

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION

13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 22, 2006

FIVE STAR QUALITY CARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or other jurisdiction

of incorporation)

Commission File No. 1-16817

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

04-3516029
(IRS Employer
Identification No.)

02458
(Zip Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01. Other Events.**CONSOLIDATING SUBSIDIARY FINANCIAL INFORMATION**

Consolidating financial information related to us, our guarantor subsidiaries and our non-guarantor subsidiaries as of September 30, 2006 and 2005 are reflected below.

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
REVENUES:					
Net revenues from residents	\$	\$ 245,249	\$ 307,724	\$	\$ 552,973
Pharmacy revenue			38,684		38,684
Total revenues		245,249	346,408		591,657
OPERATING EXPENSES:					
Wages and benefits		106,501	176,946		283,447
Other operating expenses		67,619	72,428		140,047
Termination payment to Sunrise Senior Living Services, Inc.		89,833			89,833
Pharmacy expenses			37,335		37,335
Management fee to Sunrise Senior Living Services, Inc.		7,792			7,792
Rent expense		48,558	31,117		79,675
General and administrative		7,442	15,551		22,993
Depreciation and amortization		3,040	4,080		7,120
Total operating expenses		330,785	337,457		668,242
Operating (loss) income		(85,536	) 8,951		(76,585
Interest and other income		247	1,306		1,553
Interest expense		(14	) (2,405	)	(2,419
Equity in earnings of subsidiaries	(82,335	)		82,335	
(Loss) income from continuing operations before income taxes	(82,335	) (85,303	) 7,852	82,335	(77,451
Provision for income taxes					
(Loss) income from continuing operations	(82,335	) (85,303	) 7,852	82,335	(77,451
Loss from discontinued operations		(95	) (4,789	)	(4,884
Net (loss) income	\$ (82,335	) \$ (85,398	) \$ 3,063	\$ 82,335	\$ (82,335

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
REVENUES:					
Net revenues from residents	\$	\$ 234,962	\$ 283,176	\$	\$ 518,138
Pharmacy revenue			22,641		22,641
Total revenues		234,962	305,817		540,779
OPERATING EXPENSES:					
Wages and benefits		99,535	167,365		266,900
Other operating expenses		65,906	65,188		131,094
Termination payment to Sunrise Senior Living Services, Inc.		81,536			81,536
Pharmacy expenses			21,332		21,332
Management fee to Sunrise Senior Living Services, Inc.		16,911			16,911
Rent expense		48,360	24,811		73,171
General and administrative			19,169		19,169
Depreciation and amortization		1,722	3,562		5,284
Impairment of assets			2,333		2,333
Total operating expenses		313,970	303,760		617,730
Operating (loss) income		(79,008	) 2,057		(76,951
Interest and other income		207	810		1,017
Interest expense			(3,024	)	(3,024
Equity in earnings of subsidiaries	(81,954	)		81,954)
(Loss) income from continuing operations before income taxes	(81,954	) (78,801	) (157	) 81,954	(78,958
Provision for income taxes					
(Loss) income from continuing operations	(81,954	) (78,801	) (157	) 81,954	(78,958
Loss from discontinued operations		(202	) (2,794	)	(2,996
Net (loss) income	\$ (81,954	) \$ (79,003	) \$ (2,951	) \$ 81,954	\$ (81,954

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
ASSETS					
Current Assets					
Cash	\$	\$ 4,285	\$ 18,965	\$	\$ 23,250
Accounts receivable, net		14,372	36,002		50,374
Prepaid expenses and other current assets		100	45,396		45,496
Total current assets		18,757	100,363		119,120
Property and equipment, net		21,530	86,777		108,307
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400))
Restricted cash			13,998		13,998
Intercompany	227,801			(227,801))
Mortgage notes receivable			2,835		2,835
Goodwill			21,290		21,290
Other long term assets		402	(402))	
Total assets	\$ 228,001	\$ 40,689	\$ 225,061	\$ (228,201)	) \$ 265,550
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities					
Accounts payable and other current liabilities	\$	\$ 30,127	\$ 62,691	\$	\$ 92,818
Current mortgage notes payable			627		627
Total current liabilities		30,127	63,318		93,445
Long term liabilities:					
Mortgage notes payable			44,285		44,285
Notes payable to related parties	200			(200))
Other long term liabilities		7,087	20,049		27,136
Total long term liabilities	200	7,087	64,334	(200)	) 71,421
Total shareholders equity	227,801	3,475	97,409	(228,001)	) 100,684
Total liabilities and shareholders equity	\$ 228,001	\$ 40,689	\$ 225,061	\$ (228,201)	) \$ 265,550

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
ASSETS					
Current Assets					
Cash	\$	\$ 9,432	\$ 38,306	\$	\$ 47,738
Accounts receivable, net		12,984	27,227		40,211
Prepaid expenses and other current assets		9,966	73,599		83,565
Total current assets		32,382	139,132		171,514
Property and equipment, net		16,219	74,389		90,608
Investment in subsidiary and long term receivable from (to) subsidiaries	200		200	(400))
Restricted cash			17,453		17,453
Intercompany	113,639			(113,639))
Mortgage notes receivable			6,003		6,003
Goodwill			18,013		18,013
Other long term assets		402	(402))	
Total assets	\$ 113,839	\$ 49,003	\$ 254,788	\$ (114,039)	) \$ 303,591
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities					
Accounts payable and other current liabilities	\$	\$ 31,156	\$ 131,696	\$	\$ 162,852
Current mortgage notes payable			559		559
Total current liabilities		31,156	132,255		163,411
Long term liabilities:					
Mortgage notes payable			44,915		44,915
Notes payable to related parties	200			(200))
Other long term liabilities		7,081	17,021		24,102
Total long term liabilities	200	7,081	61,936	(200)	) 69,017
Total shareholders equity	113,639	10,766	60,597	(113,839)	) 71,163
Total liabilities and shareholders equity	\$ 113,839	\$ 49,003	\$ 254,788	\$ (114,039)	) \$ 303,591

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
Cash Flows from operating activities:					
Net (loss) income	\$ (82,335)	\$ (85,398)	\$ 3,063	\$ 82,335	\$ (82,335)
Undistributed equity in earnings of subsidiaries	82,335			(82,335)	
Adjustments to reconcile net income to cash provided by (used in) operating activities, net		86,724	(87,244)		(520)
Net cash provided by (used in) operating activities		1,326	(84,181)		(82,855)
Cash Flows from investing activities:					
Capital expenditures		(11,956)	(26,033)		(37,989)
Proceeds from the sale of property and equipment		6,593	10,193		16,786
Other, net		1,096	(4,152)		(3,056)
Net cash used in investing activities		(4,267)	(19,992)		(24,259)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net			114,052		114,052
Change in borrowings, net			(417)		(417)
Other, net					
Net cash provided by financing activities			113,635		113,635
Change in cash and cash equivalents		(2,941)	9,462		6,521
Cash and cash equivalents at beginning of period		7,226	9,503		16,729
Cash and cash equivalents at end of period	\$	\$ 4,285	\$ 18,965	\$	\$ 23,250

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

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	FVE Consolidated
Cash Flows from operating activities:					
Net (loss) income	\$ (81,954)	\$ (79,003)	\$ (2,951)	\$ 81,954	\$ (81,954)
Undistributed equity in earnings of subsidiaries	81,954			(81,954)	
Adjustments to reconcile net income to cash provided by operating activities, net		85,054	21,617		106,671
Net cash provided by operating activities		6,051	18,666		24,717
Cash Flows from investing activities:					
Capital expenditures		(10,713)	(85,302)		(96,015)
Proceeds from the sale of property and equipment		4,848	28,493		33,341
Other, net		859	(5,864)		(5,005)
Net cash used in investing activities		(5,006)	(62,673)		(67,679)
Cash Flows from financing activities:					
Proceeds from issuance of common shares, net			56,865		56,865
Change in borrowings, net			2,893		2,893
Other, net					
Net cash provided by financing activities			59,758		59,758
Change in cash and cash equivalents		1,045	15,751		16,796
Cash and cash equivalents at beginning of period		8,387	22,555		30,942
Cash and cash equivalents at end of period	\$	\$ 9,432	\$ 38,306	\$	\$ 47,738

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Five Star Quality Care, Inc.
Unaudited Pro Forma Consolidated Balance Sheet
As of September 30, 2006
(amounts in thousands)

	Historical	Adjustments for convertible senior notes offering	Adjusted for convertible senior notes offering
ASSETS			
Current assets			
Cash and cash equivalents	\$ 23,250	\$ 122,771	(A) \$ 146,021
Accounts receivable, net	50,374		50,374
Prepaid expenses and other current assets	45,496		45,496
Total current assets	119,120	122,771	241,891
Property and equipment, net	108,307		108,307
Restricted cash	13,998		13,998
Mortgage notes receivable	2,835		2,835
Goodwill	21,290		21,290
Other long term assets		3,729	(B) 3,729
Total assets	\$ 265,550	\$ 126,500	\$ 392,050
LIABILITIES AND SHAREHOLDERS EQUITY			
Total current liabilities	\$ 93,445	\$	\$ 93,445
Mortgage notes payable	44,285		44,285
3.75% Convertible Senior Notes due 2026		126,500	(C) 126,500
Other long term liabilities	27,136		27,136
Total liabilities	164,866	126,500	291,366
Total shareholders equity	100,684		100,684
Total liabilities and shareholders equity	\$ 265,550	\$ 126,500	\$ 392,050

Five Star Quality Care, Inc.

Unaudited Pro Forma Consolidated Income Statement

For the nine months ended September 30, 2006

(amounts in thousands)

	Historical	Adjustments for April 2006 equity offering	Adjusted for April 2006 equity offering	Adjustments for June 2006 Sunrise terminations	Adjusted for April 2006 equity offering and June 2006 Sunrise terminations	Adjustments for convertible senior note offering	Adjusted for April 2006 equity offering, June 2006 Sunrise terminations and convertible senior note offering
REVENUES:							
Net revenues from residents	\$ 552,973	\$	\$ 552,973	\$	\$ 552,973	\$	\$ 552,973
Pharmacy revenue	38,684		38,684		38,684		38,684
Total revenues	591,657		591,657		591,657		591,657
OPERATING EXPENSES:							
Property level operating expenses	423,494		423,494		423,494		423,494
Termination payment to Sunrise Senior Living Services, Inc.	89,833		89,833		89,833		89,833
Pharmacy expenses	37,335		37,335		37,335		37,335
Management fee to Sunrise Senior Living Services, Inc.	7,792		7,792	(3,333)	(E) 4,460		4,460
Rent expense	79,675		79,675		79,675		79,675
General and administrative	22,993		22,993		22,993		22,993
Depreciation and amortization	7,120		7,120		7,120		7,120
Total operating expenses	668,242		668,242	(3,333)	664,910		664,910
Operating (loss) income	(76,585)	)	(76,585)	) 3,333	(73,253)	)	(73,253)
Interest and other income	1,553		1,553		1,553		1,553
Interest expense	(2,419)	)	(2,419)	)	(2,419)	(3,698)	(F) (6,117)
(Loss) income from continuing operations before income taxes	(77,451)	)	(77,451)	) 3,333	(74,119)	) (3,698)	(77,816)
Provision for income taxes							
(Loss) income from continuing operations	\$ (77,451)	) \$	\$ (77,451)	) \$ 3,333	\$ (74,119)	) \$ (3,698)	) \$ (77,816)
Weighted Average Shares							
Outstanding:							
Basic	27,584	6,030	(D) 33,614		33,614		33,614
Fully Diluted	27,584	6,030	33,614		33,614		33,614
Basic and diluted income per share from:							
Basic	\$ (2.81)	)	\$ (2.30)	)	\$ (2.21)	)	\$ (2.31)
Fully Diluted	\$ (2.81)	)	\$ (2.30)	)	\$ (2.21)	)	\$ (2.31)

FIVE STAR QUALITY CARE, INC.
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share and per share amounts)

INTRODUCTION TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated balance sheet as of September 30, 2006, presents the consolidated financial position of Five Star as if the October 2006 private placement of \$126.5 million of our 3.75% convertible senior notes due 2026, or the convertible senior notes, had been completed as of September 30, 2006, as described in the notes thereto. The unaudited pro forma consolidated statement of operations for the nine months ended September 30, 2006, presents the consolidated results of operations of Five Star as if (1) our April 2006 offering of 11.5 million of our common shares, or the April 2006 equity offering; (2) the reduction in our management fees payable in respect of 10 Sunrise Senior Living Services, Inc., or SLS, management agreements that we terminated in June 2006; and (3) the October 2006 private placement of our convertible senior notes, had been completed as of January 1, 2006, as described in the notes thereto. This pro forma financial information does not give pro forma effect to other events subsequent to September 30, 2006, including, without limitation, (1) our commencement of the operations of two rehabilitation hospitals in October 2006, (2) HealthSouth Corporation's agreement in November 2006 to reimburse us for certain costs in connection with the transfer of the lease for the hospitals to us and (3) the seven SLS management agreements that we agreed with SLS in November 2006 to terminate.

These unaudited pro forma consolidated financial statements do not represent our consolidated financial condition or results of operations for any future date or period. Actual future results may be materially different from pro forma results. Differences could arise from many factors, including, but not limited to, those set forth under *Risk factors* and *Warning concerning forward looking statements* in our Annual Report on Form 10-K for the year ended December 31, 2005 and our Quarterly Reports on Form 10-Q for the quarters ended March 31 and September 30, 2006. These unaudited pro forma consolidated financial statements should be read in conjunction with our consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations for the nine months ended September 30, 2006 included in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2006.

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

A. Represents the proceeds we received from our issuance of our convertible senior notes as follows:

Convertible senior notes issued	\$ 126,500
Initial purchaser discount and commissions and other offering costs	3,729
Net proceeds	\$ 122,771

B. Represents deferred finance fees we incurred as a result of our issuance of our convertible senior notes. Amounts represent the initial purchaser discount and commissions and other offering costs which will be amortized over the term of our convertible senior notes.

C. Represents the principal amount of our convertible senior notes.

Pro forma consolidated statement of operations for the nine months ended September 30, 2006 adjustments

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

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

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

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Interest expense for nine months on the \$126,500 of our convertible senior notes at 3.75% per annum	\$ (3,558)
Amortization of deferred finance fees (see Note B) for nine months. Deferred finance fees amortized over term of our convertible senior notes, or 20 years	(140)
Total adjustment	\$ (3,698)

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SIGNATURES

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

FIVE STAR QUALITY CARE, INC.

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

Date: November 22, 2006