FIVE STAR QUALITY CARE INC
Form S-1/A
November 12, 2004

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As filed with the Securities and Exchange Commission on November 12, 2004

Registration No. 333-119955

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1
TO

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	**8051**	**04-3516029**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

400 Centre Street
Newton, Massachusetts 02458
(617) 796-8387

(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, and 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. o

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. o

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. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) 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. o

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

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 per share	3,450,000(1)	$7.15	$24,667,500	$3,125.38(3)

(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 November 9, 2004, as reported by the American Stock Exchange.

(3) $2,069.02 previously paid.

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 the 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

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.

Our common shares are traded on the American Stock Exchange, under the symbol "FVE". On , the last reported sale price of our common shares on the American Stock Exchange was $ 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 7 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 .

UBS Investment Bank

[Photographs of assisted living communities and skilled nursing facilities]

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.

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 senior living communities, including independent and assisted living communities and nursing homes. After the completion of the pending acquisition of LTA Holdings, Inc., or LTA, described below in "Recent Developments", we will operate 148 senior living communities containing 16,603 living units located in 27 states. Since we became a public company, we have selectively divested nursing homes and acquired independent and assisted living communities where a large majority of the revenues are paid by residents from their private resources. The following charts illustrate the changes in our business since we became a public company on December 31, 2001 to September 30, 2004, adjusted for the pending acquisition of LTA:

Five Star Operations

At December 31, 2001	At September 30, 2004
54 nursing homes (5,074 living units) 2 assisted living communities (137 living units)	52 nursing homes (4,847 living units) 34 independent living communities (7,821 living units) 62 assisted living communities (3,935 living units)
$229.6 million revenues[(1)]	**$694.0 million revenues**[(2)]

(1) Revenues at these communities for the year ended December 31, 2001.

(2) Revenues at these communities for the three months ended September 30, 2004, annualized.

RECENT DEVELOPMENTS

Since January 1, 2004, the following recent developments have occurred:

> *Improved profits.* We earned $0.06/share, $0.11/share and $0.   /share in the three month periods ended March 31, June 30 and September 30, 2004, respectively. Since we became a public company until 2004, we were not consistently profitable. We believe that our recently improved financial performance is the result of changes in our business which we have implemented, including both

improvements in operations and acquisitions; but our future profitability is not guaranteed. See "Risk factors" beginning on page 7.

>

LTA acquisition. In September 2004, we agreed to acquire LTA for approximately $208 million. LTA owns and operates 47 senior living communities with 2,636 living units, which primarily offer assisted living services. LTA's historical revenues from these communities for the six months ended June 30, 2004 annualized was $78.9 million, and 100% of these revenues were paid by residents from their private resources. LTA also manages 12 assisted living communities for third party owners, but we do not know if we will continue to manage these communities. We intend to finance the LTA acquisition with cash on hand, assumption of certain mortgage debt and leasehold obligations, and a sale leaseback of 35 LTA communities for $165 million. Our business plan for the LTA communities is to increase revenues by increasing occupancies at the communities. We also expect to realize cost savings by combining the LTA operations with our existing operations. We can provide no assurances that the expected financial benefits from the LTA acquisition will be achieved. Completion of the LTA acquisition is subject to various conditions customary in transactions of this type, including licensing and receiving third party consents. We expect this transaction to close before year end 2004, but there is no assurance that it will close. This offering is not contingent upon the closing of the LTA acquisition.

>

Pharmacy expansion. In September 2004, we purchased an institutional pharmacy business located in Nebraska for $3 million. This business currently provides pharmacy services to 24 nursing homes. Our business plan is to expand this business by offering pharmacy services at some or all of the 14 communities which we operate in Nebraska. We used cash on hand to complete this acquisition.

OUR GROWTH STRATEGY

We believe that the aging of the U.S. population will increase demand for existing independent living properties, assisted living communities and nursing homes. Our principal growth strategy is to profit from this demand by operating and acquiring properties that provide high quality services to residents who pay with private resources.

We continue to work towards improving the profitability of our existing operations by increasing revenues and improving margins. We attempt to increase revenues by increasing rates and occupancies. We attempt to improve margins by limiting increases in expenses and improving operating efficiencies.

In addition to managing our existing operations, we intend to continue to grow our business through acquisitions of independent and assisted living communities where a large majority of the revenues are paid with residents' private resources. Since we became a public company through November 10, 2004, we added 49 primarily independent and assisted living communities to our business which generate 88% of their revenue from residents' private resources, rather than from Medicare or Medicaid. We prefer to purchase communities which have achieved or are close to stabilized operations. For example, the LTA communities which we expect to acquire have current occupancy of approximately 87%. We also try to make acquisitions where we can realize cost savings by combining operations with our existing operations.

Starting in the mid 1990s, a large number of independent and assisted living communities were developed with financing from private equity and real estate opportunity funds. We believe that many of these communities are now at or approaching stabilized operations and many of these financial investors are now anxious to sell. For example: in 2002, we acquired 15 independent and assisted living communities which were assembled and developed by Constellation Health Services, Inc., a division of Constellation Energy Group, Inc., f/k/a Baltimore Gas and Electric Company; and the controlling shareholder of LTA is a private equity fund. We expect to pursue similar acquisitions for the next several years.

We also intend to expand our institutional pharmacy business. We acquired our first pharmacy in Wisconsin in 2003. As described in "Business Recent Developments", during 2004, we acquired a second pharmacy located in Nebraska. Whenever we buy an institutional pharmacy business, we seek to grow its business by providing pharmacy services at our senior living communities within the same service area. We are currently interested in acquiring pharmacies in other areas where we own senior living communities. We can provide no assurances that we will be able to continue these pharmacy expansion activities, but we intend to do so.

Although expansion of our nursing home business is not our primary growth strategy, we have in the past considered acquiring more nursing homes. Most nursing homes are financially dependent upon the Medicare and Medicaid programs. Accordingly, we believe the potential for profitable operations of nursing homes is limited by government funding. In these circumstances, we are only interested in expanding our nursing home operations at prices which we believe take account of the risks inherent in government rate setting. In the past few years, we have not been able to buy nursing homes at prices we consider appropriate, but we may continue to investigate such opportunities in the future.

HISTORICAL AND CURRENT RELATIONS WITH SENIOR HOUSING PROPERTIES TRUST AND SUNRISE SENIOR LIVING, INC.

We were formed in 2000 as a subsidiary of Senior Housing Properties Trust, or Senior Housing, a publicly owned real estate investment trust, or REIT. We were created to operate nursing homes owned by Senior Housing which were repossessed from defaulting tenants. During 2000 and 2001, we closed certain unprofitable nursing homes and we stabilized operations at others. On December 31, 2001, we began to lease the nursing homes from Senior Housing which we formerly operated for it, and substantially all of our shares were distributed to Senior Housing shareholders. Although we are now a separate public company, we maintain close relations with Senior Housing. Two of our directors are also trustees of Senior Housing. Senior Housing and we sometimes consider joint acquisition opportunities. Ninety-seven of the total 101 senior living communities which we currently operate are owned by, and leased from, Senior Housing, and Senior Housing has agreed to a sale and leaseback transaction which will provide the majority of our funding for the LTA acquisition. We believe our close relationship with Senior Housing benefits us because it affords us an ability to consider larger investments than our independent resources might permit.

At the time of our spin off from Senior Housing, we agreed to lease 31 senior living communities with 7,418 living units which Senior Housing had agreed to purchase. These communities were operated under long term contracts by a subsidiary of Marriott International, Inc., or Marriott. In 2003, Marriott sold its senior living subsidiary to a subsidiary of Sunrise Senior Living, Inc., or Sunrise. At about that time, Marriott and we had litigation concerning whether we could terminate Sunrise's management as a result of this sale, among other matters. This litigation was settled in early 2004, and Sunrise now operates these communities for our account. By mutual agreement between us and Sunrise, one of these communities was closed in May 2004. Our annualized revenues from the remaining 30 Sunrise managed communities is approximately $300 million, and these revenues, rent to Senior Housing and management fees to Sunrise related to these communities are recorded in our income statement.

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The offering

Common stock being offered	3,000,000 shares
Common stock to be outstanding after the offering	11,538,634 shares
Use of proceeds	The net proceeds to us from this offering will be $19.8 million, assuming a public offering price of $7.15 per share. We intend to use these net proceeds for general business purposes, including possible 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 8,538,634 shares outstanding on November 10, 2004. If the underwriters exercise their over-allotment option in full, we will issue an additional 450,000 shares. 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 our pending acquisition of LTA, including the sale and leaseback to Senior Housing of certain of the acquired communities. As discussed under "Risk factors" and "Management's discussion and analysis of financial condition and results of operations", our historical financial information is not necessarily 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 the LTA acquisition, including the sale leaseback with Senior Housing, been completed as of the dates indicated in our pro forma financial statements.

	For the six months ended June 30, 2004		
	Historical	After giving pro forma effect to the pending LTA acquisition	As adjusted for this offering after giving pro forma effect to the pending LTA acquisition
	(dollars in thousands, except per share data)		
Statement of Operations Data			
Revenues	$ 305,045	$ 344,540	$ 344,540
Property operating expenses	241,230	268,347	268,347
Management fee to Sunrise	9,191	9,191	9,191
Rent expense	40,582	48,599	48,599
General and administrative	9,935	13,539	13,539
Depreciation and amortization	1,839	2,289	2,289
Interest expense	245	1,399	1,399
Total expenses	303,022	343,364	343,364
Income from continuing operations before gain on sale of assets, equity in income of affiliates and income taxes	2,023	1,176	1,176
Gain on sale of assets		6	6
Equity in income of affiliates		27	27
		33	33
Income from continuing operations before income taxes	2,023	1,209	1,209
Provision for income taxes			
Income from continuing operations	$ 2,023	$ 1,209	$ 1,209
Income per share from continuing operations	$ 0.24	$ 0.14	$ 0.11
Weighted average shares	8,520	8,520	11,520
Other data:			
Occupancy	89%	89%	89%
Total units	13,967	16,603	16,603
Private pay % of revenue	57%	63%	63%
Income from continuing operations	$ 2,023	$ 1,209	$ 1,209
add depreciation and amortization	245	2,289	2,289
add interest expense	1,839	1,399	1,399
EBITDA[1]	$ 4,107	$ 4,897	$ 4,897

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Balance Sheet Data						
Cash and cash equivalents	$	28,879	$	30,539	$	50,380
Total current assets		68,394		73,375		93,216
Total assets		145,937		183,699		203,540
Short-term liabilities		51,141		59,256		59,256
Long-term liabilities		28,863		58,510		58,510
Common equity	$	65,933	$	65,933	$	85,774

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

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Risk factors

Investing in shares of our common stock, or common shares, entails significant risk. The following is a description of the material risks which we can identify. There may be additional risks and uncertainties not presently known to us or that we currently deem immaterial that may also impair our business operations. You should carefully consider the risks and uncertainties described below and elsewhere in this prospectus before making an investment decision.

A small percentage decline in our revenues or increase in our expenses can have a material negative impact upon our operating results.

For the first six months of 2004, our revenues were $305 million and our expenses were $303 million. A small percentage decline in our revenues or increase in our expenses might have a material negative impact upon our income.

Our growth strategy may not succeed.

Our business plan includes acquiring additional senior living communities and institutional pharmacies. This growth strategy involves risks. For example:

> we may be unable to locate senior living communities or pharmacies available for purchase at acceptable prices;

> we may be unable to access the capital to acquire or operate the expanded business;

> acquired operations may bring with them contingent liabilities which mature;

> to the extent we incur acquisition debt or leases, our operating leverage may increase; and

>

combining our present operations with newly acquired operations may be disruptive of the operations or cost more than anticipated when acquisition prices are determined.

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 may suffer from a lack of management attention or financial resources if such attention and resources are devoted to a failed growth strategy.

Our pending acquisition of LTA may not be completed and, if it is, we may not achieve anticipated benefits.

Our pending purchase of LTA is subject to licensing, receiving third party consents and other conditions. Although we expect to complete this purchase before December 31, 2004, it may not occur by then or ever.

The financial benefits we expect to realize from the LTA acquisition are largely dependent upon our ability to increase the occupancy of the LTA communities and to realize cost savings by combining the LTA operations with our existing operations. If the LTA acquisition does not occur or if our management of the LTA communities does not increase revenues and lower historical costs, we will not realize the presently anticipated benefits and we may experience losses.

Our insurance costs have increased and may continue to increase.

In several well publicized instances, private litigation by residents of senior living communities for alleged abuses have resulted in large damage awards against other operating companies. Today, some

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lawyers and law firms specialize in bringing litigation against senior living companies. As a result of this litigation and potential litigation, our cost of liability insurance has increased dramatically during the past few years. Workers compensation and employee health insurance costs have also increased in recent years. To partially offset these increases we have increased the amounts of our self insurance by use of higher deductibles and captive insurance companies. Medical liability insurance reform has become a topic of political debate and some states have enacted legislation to limit future liability awards. However, if such reforms are not generally adopted, we expect our insurance costs may continue to increase. Although our reserves for self insurance have been determined with guidance from third party professionals, our reserves may prove inadequate. Increasing insurance costs and increasing reserves may materially negatively affect our results of operations.

Our business is subject to extensive regulation which increases our costs and may result in losses.

Licensing and Medicare and Medicaid laws require operators of senior living communities to comply with extensive standards governing operations. There are also various laws prohibiting fraud by senior living operators, including criminal laws that prohibit false claims for Medicare and Medicaid and that regulate patient referrals. In recent years, the federal and state governments have devoted increased resources to monitoring quality of care at senior living communities and to anti-fraud investigations. When quality of care deficiencies are identified or improper billing is uncovered, various sanctions may be imposed, including denial of new admissions, exclusion from Medicare or Medicaid program participation, monetary penalties, governmental oversight or loss of licensure. Although our communities receive notices of sanctions from time to time, at November 10, 2004, none of our communities was the subject of a regulatory sanction. However, a result of this extensive regulatory system and increasing enforcement initiatives has been to increase our costs of monitoring quality of care compliance and billing procedures, and we expect these costs may continue to increase. Also, if we become subject to regulatory sanctions, our business may be adversely affected and we might experience financial losses.

The failure of Medicare and Medicaid rates to match our costs will reduce our income.

Some of our operations, especially our nursing homes, receive significant revenues from the Medicare and Medicaid programs. During the nine months ended September 30, 2004, approximately 41% of our total revenues was received from these programs. The federal government and some states are now experiencing fiscal deficits. Historically when governmental deficits have increased, cut backs in Medicare and Medicaid funding have often followed. These cut backs sometimes include rate reductions, but more often result in a failure of Medicare and Medicaid rates to increase by sufficient amounts to offset increasing costs. We cannot now predict whether future Medicare and Medicaid rates will be sufficient to cover our future cost increases. Future Medicare and Medicaid rate declines or a failure of these rates to cover increasing costs would result in our experiencing lower earnings or losses.

Sunrise's management of 30 of our communities may have adverse consequences to us.

In March 2003, Marriott sold its subsidiary which manages 30 communities for us to Sunrise. We believe Sunrise's financial condition and reputation as an operator of senior living communities is weaker than the financial condition and reputation of Marriott. The operations and the financial results which we realize from the communities managed for us by Sunrise have declined and become more volatile as a result of this sale and this decline and volatility may continue in the future.

We are subject to possible conflicts of interest and we have engaged in, and will continue to engage in for the foreseeable future, transactions with related parties.

Our business is subject to possible conflicts of interest as follows:

- our Chief Executive Officer, Evrett W. Benton, and our Chief Financial Officer, Bruce J. Mackey Jr., are also part-time employees of Reit Management and Research LLC, or RMR. RMR is the investment manager for Senior Housing and we purchase various services from RMR pursuant to a shared services agreement;

- our managing directors, Barry M. Portnoy and Gerard M. Martin, are also managing trustees of Senior Housing. Messrs. Portnoy and Martin also own RMR and another entity that leases office space to us; and

- under our shared services agreement with RMR, in the event of a conflict between Senior Housing and us, RMR may act on behalf of Senior Housing rather than on our behalf.

We do not believe that these conflicts adversely affect our business.

On December 31, 2001, Senior Housing distributed substantially all of its ownership of our shares to its shareholders. As a condition to the spin off, we entered into agreements with Senior Housing concerning, among other things, an amendment to our charter which limits ownership of more than 9.8% or more of our voting shares, restrictions on our ability to take any action that could jeopardize the tax status of Senior Housing and other REITs managed by RMR, and rights regarding an acquisition of or financing for real estate we may be considering. See "Management's discussion and analysis of financial condition and results of operations Related party transactions".

In addition, as of November 10, 2004, 97 of the 101 senior living communities we currently operate are leased from Senior Housing for total annual minimum rent of $82.0 million. After giving effect to the LTA sale leaseback, 132 of the 148 senior living communities we will be operating will be leased from Senior Housing for total minimum rent of $96.9 million.

As a result of the agreements entered into in connection with the spin off, our leases with Senior Housing and our shared services agreement with RMR, Senior Housing, RMR and their respective affiliates play a significant role in our business and we do not anticipate any changes to that role for the foreseeable future. Future business dealings between us, Senior Housing, RMR and their respective affiliates may be on terms less favorable to us than we could achieve on an arms' length basis.

Our business requires regular capital expenditures.

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

Our business is highly competitive and we may be unable to operate profitably.

We compete with numerous other companies that provide senior living services, 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 communities; 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 the availability of nursing home alternatives, including assisted living communities, has had and may in the future have the effect of reducing the occupancy or 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 residents to our communities or that we will be able to attract employees and keep wages and other employee benefits, insurance costs and other operating expenses at levels which will allow us to compete successfully or to operate profitably.

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

Our charter places restrictions on the ability of any person or group to acquire beneficial ownership of more than 9.8% (in number of shares or value, whichever is more restrictive) of any class of our equity shares. Additionally, the terms of our leases with Senior Housing and our shared services agreement with RMR provide that our rights under these agreements may be cancelled by Senior Housing and RMR, respectively, upon the acquisition by any person or group of more than 9.8% of our voting stock, and upon other change in control events, as defined in those documents. If the breach of these ownership limitations causes a lease default, shareholders causing the default may become liable to us or to other shareholders for damages. Additionally, on March 10, 2004, we entered into a rights agreement whereby in the event a person or group of persons acquires or attempts to acquire 10% or more of our outstanding common shares, our shareholders, other than such person or group, will be entitled to purchase additional shares or other securities or property at a discount. These agreements and other provisions in our charter and bylaws 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. Other provisions in our governing documents which may deter takeover proposals include the following:

> staggered terms for members of our board of directors;

> the power of our board of directors, without a shareholders' vote, to authorize and issue additional shares and classes of shares on terms that it determines;

> a 75% shareholder vote and cause requirement for removal of directors; and

> advance notice procedures with respect to nominations of directors and shareholder proposals.

For all of these reasons, shareholders may be unable to cause a change of control of us or to realize a change of control premium for their common shares.

A significant increase in our labor costs could have a material adverse effect on us.

We compete with other operators of senior living communities with respect to attracting and retaining qualified personnel responsible for the day-to-day operations of each of our communities. A shortage of nurses or other trained personnel may require us to increase the wages and benefits offered to our employees in order to attract and retain these personnel or to hire more expensive temporary personnel. No assurance can be given that our labor costs will not increase or that any increase will be matched by corresponding increases in rates charged to residents. Any significant failure by us to control our labor costs or to pass on any increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations.

We largely rely on private pay residents. Circumstances that adversely effect the ability of the elderly to pay for our services could have a material adverse effect on us.

Approximately 57% of our total revenues from our communities for the nine months ended September 30, 2004, and approximately 61% of our total revenues from our communities for the year

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ended December 31, 2003, were attributable to private pay sources. We expect to continue to rely on the ability of residents to pay for our services from their own financial resources. Inflation or other circumstances that adversely affect the ability of the elderly to pay for our services could have a material adverse effect on our business, financial condition and results of operations.

The price of our common stock has fluctuated, and a number of factors may cause our common stock price to decline.

The market price of our common stock has fluctuated and could fluctuate significantly in the future in response to various factors and events, including, but not limited to, the risks set out in this prospectus, as well as:

> the liquidity of the market for our common stock;

> variations in our operating results;

> variations from analysts' expectations; and

> general economic trends and conditions.

In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These market fluctuations also may cause the market price of our common stock to decline. Investors may be unable to resell their shares of our common stock at or above the offering price.

The sale of our shares in this offering will dilute the holdings of existing shareholders and future sales of our common shares may cause our stock price to fall.

As a result of this offering, the number of common shares outstanding will increase by approximately 35%. Because of this dilution, the market price of our common shares could decline. This dilution from the offering might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate. In addition, each of our officers and managing directors have agreed with the underwriters not to sell their shares of our common stock from the date of this prospectus through the date 90 days after the date of this prospectus. These persons may sell, or indicate an intention to sell, our common stock after the 90-day contractual lock-up lapses and, as a result, the trading price of our common shares could decline.

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Warning concerning forward looking statements

THIS PROSPECTUS CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND FEDERAL SECURITIES LAWS. THESE STATEMENTS REFLECT OUR INTENT, BELIEF OR EXPECTATIONS, OR THE INTENT, BELIEF OR EXPECTATIONS OF OUR DIRECTORS AND OFFICERS, BUT THEY ARE NOT GUARANTEED TO OCCUR. FOR EXAMPLE:

> OUR FUTURE INSURANCE COSTS AND INSURANCE RESERVE CALCULATIONS MAY BE GREATER THAN WE NOW ANTICIPATE;

> WE MAY BE UNABLE TO CARRY OUT OUR BUSINESS PLAN TO EXPAND BECAUSE WE ARE UNABLE TO LOCATE EXPANSION OPPORTUNITIES AT PRICES WE ARE WILLING OR ABLE TO PAY;

>

OUR RECEIVABLES RESERVES MAY BE INADEQUATE, ESPECIALLY THE RESERVES WHICH RELATE TO MEDICARE AND MEDICAID PAYMENTS BECAUSE SUCH PAYMENTS ARE SUBJECT TO GOVERNMENTAL AUDITS AND TO GOVERNMENT FISCAL POLICIES;

- OUR PENDING ACQUISITION OF LTA MAY NOT BE CONCLUDED BECAUSE OF OUR FAILURE TO RECEIVE A THIRD PARTY CONSENT OR OTHERWISE;
- WE MAY BE UNABLE TO MAINTAIN OR IMPROVE OUR FUTURE OCCUPANCY RATES AND AS A RESULT OUR REVENUES MAY DECLINE;
- THE IMPROVING ECONOMY MAY RESULT IN WAGE PRESSURES WHICH INCREASE OUR FUTURE COSTS;
- FUTURE MEDICARE AND MEDICAID RATES MAY BE LOWER THAN WE NOW ANTICIPATE;
- SUNRISE'S OPERATIONS OF THE COMMUNITIES WHICH IT MANAGES FOR US MAY RESULT IN LOSSES TO US; OR
- WE MAY BECOME SUBJECT TO FINES OR REGULATORY SANCTIONS WHICH MATERIALLY ADVERSELY AFFECT OUR FINANCIAL CONDITION OR PERFORMANCE.

IN ANY SUCH EVENT, OUR FUTURE FINANCIAL PERFORMANCE MAY CAUSE THE IMPROVEMENTS IMPLIED BY OUR RECENT PERFORMANCE TO REVERSE AND WE MAY EXPERIENCE LOSSES. IF OUR FINANCIAL RESULTS DO NOT CONTINUE TO IMPROVE OUR STOCK PRICE LIKELY WILL DECLINE. AN INVESTMENT IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK OF LOSS, AND INVESTORS SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS WHICH IMPLY OTHERWISE.

Use of proceeds

Our net proceeds from this offering, assuming a public offering price of $7.15, the average of the high and low prices of our common shares on the American Stock Exchange on November 9, 2004, and after deduction of the underwriting discount and estimated offering expenses payable by us, are estimated to be $19.8 million ($22.8 million if the underwriters' over-allotment option is exercised in full). We intend to use these net proceeds for general business purposes, including possible acquisitions which have not been identified. Until we utilize the net proceeds, 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.

Market price of common shares

Our common shares are traded on the American Stock Exchange under the symbol "FVE". The following table sets forth for the periods indicated the high and low closing price for our common shares as reported by the American Stock Exchange:

2002

	Low	High
First Quarter	$ 6.97	$ 8.75
Second Quarter	5.35	7.35
Third Quarter	1.07	5.50
Fourth Quarter	0.96	2.09

2003

2002

	Low	High
First Quarter	$ 1.11	$ 1.75
Second Quarter	1.07	1.75
Third Quarter	1.45	2.46
Fourth Quarter	2.06	4.45

2004

First Quarter	$ 3.83	$ 6.23
Second Quarter	3.65	5.10
Third Quarter	4.28	7.60

The closing price of our common shares on the American Stock Exchange on November 11, 2004, was $ per share.

As of November 10, 2004, there were approximately 3,900 shareholders of record of our common shares, and we estimate that as of such date there were approximately 60,500 beneficial owners of our common shares.

Dividend policy

We have never paid dividends on our common stock. We do not expect to pay dividends in the foreseeable future.

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Capitalization

The following table describes our capitalization, as of June 30, 2004, on a historical and pro forma basis, giving effect to our pending acquisition of LTA, including the sale and leaseback to Senior Housing of certain of the acquired communities, and as adjusted for this offering assuming a public offering price of $7.15 per share.

	Historical	After giving pro forma effect to the pending LTA acquisition	As adjusted for this offering and after giving pro forma effect to the pending LTA acquisition
		(dollars in thousands)	
Cash	$ 28,879	$ 30,539	$ 50,380
Debt	$ 5,007	$ 36,197	$ 36,197
Shareholders' equity:			
Common stock, par value $0.01 per share; 20,000,000 shares authorized; shares outstanding: 8,538,634 historical; 11,538,634 as adjusted	85	85	115
Additional paid in capital	86,301	86,301	106,112
Accumulated deficit	(20,453)	(20,453)	(20,453)
Total shareholders' equity	65,933	65,933	85,774
Total capitalization	$ 70,940	$ 102,130	$ 121,971

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 June 30, 2004, was $7.72; as adjusted for this offering, assuming a public offering price of $7.15 per share, book value per share will be $7.43.

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, 2003 and for the six months ended June 30, 2003 and 2004. The following data should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes thereto included elsewhere in this prospectus. Prior to December 31, 2001, we were owned by Senior Housing and, as discussed under "Management's discussion and analysis of financial condition and results of operations", our historical financial information before January 1, 2002 is not fully reflective of our current operations. Accordingly, you should not place undue reliance on our historical financial information before January 1, 2002.

	Six months ended June 30,		Year ended December 31,			Period from April 27, 2000 through December 31,
	2004	**2003**	**2003**	**2002**	**2001**	**2000**
	(unaudited)					
	(dollars in thousands, except per share amounts)					
Operating data:						
Total revenues	$ 305,045	$ 282,232	$ 576,215	$ 519,403	$ 219,834	$ 2,222
Net income (loss) from continuing operations	2,023	(3,813)	(7,567)	(10,259)	1,473	(1,614)
Net income (loss) from discontinued operations	(574)	(699)	(372)	(2,915)	(946)	298
Net income (loss)	$ 1,449	$ (4,512)	$ (7,939)	$ (13,174)	$ 527	$ (1,316)
Per common share data:						
Income (loss) from continuing operations	$ 0.24	$ (0.45)	$ (0.89)	$ (1.36)	$ 0.34	$ (0.37)
Income (loss) from discontinued operations	(0.07)	(0.08)	(0.05)	(0.38)	(0.22)	0.07
Net income (loss)	$ 0.17	$ (0.53)	$ (0.94)	$ (1.74)	$ 0.12	$ (0.30)
Balance sheet data (as of December 31):						
Total assets	$ 145,937	$ 141,079	$ 147,370	$ 133,197	$ 68,043	$ 54,788
Total indebtedness	5,007	17,380	10,435	16,123		100
Other long term obligations						