10,000,000 common shares being sold in this offering at a price equal to the public offering price. The underwriters will not receive any underwriting discounts or commissions for any common shares sold to SNH in this offering. The underwriting discounts and commissions per share for any shares in this offering not sold by the underwriters to SNH is $.

The underwriters may also purchase from us up to an additional 1,500,000 of our common shares at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days from the date of this prospectus supplement.

The underwriters are offering our common shares as described in "Underwriting." The shares will be ready for delivery on or about June , 2011.

Joint Book-Running Managers

Jefferies **Citi** **UBS Investment Bank**

The date of this prospectus supplement is June , 2011.

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Prospectus Supplement

In this prospectus supplement, the terms "FVE," "we," "us," and "our" include Five Star Quality Care, Inc. and its consolidated subsidiaries unless otherwise expressly stated or the context otherwise requires. References in this prospectus supplement to "shares" mean shares of our common stock.

Unless otherwise stated, we have assumed throughout this prospectus supplement that the underwriters' over-allotment option is not exercised.

This prospectus supplement contains the terms of this offering. A description of our common shares is set forth in the accompanying prospectus under the heading "Description of capital stock." This prospectus supplement, or the information incorporated by reference herein, may add, update or change information in the accompanying prospectus (or the information incorporated by reference therein). If information in this prospectus supplement, or the information incorporated by reference herein, is inconsistent with the accompanying prospectus (or the information incorporated by reference therein), this prospectus supplement (or the information incorporated by reference herein) will apply and will supersede that information in the accompanying prospectus (or the information incorporated by reference therein).

It is important for you to read and consider all information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein in making your investment decision. You should also read and consider the information in the documents to which we have referred you in "Where you can find more information" in this prospectus supplement and the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized any other person 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 appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission, or the SEC, and incorporated by reference, is accurate only as of their respective dates or such other dates specified therein. Our business, financial condition, results of operations and prospects may have changed since those dates.

Incorporation of certain information by reference

The SEC allows us to "incorporate by reference" the information we file with the SEC, which means that we can disclose important information to you by referring you to documents previously filed with the SEC. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and information that we subsequently file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below which were filed with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act:

- Our Annual Report on Form 10-K for the year ended December 31, 2010, or our Annual Report;
- Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, or our Quarterly Report;
- The information identified as incorporated by reference under Items 10, 11, 12, 13 and 14 of Part III of our Annual Report from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders filed February 23, 2011, or our Proxy Statement;
- The descriptions of our common shares and our junior participating preferred stock rights contained in our registration statement on Form 8-A filed on January 31, 2011, including any amendments or reports filed for the purpose of updating those descriptions (File No. 001-16817); and
- Our Current Reports on Form 8-K dated January 31, 2011, May 13, 2011, June 6, 2011 and June 8, 2011.

We also incorporate by reference each of the following documents that we will file with the SEC after the date of this prospectus supplement but before the termination of the offering of the common shares:

- Reports filed under Sections 13(a) and (c) of the Exchange Act;
- Definitive proxy or information statements filed under Section 14 of the Exchange Act in connection with any subsequent shareholders' meeting; and

Any reports filed under Section 15(d) of the Exchange Act.

You may request a copy of any of these filings (excluding exhibits other than those which we specifically incorporate by reference in this prospectus supplement or the accompanying prospectus), at no cost, by writing, emailing or telephoning us at the following address:

Investor Relations
Five Star Quality Care, Inc.
400 Centre Street
Newton, Massachusetts 02458
(617) 796-8387
info@5sqc.com

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Prospectus supplement summary

This summary may not contain all of the information that is important to you. You should carefully read this entire prospectus supplement and the accompanying prospectus. You should also read the documents referred to in "Incorporation of certain information by reference."

Our Company

We primarily operate senior living communities, including independent living communities, assisted living communities and skilled nursing facilities, or SNFs. When we were founded in 2000 we operated 54 SNFs and two assisted living communities. Since then we have focused on reducing our reliance on government reimbursement programs, such as Medicare and Medicaid, by adding independent and assisted living communities where residents' private resources account for a large majority of revenues and selling SNFs dependent upon Medicare and Medicaid reimbursements. As of March 31, 2011, we operated 210 senior living communities, including 172 primarily independent and assisted living communities and 38 SNFs, which contain 22,291 combined living units, including 6,323 independent living apartments, 10,591 assisted living suites and 5,377 skilled nursing units. For the three months ended March 31, 2011, approximately 71% of our senior living revenues were generated from residents' private resources.

SENIOR LIVING UNIT TYPE
(as of March 31, 2011)

SENIOR LIVING REVENUES BY SOURCE
(for the quarter ended March 31, 2011)

Excluded from the preceding data are five SNFs containing 600 combined skilled nursing units and one assisted living community containing 70 living units that we or Senior Housing Properties Trust, or SNH, are in the process of selling or offering for sale and that we have classified as discontinued operations. We also operate two rehabilitation hospitals with 321 combined beds and five institutional pharmacies.

We lease a large number of our properties from SNH, our former parent and largest shareholder, under four long term operating leases, including 185 senior living communities (three of which are classified as discontinued operations) containing 20,331 combined living units and our two rehabilitation hospitals containing 321 combined beds. We lease four assisted living communities with 200 combined living units from HCP, Inc. As of March 31, 2011, we owned 24 primarily independent and assisted living communities with 2,089 combined living units.

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Our Growth Strategy

We believe that the aging of the U.S. population will increase demand for existing senior living communities. Our principal growth strategy is to profit from this anticipated demand by operating communities that provide high quality services to residents who pay with private resources.

We seek to improve the profitability of our existing operations by increasing our revenues and improving our operating margins. We attempt to increase revenues by increasing rates and occupancies. We attempt to improve margins by limiting increases in expenses and otherwise improving operating efficiencies. For example, during the last few years, the senior living industry has generally experienced declining occupancies as a result of a slowdown in the U.S. economy. During this same period, we have improved operating margins and profitability by increasing rates and limiting increases in our expenses. To the extent that the U.S. economy improves and the housing market improves, we expect that our occupancies may increase and our profitability may grow.

In addition to managing our existing operations, we intend to continue to grow our business by adding to our operations independent and assisted living communities where residents' private resources account for a large majority of revenues. Since we became a public company in late 2001, we have added 171 primarily independent and assisted living communities to our business; in the first quarter of 2011 these 171 communities realized approximately 84% of their revenues from residents' private resources, rather than from Medicare and Medicaid. Historically, we have principally expanded our operations by entering operating leases. Recently, we have started to expand our operations by acquiring senior living communities for our own account and entering agreements to manage senior living communities which are owned by others (see " Recent Developments"). In the future, we expect to continue to grow our business by adding communities that we either own, lease or manage.

Recent Developments

Since March 31, 2011, we have announced expansion plans involving 28 senior living communities which have 3,038 combined living units, including the following:

Acquisition of Six Independent and Assisted Living Communities in Indiana

We entered into agreements, or the Purchase Agreements, to acquire six senior living communities located in Indiana. The six communities primarily offer independent and assisted living services which are paid by residents from their private resources. The 738 living units in these communities include 191 independent living apartments, 525 assisted living suites and 22 suites which offer specialized Alzheimer's care. The current occupancy rate at these six communities is approximately 94%. The aggregate purchase price for these six communities, excluding closing costs, is approximately $122.8 million, including approximately $19.5 million of mortgage loans which we expect to assume. On June 1, 2011, we closed on the acquisition of two of these communities for an aggregate purchase price, excluding closing costs, of approximately $40.4 million in cash. We funded the June 1, 2011 closing under the Purchase Agreements with the proceeds of a bridge loan, or the Bridge Loan, from SNH (see " Bridge Loan"). On that date, we borrowed approximately $41.0 million from SNH and have an additional $39.0 million available for borrowing under the Bridge Loan. We expect to acquire the remaining communities starting in July 2011, subject to various conditions to closing, including required regulatory approvals and lender consents for our assumption of the mortgage loans. We expect to fund the cash portion of the purchase price for the remaining communities under the Purchase Agreements, equal to approximately $62.9 million, with the proceeds of this offering and by using cash on hand and drawings under our $35.0 million revolving secured line of credit.

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Management and Lease of 20 Independent and Assisted Living Communities in Southeast United States

SNH has agreed to acquire 20 senior living communities located in five states in the Southeast United States. The 20 senior living communities primarily offer independent and assisted living services which are primarily paid by residents from their private resources. The 2,111 living units in these communities include 814 independent living apartments, 939 assisted living suites, 311 suites which offer specialized Alzheimer's care and 47 skilled nursing units. The current occupancy rate at these 20 communities is approximately 87%. We have entered long term contracts to manage 15 of these 20 communities, or the Managed Communities, when SNH acquires them. We expect to lease the remaining five communities from SNH, or the Leased Communities, when SNH acquires them.

Under the management contracts for the Managed Communities, or the Management Contracts, we will be paid a management fee equal to 3% of the gross revenues realized at the Managed Communities, which we expect to be approximately $1.8 to $2.0 million during the first year based on the results of operations of the Managed Communities in 2010, plus an incentive fee equal to 35% of the net operating income after SNH realizes an agreed upon minimum return equal to 8% of its invested capital. The Management Contracts have an initial term of 20 years, and we have options of two consecutive renewal terms of 15 years each to extend all, but not less than all, of the Management Contracts. The terms of the Management Contracts were reviewed and approved by special committees of each of our Board of Directors and SNH's board of trustees composed solely of our Independent Directors and SNH's independent trustees who are not also Directors or trustees of the other party and who were represented by separate counsel. The Leased Communities will be added to the leases currently existing between us and SNH. We expect our aggregate minimum rent under those leases to increase by approximately $6.9 million per year, with percentage rent to commence in 2013 with respect to these communities.

For more information about the Management Contracts and our leases with SNH, please refer to our filings with the SEC, including our Annual Report (including the section captioned "Properties SNH Leases") and our Current Reports on Form 8-K dated May 13, 2011 and June 8, 2011 which are incorporated by reference in this prospectus supplement. For more information about the relationships among us, our Directors and executive officers, Reit Management & Research LLC, or RMR, SNH and other companies to which RMR provides management services, and about the risks which may arise from these relationships, please refer to our Annual Report and our other filings with the SEC, including the sections captioned "Business," "Risk Factors," "Properties SNH Leases" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Related Person Transactions" in our Annual Report, the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations Related Person Transactions" in our Quarterly Report and the information regarding our Directors and executive officers and the section captioned "Related Person Transactions and Company Review of Such Transactions" in our Proxy Statement. Our filings with the SEC, including our Annual Report, our Quarterly Report, our Current Reports on Form 8-K and our Proxy Statement, are available at the SEC's website: www.sec.gov.

Acquisition of One Independent and Assisted Living Community in Prescott, Arizona

On May 1, 2011, we acquired the Granite Gate senior living community in Prescott, Arizona for $25.6 million, excluding closing costs. This community primarily provides independent and assisted living services and all of the residents pay for their services with private resources. This community has 116 living units and the current occupancy rate is approximately 97%. We funded the purchase price for this community by assuming a Fannie Mae mortgage for $18.7 million and using cash on hand for the balance. This acquisition includes approximately ten acres which we may use for future expansion of this community.

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Lease of One Assisted Living Community in Rockford, Illinois

On May 1, 2011, we began to lease Crimson Pointe, a senior living community in Rockford, Illinois. This community primarily provides assisted living services and all of the residents pay for their services with private resources. This community has 73 living units and the current occupancy is approximately 77%. This community was acquired by SNH and our lease requires rent of approximately $600,000 per year plus percentage rent starting in 2013.

Bridge Loan

We and SNH are parties to a loan agreement, or the Bridge Loan Agreement, under which SNH has agreed to lend us up to $80 million to fund our purchases under the Purchase Agreements relating to the acquisition of the six independent and assisted living communities in Indiana discussed above. As described above, we funded the cash purchase price for two of the six communities with the proceeds of the Bridge Loan on June 1, 2011. The Bridge Loan is currently secured by mortgages on these two senior living communities and on four of our senior living communities in North Carolina. The Bridge Loan matures on July 1, 2012 and bears interest at a rate equal to the annual rates of interest applicable to SNH's borrowings under its revolving credit facility, plus 1%. The Bridge Loan Agreement contains various covenants, including restrictions on our ability to incur liens upon or dispose of the collateral securing the Bridge Loan. The Bridge Loan Agreement also contains events of default, including non-payment, a change in control of us, and certain events of insolvency. The terms of the Bridge Loan Agreement were reviewed and approved by special committees of each of our Board of Directors and SNH's board of trustees composed solely of our Independent Directors and SNH's independent trustees who are not also Directors or trustees of the other party and who were represented by separate counsel. We expect to use a portion of the net proceeds of this offering to repay outstanding borrowings on the Bridge Loan.

Proposed Rulemaking Impacting Medicare Rates

The Federal Centers for Medicare and Medicaid Services, or CMS, has recently issued proposed rules to update Medicare prospective payment rates for SNFs which will affect the 5,377 skilled nursing units we operate. The proposed rules include an increase in the Medicare payment rates for SNFs that CMS estimates to be approximately 1.5% in fiscal year 2012, as the result of an annual increase of approximately 2.7% to account for inflation, reduced by a productivity adjustment of 1.2% pursuant to the Patient Protection and Affordable Care Act, or PPACA. However, the proposed rules also include a recalibration of the case mix indexes to more accurately reflect budget neutrality in expenditures between the RUG IV system implemented in federal fiscal year 2011 and the previous case mix classification system that might result in a net reduction in Medicare rates for SNFs. If CMS implements the recalibration as part of the final rules, it estimates that the rules would result in a net reduction in aggregate Medicare payment rates for SNFs of approximately 11.3% in federal fiscal year 2012. Applying the current proposed rulemaking and CMS's estimates to our SNF Medicare revenues in the year ended December 31, 2010 and the quarter ended March 31, 2011, our revenues would have increased by approximately $2.0 million and $0.6 million, respectively, if the full increase was implemented without the recalibration and would have been reduced by approximately $15.1 million and $4.1 million, respectively, if the full recalibration is implemented as part of the final rules. We are unable to predict the final rule's impact on Medicare payment rates; however, such impact may be adverse and material to our operations and our future financial results of operations.

CMS has also recently issued proposed rules to update Medicare prospective payment rates for inpatient rehabilitation facilities, or IRFs, which will affect the two rehabilitation hospitals we operate. The proposed rules include an increase in the Medicare payment rates for IRFs that CMS estimates to be approximately 1.8% overall in federal fiscal year 2012, as the result of a rebased annual increase of approximately 2.8% to account for inflation, reduced by 0.1% and by a productivity adjustment of 1.2%, both pursuant to PPACA, and increased by 0.3% in estimated outlier payments due to an update in the outlier threshold.

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Medicare revenues realized at our IRFs in the year ended December 31, 2010 and the quarter ended March 31, 2011 were approximately $60.3 million and $16.0 million, respectively. The calculation of Medicare rate adjustments applicable at our IRFs is complex and will depend upon patient case mixes. Accordingly, we cannot predict the final impact of the proposed Medicare rate adjustments to our IRF results at this time.

Organization and Principal Place of Business

We are organized as 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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The offering

Shares being offered by us	10,000,000 shares
Shares to be outstanding after the offering	46,057,364 shares
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $68.7 million, assuming a public offering price of $7.29 per share. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $79.0 million. We intend to use our net proceeds from this offering for general business purposes, including repaying outstanding borrowings under the Bridge Loan and funding in part the cash purchase price of the pending acquisitions described in "Recent Developments Acquisition of Six Independent and Assisted Living Communities in Indiana" or other possible future acquisitions.
New York Stock Exchange symbol	FVE

The number of our shares to be outstanding after this offering is based on the number of shares outstanding on June 8, 2011. If the underwriters exercise their over-allotment option, we will sell up to an additional 1,500,000 shares.

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Summary financial data

The following table sets forth our historical consolidated financial information for the periods ended on the dates indicated below. The summary consolidated financial information for the years ended December 31, 2009 and December 31, 2010 have been derived from our audited consolidated financial statements incorporated by reference in this document. The summary consolidated financial information for the three months ended March 31, 2010 and March 31, 2011 have been derived from our unaudited consolidated financial statements incorporated by reference in this document. Our unaudited financial statements were prepared on the same basis as the audited financial statements, and, in the opinion of management, include all adjustments, consisting only of normal, recurring adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of the results to be expected for an entire fiscal year.

You should read the following summary financial information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and notes thereto appearing in our Annual Report and Quarterly Report, which are incorporated by reference in this prospectus supplement and the accompanying prospectus. The following summary financial information includes certain financial measures that are not determined according to U.S. generally accepted accounting principles, or GAAP. Reconciliations of income from continuing operations determined in accordance with GAAP to these non-GAAP financial measures for the years ended December 31, 2009 and 2010, for the quarters ended March 31, 2010 and 2011 and for the twelve months ended March 31, 2011 appear later in this prospectus supplement under the heading "Reconciliation of non-GAAP financial measures."

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	For the years ended December 31,		For the three months ended March 31,		For the twelve months ended March 31,
	2009	2010	2010	2011	2011(1)
	(dollars in thousands, except per share data)				
Revenues:					
Senior living revenue	$ 970,915	$ 1,037,016	$ 255,215	$ 263,379	$ 1,045,180
Rehabilitation hospital revenue	100,460	100,041	24,052	25,625	101,615
Institutional pharmacy revenue	74,447	79,285	19,577	19,337	79,044
Total revenues	1,145,822	1,216,342	298,844	308,341	1,225,839
Operating expenses:					
Senior living wages and benefits	490,101	515,710	126,079	130,337	519,967
Other senior living operating expenses	235,378	245,223	62,234	63,349	246,342
Rehabilitation hospital expenses	90,957	92,190	22,657	24,053	93,585
Institutional pharmacy expenses	73,946	77,552	19,022	18,889	77,418
Rent expense	177,258	188,380	46,708	47,662	189,333
General and administrative	52,590	55,486	13,147	13,670	56,009
Depreciation and amortization	15,588	16,052	3,886	4,311	16,477
Total operating expenses	1,135,818	1,190,593	293,733	302,271	1,199,131
Operating income	10,004	25,749	5,111	6,070	26,708
Interest, dividend and other income	2,986	1,816	662	319	1,473
Interest and other expense	(3,931)	(2,596)	(659)	(501)	(2,438)
Gain on investments in trading securities	3,495	4,856	669		4,187
Loss on UBS put right related to auction rate securities	(2,759)	(4,714)	(670)		(4,044)
Equity in income (losses) of Affiliates Insurance Company	(134)	(1)	(28)	37	64
Gain on early extinguishment of debt	34,579	592			592

Gain on sale of available for sale securities	795	933		76	1,009
Impairment of investments in available for sale securities	(2,947)				
Income from continuing operations before income taxes	42,088	26,635	5,085	6,001	27,551
Provision for income taxes	(2,196)	(1,448)	(493)	(379)	(1,334)
Income from continuing operations	$ 39,892	$ 25,187	$ 4,592	$ 5,622	$ 26,217
Basic income per share from continuing operations	$ 1.19	$ 0.70	$ 0.13	$ 0.16	$ 0.73
Diluted income per share from continuing operations	$ 1.09	$ 0.68	$ 0.13	$ 0.15	$ 0.71
Additional data:					
Total occupancy	86.4%	86.2%	86.2%	85.5%	86.0%
Adjusted EBITDA	$ 25,458	$ 41,800	$ 8,969	$ 10,418	$ 43,249
Adjusted income from continuing operations	$ 6,729	$ 23,520	$ 4,593	$ 5,546	$ 24,473

(1) The unaudited consolidated financial data for the twelve months ended March 31, 2011 has been derived by aggregating the financial data for the year ended December 31, 2010 with the unaudited financial data for the three months ended March 31, 2011 and subtracting the unaudited financial data for the three months ended March 31, 2010. This unaudited recomputation may differ from the financial data that would have resulted had a twelve month period been audited.

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Warning regarding forward looking statements

THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS, AND THE DOCUMENTS INCORPORATED BY REFERENCE, CONTAIN STATEMENTS AND IMPLICATIONS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. WHENEVER WE USE WORDS SUCH AS "BELIEVE," "EXPECT," "ANTICIPATE," "INTEND," "PLAN," "ESTIMATE," OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. FORWARD LOOKING STATEMENTS IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS, INCLUDING THE DOCUMENTS THAT ARE INCORPORATED BY REFERENCE, RELATE TO VARIOUS ASPECTS OF OUR BUSINESS, INCLUDING:

- OUR EXPECTATION THAT WE WILL ACQUIRE THE REMAINING FOUR SENIOR LIVING COMMUNITIES LOCATED IN INDIANA STARTING IN JULY 2011 AND THAT WE WILL BEGIN TO LEASE AND MANAGE 20 COMMUNITIES LOCATED IN THE SOUTHEAST STARTING IN JUNE 2011;
- OUR ABILITY TO INCREASE OCCUPANCIES AND TO OPERATE OUR SENIOR LIVING COMMUNITIES AND REHABILITATION HOSPITALS PROFITABLY;
- OUR ABILITY TO MEET OUR DEBT OBLIGATIONS;
- OUR ABILITY TO COMPLY AND TO REMAIN IN COMPLIANCE WITH APPLICABLE MEDICARE, MEDICAID AND OTHER RATE SETTING AND REGULATORY REQUIREMENTS; AND
- OTHER MATTERS.

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

- THE IMPACT OF CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS ON US AND OUR RESIDENTS AND OTHER CUSTOMERS;
- COMPETITION WITHIN THE SENIOR LIVING INDUSTRY AND OUR OTHER BUSINESSES;
- INCREASES IN INSURANCE AND TORT LIABILITY COSTS;
- CHANGES IN MEDICARE AND MEDICAID POLICIES WHICH COULD RESULT IN REDUCED RATES OF PAYMENT OR A FAILURE OF THESE RATES TO COVER OUR COST INCREASES;
- ACTUAL AND POTENTIAL CONFLICTS OF INTEREST WITH OUR MANAGING DIRECTORS, SNH, RMR AND ITS RELATED ENTITIES AND CLIENTS; AND

COMPLIANCE WITH, AND CHANGES TO FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS THAT COULD AFFECT OUR SERVICES.

FOR EXAMPLE:

THIS PROSPECTUS SUPPLEMENT STATES THAT SNH INTENDS TO PURCHASE 1,000,000 OF OUR COMMON SHARES IN THIS OFFERING. ALTHOUGH WE BELIEVE THAT SNH WILL PURCHASE THOSE SHARES, IT IS NOT UNDER ANY BINDING OBLIGATION TO DO SO AND MAY IN FACT DETERMINE NOT TO PURCHASE THOSE OR ANY SHARES IN THIS OFFERING.

THE CLOSINGS OF THE REMAINING COMMUNITIES UNDER THE PURCHASE AGREEMENTS ARE SUBJECT TO OUR OBTAINING REGULATORY APPROVALS AND CERTAIN LENDER CONSENTS AND SATISFACTION OF OTHER CLOSING CONDITIONS. WE CURRENTLY EXPECT THAT ALL OF THE REQUIRED APPROVALS AND CONSENTS WILL BE OBTAINED AND OTHER CONDITIONS WILL BE SATISFIED, BUT SUCH APPROVALS, CONSENTS AND SATISFACTION OF CONDITIONS ARE NOT ASSURED AND WE CANNOT CONTROL THE TIMING OF REGULATORY APPROVALS, LENDER

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CONSENTS OR SATISFACTION OF CLOSING CONDITIONS. ACCORDINGLY, IT IS POSSIBLE THAT OUR BEGINNING TO OPERATE SOME OF THESE COMMUNITIES MAY BE DELAYED OR MAY NOT OCCUR;

THE IMPLICATION OF OUR STATEMENTS REGARDING APPROVAL OF THE TERMS OF THE BRIDGE LOAN AGREEMENT AND THE MANAGEMENT CONTRACTS MAY BE THAT THESE TERMS ARE ARMS LENGTH AND FAIR. HOWEVER, BECAUSE OF THE MULTIPLE RELATIONSHIPS AMONG US, SNH AND RMR AND ITS AFFILIATES, THESE TERMS MAY BE EXPOSED TO CLAIMS THAT THEY ARE SOMEHOW UNFAIR, AND DEFENDING SUCH CLAIMS CAN BE EXPENSIVE AND DISTRACTING TO MANAGEMENT;

THE PROPOSED RULES TO UPDATE MEDICARE PROSPECTIVE PAYMENTS RATES FOR SNFS AND IRFS MAY NOT BE ADOPTED, THE FINAL RULES MAY BE VERY DIFFERENT THAN THE PROPOSED RULES AND/OR CMS'S ESTIMATES OF THE IMPACT OF THE PROPOSED RULES MAY BE INCORRECT; WE CANNOT BE CERTAIN OF THE ACTUAL IMPACT ON OUR OPERATIONS RESULTING FROM THE FINAL CMS RULES FOR MEDICARE RATES, AND SUCH IMPACT MAY BE WORSE THAN WE EXPECT;

THE VARIOUS GOVERNMENTS WHICH PAY US FOR THE GOODS AND SERVICES WE PROVIDE TO OUR RESIDENTS AND PATIENTS WHO ARE ELIGIBLE FOR MEDICARE AND MEDICAID ARE CURRENTLY EXPERIENCING SEVERE BUDGET SHORTFALLS AND MAY LOWER THE MEDICAID AND MEDICARE RATES THEY PAY US. BECAUSE WE OFTEN CAN NOT ETHICALLY LOWER THE QUALITY OF THE SERVICES WE PROVIDE TO MATCH THE AVAILABLE MEDICARE AND MEDICAID RATES WE MAY EXPERIENCE LOSSES AND SUCH LOSSES MAY BE MATERIAL;

OUR RESIDENTS AND PATIENTS WHO PAY FOR OUR SERVICES WITH THEIR PRIVATE RESOURCES MAY BECOME UNABLE TO AFFORD OUR SERVICES WHICH COULD RESULT IN DECREASED OCCUPANCY AND REVENUES AT OUR SENIOR LIVING COMMUNITIES AND REHABILITATION HOSPITALS; AND

WE EXPECT TO OPERATE OUR REHABILITATION HOSPITALS AND PHARMACIES PROFITABLY. HOWEVER, WE HAVE HISTORICALLY EXPERIENCED LOSSES FROM THESE OPERATIONS AND WE MAY BE UNABLE TO OPERATE THESE BUSINESSES PROFITABLY.

THESE RESULTS COULD OCCUR DUE TO MANY DIFFERENT CIRCUMSTANCES, SOME OF WHICH ARE BEYOND OUR CONTROL, SUCH AS THE APPLICATION AND INTERPRETATION OF NEW LEGISLATION AFFECTING OUR BUSINESS, CHANGES IN OUR REVENUES OR COSTS, OR CHANGES IN CAPITAL MARKETS OR THE ECONOMY GENERALLY.

THE INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS SUPPLEMENT AND IN OUR OTHER FILINGS WITH THE SEC, INCLUDING UNDER THE CAPTION "RISK FACTORS" IN OUR ANNUAL REPORT, IDENTIFIES OTHER IMPORTANT FACTORS THAT COULD CAUSE DIFFERENCES FROM OUR FORWARD LOOKING STATEMENTS. OUR FILINGS WITH THE SEC ARE AVAILABLE AT THE WEBSITE: WWW.SEC.GOV.

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

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

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Price range of common shares

Our common shares are listed on the New York Stock Exchange, or the NYSE, under the symbol "FVE", where they began trading on February 4, 2011. The following table shows the high and low sale prices per share of our common shares for the periods indicated as reported on the NYSE Amex, on which our common shares were traded through February 3, 2011 and on the NYSE thereafter:

	High	Low
Fiscal year ended December 31, 2009		
First quarter	$ 2.43	$ 1.02
Second quarter	2.80	1.02
Third quarter	4.12	1.80
Fourth quarter	4.06	2.95
Fiscal year ended December 31, 2010		
First quarter	$ 3.88	$ 2.75
Second quarter	3.80	2.81
Third quarter	5.29	2.72
Fourth quarter	7.43	4.95
Fiscal year ending December 31, 2011		
First quarter	$ 8.62	$ 5.95
Second quarter (through June 7, 2011)	8.95	7.25

The last reported sale price for our shares on June 7, 2011 was $7.29 per share.

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Use of proceeds

Including the proceeds from the 1,000,000 common shares that SNH intends to purchase in this offering from the underwriters at a price equal to the public offering price, we estimate that our net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated offering expenses, will be approximately $68.7 million, assuming a public offering price of $7.29 per common share. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $79.0 million. We intend to apply our net proceeds from this offering for general business purposes, including repaying the outstanding Bridge Loan and funding in part the cash purchase price of the pending acquisitions described in "Recent Developments Acquisition of Six Independent and Assisted Living Communities in Indiana" or other possible future acquisitions. We used the Bridge Loan to fund the cash purchase price of the two communities we acquired on June 1, 2011. The Bridge Loan matures on July 1, 2012 and bears interest at a rate equal to the annual rates of interest applicable to SNH's borrowings under its revolving credit facility, plus 1%, currently 1.97% per year.

Depending on market conditions at the time of pricing of this offering and other considerations, we may sell fewer or more shares than the number set forth on the cover page of this prospectus supplement. If that were to occur, SNH intends to acquire 10% of the shares sold, other than shares sold to the underwriters pursuant to their over-allotment option.

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Capitalization

The following table sets forth our capitalization as of March 31, 2011:

- on an actual basis; and

- on a pro forma as adjusted basis to give effect to (a) our acquisition of one independent and assisted living community located in Prescott, Arizona and six independent and assisted living communities located in Indiana, each as described in "Prospectus Summary Recent Developments," and (b) the sale of 10.0 million shares in this offering at an assumed public price of $7.29 per share (the last reported sales price of our common shares on the NYSE on June 7, 2011), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us (assuming SNH acquires 1.0 million shares in the offering).

This table should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Quarterly Report and our consolidated financial statements and related notes incorporated by reference in this document.

	As of March 31, 2011	
	Actual	Pro forma as adjusted
	(in thousands, except share data)	
Cash and cash equivalents	$ 26,008	$ 15,000
Acquisition deposits	$ 13,000	
SNH bridge loan(1)		
Revolving line of credit	$ 5,000	$ 22,678
Convertible senior notes	37,282	37,282
Mortgage notes payable(2)		38,201
Total debt	$ 42,282	$ 98,161
Shareholders' Equity:		
Common shares, par value $0.01; 75,000,000 shares authorized(3); 36,019,864 shares issued and outstanding, actual; and 46,019,864 shares issued and outstanding, as adjusted(4)	360	460
Additional paid in capital	297,908	370,708
Accumulated deficit	(134,650)	(134,650)
Accumulative other comprehensive income	5,880	5,880
Total shareholders' equity	169,498	242,398
Total capitalization	$ 211,780	$ 340,559

(1) On May, 12, 2011, we entered into the Bridge Loan Agreement with SNH. We borrowed approximately $41.0 million on June 1, 2011 to fund the purchase price of our acquisition of two independent and assisted living communities located in Indiana and intend to repay this borrowing with the net proceeds of this offering as described under "Use of proceeds."

(2)

As of March 31, 2011, two of our communities, included in discontinued operations, were encumbered by mortgage notes totaling approximately $7.8 million and are not reflected in the table.

(3)

Our Board of Directors has approved an amendment to our Articles of Amendment and Restatement increasing our authorized common shares from 50.0 million to 75.0 million, and we expect to file the Articles of Amendment before completion of this offering.

(4)

On May 9, 2011, we issued 37,500 of our common shares to our Directors as annual award share grants under our share award plan, which shares were not outstanding as of March 31, 2011, and are not reflected in the table. As of June 8, 2011, we had 1,470,270 of our common shares available for grant under our 2001 Stock Option and Share Plan. Those additional shares are not outstanding and are not reflected in this table.

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Reconciliation of non-GAAP financial measures

Adjusted income from continuing operations and adjusted earnings before interest, taxes, depreciation and amortization, or Adjusted EBITDA, are not financial measures determined according to GAAP. We consider Adjusted income from continuing operations and Adjusted EBITDA to be meaningful disclosures because we believe that the inclusion of these non-GAAP financial measures may help investors to gain a better understanding of changes in our core operating results, and can also help investors who wish to make comparisons between us and other companies on both a GAAP and a non-GAAP basis. Adjusted income from continuing operations and Adjusted EBITDA as presented may not, however, always be comparable to amounts calculated by other companies. These non-GAAP financial measures are used by management to evaluate financial performance and resource allocation for our communities and for us as a whole and for comparing such performance to that of prior periods and to the performance of our competitors. This information should not be considered as an alternative to income or any other financial operating or performance measure established by GAAP. The reconciliations of income from continuing operations to Adjusted income from continuing operations and Adjusted EBITDA, for the years ended December 31, 2009 and 2010, for the quarters ended March 31, 2010 and 2011 and for the twelve months ended March 31, 2011 are as follows:

Income from continuing operations and Adjusted EBITDA
(dollars in thousands)

	For the years ended December 31,		For the three months ended March 31,		For the twelve months ended March 31,
	2009	2010	2010	2011	2011(2)
Income from continuing operations(1)	$ 39,892	$ 25,187	$ 4,592	$ 5,622	$ 26,217
Add: interest and other expense(1)	3,931	2,596	659	501	2,438
Add: income tax expense	2,196	1,448	493	379	1,334
Add: depreciation and amortization(1)	15,588	16,052	3,886	4,311	16,477
Less: interest, dividend and other income	(2,986)	(1,816)	(662)	(319)	(1,473)
Add: impairment of certain investments	2,947				
Add: loss on UBS put right related to auction rate securities	2,759	4,714	670		4,044
Less: gain on investments in trading securities	(3,495)	(4,856)	(669)		(4,187)
Less: gain on sale of investments in available for sale securities	(795)	(933)		(76)	(1,009)
Less: gain on early extinguishment of debt	(34,579)	(592)			(592)
Adjusted EBITDA	$ 25,458	$ 41,800	$ 8,969	$ 10,418	$ 43,249

(1) Amounts were reclassified from our previously reported amounts to exclude properties reclassified to discontinued operations in future periods.

(2) The unaudited consolidated financial data for the twelve months ended March 31, 2011 has been derived by aggregating the financial data for the year ended December 31, 2010 with the unaudited financial data for the three months ended March 31, 2011 and subtracting the unaudited financial data for the three months ended

March 31, 2010. This unaudited recomputation may differ from the financial data that would have resulted had a twelve month period been audited.

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Income from continuing operations to Adjusted income from continuing operations

(dollars in thousands)

	For the years ended December 31,		For the three months ended March 31,		For the twelve months ended March 31,
	2009	2010	2010	2011	2011(2)
Income from continuing operations(1)	$ 39,892	$ 25,187	$ 4,592	$ 5,622	$ 26,217
Add: impairment of certain investments	2,947				
Add: loss on UBS put right related to auction rate securities	2,759	4,714	670		4,044
Less: gain on investments in trading securities	(3,495)	(4,856)	(669)		(4,187)
Less: gain on sale of investments in available for sale securities	(795)	(933)		(76)	(1,009)
Less: gain on early extinguishment of debt	(34,579)	(592)			(592)
Adjusted income from continuing operations	$ 6,729	$ 23,520	$ 4,593	$ 5,546	$ 24,473

(1) Amounts were reclassified from our previously reported amounts to exclude properties reclassified to discontinued operations in future periods.

(2) The unaudited consolidated financial data for the twelve months ended March 31, 2011 has been derived by aggregating the financial data for the year ended December 31, 2010 with the unaudited financial data for the three months ended March 31, 2011 and subtracting the unaudited financial data for the three months ended March 31, 2010. This unaudited recomputation may differ from the financial data that would have resulted had a twelve month period been audited.

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Underwriting

We are offering the shares described in this prospectus supplement through the underwriters named below. Jefferies & Company, Inc., Citigroup Global Markets Inc. and UBS Securities LLC are the representatives of the underwriters, and are the joint book-running managers for this offering. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, each of the underwriters has severally agreed to purchase the number of shares listed next to its name in the following table:

Underwriters	Number of shares
Jefferies & Company, Inc.	
Citigroup Global Markets Inc.	
UBS Securities LLC	
Total	10,000,000

The table above includes 1,000,000 of our common shares that SNH intends to purchase of the 10,000,000 common shares being sold in this offering from the underwriters at the public offering price. The underwriters will not receive any underwriting discounts or commissions on any common shares sold to SNH by the underwriters in this offering.

The underwriting agreement provides that the underwriters must buy all of the shares listed above if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

Our shares are offered subject to a number of conditions, including:

- receipt and acceptance of the shares by the underwriters; and
- the underwriters' right to reject orders in whole or in part.

In connection with this offering, certain of the underwriters and securities dealers may distribute prospectuses electronically.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

Over-Allotment Option

We have granted the underwriters an option to buy up to 1,500,000 additional shares. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus supplement to exercise this option. If the underwriters exercise the option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

Commissions and Discounts

Shares sold by the underwriters to the public will initially be offered at the initial offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

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Sales of shares made outside of the United States may be made by affiliates of the underwriters.

Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms stated therein, and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 1,500,000 shares from us: