

FIVE STAR QUALITY CARE INC  
Form 10-Q  
August 10, 2009  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2009

or

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

Commission File Number 001-16817

**FIVE STAR QUALITY CARE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Maryland

04-3516029

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(State of Incorporation)

(IRS Employer Identification No.)

**400 Centre Street, Newton, Massachusetts 02458**

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of registrant's shares of common stock, \$0.01 par value, outstanding as of August 10, 2009: 35,436,064.

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



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FIVE STAR QUALITY CARE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

(unaudited)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,749	\$ 16,138
Accounts receivable, net of allowance of \$6,523 and \$6,292 at June 30, 2009 and December 31, 2008, respectively	61,666	66,023
Prepaid expenses	5,564	8,058
Investments in trading securities	66,577	
Investments in available for sale securities	7,961	7,232
Restricted cash	4,799	4,943
Restricted investments	2,867	2,575
UBS put right related to auction rate securities	7,794	
Other current assets	9,072	7,907
Assets of discontinued operations		1,385
Total current assets	188,049	114,261
Property and equipment, net	189,241	190,627
Investment in trading securities		62,866
Equity investment in Affiliates Insurance Company	4,964	
UBS put right related to auction rate securities		11,081
Restricted cash	6,002	6,279
Restricted investments	7,825	7,089
Goodwill and other intangible assets	15,550	15,752
Other long term assets	3,755	4,683
	\$ 415,386	\$ 412,638
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 25,198	\$ 28,443
Accrued expenses	17,250	18,460
Accrued compensation and benefits	45,906	36,560
Due to Senior Housing Properties Trust	15,406	14,908
UBS secured revolving credit facility related to auction rate securities	39,857	

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Mortgage notes payable	153	149
Accrued real estate taxes	9,550	9,304
Security deposit liability	11,782	12,521
Other current liabilities	9,019	8,531
Liabilities of discontinued operations		263
Total current liabilities	174,121	129,139
Long term liabilities:		
UBS secured revolving credit facility related to auction rate securities		21,875
Mortgage notes payable	12,363	12,441
Convertible senior notes	67,172	126,500
Continuing care contracts	2,767	3,183
Accrued self insurance obligations	23,563	22,410
Other long term liabilities	11,167	11,751
Total long term liabilities	117,032	198,160
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$0.01: 1,000,000 shares authorized, none issued		
Common stock, par value \$0.01: 50,000,000 shares authorized, 32,236,064 and 32,205,604 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	322	322
Additional paid-in capital	287,437	287,204
Accumulated deficit	(166,655)	(200,605)
Unrealized gain (loss) on investments in available for sale securities	3,129	(1,582)
Total shareholders' equity	\$ 124,233	\$ 85,339
	\$ 415,386	\$ 412,638

See accompanying notes.

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## FIVE STAR QUALITY CARE, INC.

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Senior living revenue	\$ 253,169	\$ 227,752	\$ 504,590	\$ 443,868
Rehabilitation hospital revenue	25,673	24,421	50,367	49,165
Institutional pharmacy revenue	18,285	18,281	36,550	35,487
Total revenues	297,127	270,454	591,507	528,520
<b>Operating expenses:</b>				
Senior living wages and benefits	129,983	111,287	257,526	219,828
Other senior living operating expenses	60,135	58,441	121,718	111,637
Rehabilitation hospital expenses	22,749	22,615	45,648	45,207
Institutional pharmacy expenses	18,288	17,347	36,661	33,550
Rent expense	44,625	39,255	88,596	74,677
General and administrative	13,007	11,722	25,449	22,855
Depreciation and amortization	4,269	3,642	8,444	7,271
Total operating expenses	293,056	264,309	584,042	515,025
Operating income	4,071	6,145	7,465	13,495
Interest, dividend and other income	784	1,302	1,915	3,796
Interest and other expense	(1,246)	(1,600)	(2,426)	(3,194)
Unrealized gain (loss) on investments in trading securities	195	(1,096)	3,711	(4,366)
Unrealized gain (loss) on UBS put right related to auction rate securities	239		(3,287)	
Equity in losses of Affiliates Insurance Company	(109)		(109)	
Gain on early extinguishment of debt	6,106		31,231	
Impairment of investments in available for sale securities			(2,947)	
Income from continuing operations before income taxes	10,040	4,751	35,553	9,731
Provision for income taxes	(993)	(444)	(1,509)	(1,010)
Income from continuing operations	9,047	4,307	34,044	8,721
Loss from discontinued operations	(469)	(818)	(94)	(3,615)
Net income	\$ 8,578	\$ 3,489	\$ 33,950	\$ 5,106
Weighted average shares outstanding - basic	32,236	31,831	32,221	31,825
Weighted average shares outstanding - diluted	37,728	41,562	38,437	41,556
Basic income (loss) per share from:				

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Continuing operations	\$	0.28	\$	0.14	\$	1.06	\$	0.27
Discontinued operations		(0.01)		(0.03)				(0.11)
Net income per share - basic	\$	0.27	\$	0.11	\$	1.06	\$	0.16
Diluted income (loss) per share from:								
Continuing operations	\$	0.26	\$	0.13	\$	0.92	\$	0.26
Discontinued operations		(0.01)		(0.02)				