



Five Star Quality Care, Inc. Announces Lease Realignment Agreement With Senior Housing Properties Trust

NEWTON, Mass., Aug 04, 2009 (BUSINESS WIRE) -- Five Star Quality Care, Inc. (NYSE Amex: FVE) today announced that it has entered a lease realignment agreement with Senior Housing Properties Trust (NYSE: SNH). The agreement is intended to assist SNH to obtain mortgage financing from Fannie Mae (NYSE: FNM), which is secured by certain properties owned by SNH and leased by FVE.

As a result of this agreement, the total rents payable by FVE to SNH will be reduced by \$2 million/year and SNH will pay FVE \$18.6 million plus reimburse FVE for its out of pocket expenses incurred in connection with closing the transaction. This rent reduction and cash payment is intended to compensate FVE for realigning its leases with SNH, for the sale of certain personal property located at the mortgaged properties, for the pledge to FNM of certain assets owned by FVE, for the agreement by FVE to undertake certain reporting and operating requirements of FNM and for the issuance of 3,200,000 FVE common shares to SNH (approximately 9% of the total outstanding after this issuance).

Prior to the agreement announced today, FVE leased 183 properties from SNH (including 181 senior living facilities and two rehabilitation hospitals) pursuant to four combination leases. As a result of the agreement announced today, FVE will continue to lease the same 183 properties under four combination leases; however, the properties included in each lease have been reconfigured so that one lease includes only the 28 senior living communities which are being mortgaged by SNH with FNM.¹

FNM mortgage terms require that substantially all tangible and intangible personal property located at, or arising from the operations of, the mortgaged properties be pledged to secure the FNM loan. Some of the tangible personal property located at the properties being mortgage financed by FNM is being acquired by SNH from FVE and pledged to FNM. Most of the intangible personal property arising from the operations of the mortgaged properties (e.g. accounts receivable and contract rights) belong to FVE and will be pledged to secure the FNM mortgage. Also, FNM has reporting, ownership structure, operating and other requirements relating to the mortgaged properties which are different from FVE's current reporting, structure, operating and other requirements, but FVE has agreed to undertake the FNM requirements in connection with the agreement.

The sale of FVE common shares to SNH was included in this agreement, in part, to compensate FVE for the intangible loss of liquidity resulting from FVE's pledge of certain assets to FNM and, in part, so SNH may participate as a shareholder of FVE in the benefits which FVE may realize under the agreement. The agreement also provides that SNH will have certain registration rights with regard to the 3,200,000 FVE shares which it acquired; however, SNH's sales of these shares are restricted when a sale would jeopardize certain FVE tax attributes and SNH has stated that it has no present intention to sell these shares.

FVE was formerly a 100% owned subsidiary of SNH which became a separate public company as a result of a spin off transaction in 2001. Reit Management & Research LLC ("RMR") provides management services to both FVE and SNH. The terms of the agreement described in this press release were negotiated and approved by Special Committees of the Boards of FVE and SNH composed only of FVE Directors and SNH Trustees who are not also Directors/Trustees of the other company, and each Committee was represented by separate counsel.

FVE is a healthcare and senior living services company headquartered in Newton, MA which owns or leases and operates 207 senior living facilities, two rehabilitation hospitals, outpatient rehabilitation clinics and institutional pharmacies.

WARNING REGARDING FORWARD LOOKING STATEMENTS.

THIS PRESS RELEASE INCLUDES FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON FVE'S PRESENT BELIEFS AND EXPECTATIONS, BUT THEY ARE NOT GUARANTEED TO OCCUR AND, IN FACT, MAY NOT OCCUR. FOR EXAMPLE:

- **THIS PRESS RELEASE STATES THAT SNH'S ACQUISITION OF FVE SHARES MAY PERMIT SNH TO PARTICIPATE IN THE BENEFITS WHICH FVE RECEIVES UNDER THE AGREEMENT. THE IMPLICATION OF THIS STATEMENT MAY BE THAT FVE BELIEVES THE RENT REDUCTION AND PAYMENT WHICH FVE RECEIVES UNDER THE AGREEMENT WILL CAUSE THE TRADING PRICE OF FVE SHARES TO INCREASE. HOWEVER, FVE CANNOT PREDICT THE EFFECT OF THIS AGREEMENT UPON THE TRADING PRICE OF ITS SHARES. IN FACT, THE TRADING PRICE OF FVE'S COMMON SHARES MAY DECLINE AS A RESULT OF THE AGREEMENT ANNOUNCED IN THIS PRESS**

RELEASE OR FOR OTHER REASONS UNRELATED TO THIS AGREEMENT. THE TRADING PRICE OF FVE'S COMMON SHARES IS GENERALLY DETERMINED BASED UPON THE RELATIVE NUMBER OF FVE BUYERS AND SELLERS, THE NUMBERS OF SHARES SUCH BUYERS AND SELLERS ARE INTERESTED TO TRADE AND THE PRICES AT WHICH THEY ARE WILLING TO TRADE FVE SHARES. THERE CAN BE NO ASSURANCES REGARDING THE TRADING PRICES OF FVE'S COMMON SHARES AND FVE DOES NOT INTEND TO IMPLY OTHERWISE.

- THIS PRESS RELEASE STATES THAT SNH'S SALES OF FVE SHARES ARE RESTRICTED WHEN A SALE WOULD JEOPARDIZE CERTAIN FVE TAX ATTRIBUTES. AN IMPLICATION OF THIS STATEMENT MAY BE THAT FVE HAS FULLY PROTECTED ITS TAX ATTRIBUTES, SUCH AS ITS TAX LOSS CARRYFORWARDS. IN FACT, THE APPLICABLE TAX RULES CONCERNING TAX ATTRIBUTES, SUCH AS TAX LOSS CARRYFORWARDS, ARE COMPLEX AND MAY RESULT IN LIMITATIONS UPON FUTURE USE OF TAX ATTRIBUTES FOR REASONS BEYOND FVE'S OR SNH'S CONTROL, INCLUDING PUBLIC TRADING IN FVE'S SECURITIES.
- THIS PRESS RELEASE STATES THAT THE TERMS OF THE AGREEMENT ANNOUNCED IN THIS PRESS RELEASE WERE NEGOTIATED AND APPROVED BY SPECIAL COMMITTEES OF THE BOARDS OF FVE AND SNH COMPOSED ONLY OF FVE DIRECTORS AND SNH TRUSTEES WHO ARE NOT ALSO DIRECTORS OR TRUSTEES OF THE OTHER COMPANY. THE IMPLICATION OF THIS STATEMENT MAY BE THAT THIS AGREEMENT WAS NEGOTIATED ON AN ARMS LENGTH BASIS AND MAY NOT BE LEGALLY CHALLENGED BECAUSE THIS AGREEMENT PROVIDES A FAIR EXCHANGE OF CONSIDERATION BETWEEN FVE AND SNH. IN FACT, (I) FVE WAS FORMERLY A 100% OWNED SUBSIDIARY OF SNH AND FVE BECAME A SEPARATELY OWNED PUBLIC COMPANY AS A RESULT OF A SPIN OFF TO SNH SHAREHOLDERS IN 2001; (II) RMR PROVIDES MANAGEMENT SERVICES TO BOTH FVE AND SNH; (III) THE OFFICERS OF BOTH SNH AND FVE ARE ALSO OFFICERS OF RMR; (IV) RMR AND ITS OFFICERS PROVIDED INFORMATION AND ASSISTANCE TO THE SPECIAL COMMITTEES OF BOTH FVE AND SNH; (V) THE MEMBERS OF THE SPECIAL COMMITTEES OF BOTH FVE AND SNH ALSO SERVE AS TRUSTEES OR DIRECTORS OF OTHER COMPANIES MANAGED BY RMR; AND (VI) FVE AND SNH HAVE EXTENSIVE AND CONTINUING BUSINESS WITH EACH OTHER. ALTHOUGH FVE BELIEVES THAT THE AGREEMENT ANNOUNCED TODAY IS FAIR TO FVE, IN THE CIRCUMSTANCES OF THE MULTIPLE RELATIONSHIPS AMONG FVE AND SNH, IT IS POSSIBLE THAT LITIGATION MAY BE BROUGHT ALLEGING THAT THIS AGREEMENT IS UNFAIR TO FVE OR SNH. LITIGATION MAY BE EXPENSIVE AND DISTRACTING TO MANAGEMENT. FVE CAN PROVIDE NO ASSURANCE THAT ITS ENTRY INTO THE AGREEMENT ANNOUNCED IN THIS PRESS RELEASE WILL NOT CAUSE FVE TO BECOME INVOLVED IN LITIGATION THAT CHALLENGES THE FAIRNESS OF THIS AGREEMENT. SUCH ALLEGATIONS OR LITIGATION COULD CAUSE FVE'S SHARE TRADING PRICE TO DECLINE AND THE OUTCOME OF SUCH LITIGATION IS IMPOSSIBLE TO PREDICT.

FOR MORE INFORMATION REGARDING FVE'S RELATIONSHIPS AND DEALINGS WITH RMR AND SNH AND THEIR OFFICERS, DIRECTORS OR TRUSTEES AND AFFILIATES AND ABOUT THE RISKS WHICH MAY ARISE AS A RESULT OF THESE RELATED PARTY TRANSACTIONS, PLEASE SEE FVE'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008 (THE "ANNUAL REPORT"), ITS QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009 (THE "QUARTERLY REPORT") AND ITS OTHER FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"); IN PARTICULAR THE SECTION CAPTIONED "RISK FACTORS" IN THE ANNUAL REPORT, THE SECTIONS CAPTIONED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - RELATED PARTY TRANSACTIONS" IN THE ANNUAL REPORT AND THE QUARTERLY REPORT AND THE SECTION CAPTIONED "RELATED PERSON TRANSACTIONS AND COMPANY REVIEW OF SUCH TRANSACTIONS" IN FVE'S PROXY STATEMENT DATED MARCH 30, 2009 RELATING TO ITS 2009 ANNUAL SHAREHOLDERS MEETING. COPIES OF THESE DOCUMENTS ARE AVAILABLE AT THE SEC WEBSITE AT: WWW.SEC.GOV.

FOR THESE AND OTHER REASONS, INVESTORS SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS IN THIS PRESS RELEASE.

¹ The FNM loan documentation consolidates two adjacent properties and refers to 27 properties.

SOURCE: Five Star Quality Care, Inc.

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