

FIVE STAR SENIOR LIVING INC.

Form 10-K

March 06, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
X SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

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

Commission File Number 1 16817

FIVE STAR SENIOR LIVING INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization) 04 3516029
(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

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class Name Of Each Exchange On Which Registered

Common Stock The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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The aggregate market value of the voting shares of common stock, \$.01 par value, or common shares, of the registrant held by non-affiliates was \$39.3 million based on the \$1.50 closing price per common share on The Nasdaq Stock Market LLC on June 29, 2018. For purposes of this calculation, an aggregate of 2,123,189 common shares held directly by, or by affiliates of, the directors and the officers of the registrant, plus 4,235,000 common shares held by Senior Housing Properties Trust and 17,999,999 common shares held by ABP Acquisitions LLC, have been included in the number of common shares held by affiliates.

Number of the registrant's common shares outstanding as of February 27, 2019: 50,845,152.

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References in this Annual Report on Form 10 K to the Company, Five Star, we, us or our include Five Star Senior Living Inc. and its consolidated subsidiaries unless otherwise expressly stated or the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2018.

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WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS STATEMENTS THAT CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER SECURITIES LAWS. ALSO, WHENEVER WE USE WORDS SUCH AS “BELIEVE”, “EXPECT”, “ANTICIPATE”, “INTEND”, “PLAN”, “ESTIMATE”, “WILL”, “MAY” AND NEGATIVES OR DERIVATIVES OF THESE OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. FORWARD LOOKING STATEMENTS IN THIS REPORT RELATE TO VARIOUS ASPECTS OF OUR BUSINESS, INCLUDING:

• OUR ABILITY TO CONTINUE AS A GOING CONCERN,
• OUR ABILITY TO OPERATE OUR SENIOR LIVING COMMUNITIES PROFITABLY,
• OUR ABILITY TO OBTAIN AND MAINTAIN A REVOLVING CREDIT FACILITY THAT PROVIDES US WITH SUFFICIENT FINANCING ON SATISFACTORY TERMS,
• OUR ABILITY TO MEET OUR RENT AND DEBT OBLIGATIONS OR OBTAIN RELIEF FROM THOSE OBLIGATIONS,
• OUR ABILITY TO ACCESS OR RAISE DEBT OR EQUITY CAPITAL,
• OUR EXPECTATION TO FOCUS OUR EXPANSION ACTIVITIES ON INTERNAL GROWTH FROM OUR EXISTING SENIOR LIVING COMMUNITIES AND THE HEALTHCARE SERVICES THAT WE MAY PROVIDE,
• OUR ABILITY TO INCREASE THE NUMBER OF SENIOR LIVING COMMUNITIES WE OPERATE AND RESIDENTS WE SERVE AND TO GROW OUR OTHER SOURCES OF REVENUES, INCLUDING REVENUES FROM REHABILITATION AND WELLNESS SERVICES AND OTHER SERVICES WE MAY PROVIDE, WHETHER THE AGING U.S. POPULATION AND INCREASING LIFE SPANS OF SENIORS WILL INCREASE
• THE DEMAND FOR SENIOR LIVING COMMUNITIES, WELLNESS CENTERS AND OTHER MEDICAL AND HEALTHCARE RELATED PROPERTIES AND HEALTHCARE SERVICES,
• OUR ABILITY TO COMPLY AND TO REMAIN IN COMPLIANCE WITH APPLICABLE MEDICARE, MEDICAID AND OTHER FEDERAL AND STATE REGULATORY, RULE MAKING AND RATE SETTING REQUIREMENTS,
• OUR ABILITY TO SELL COMMUNITIES WE OFFER FOR SALE,
• OUR EXPECTATION THAT WE BENEFIT FROM OUR OWNERSHIP INTEREST IN AND OTHER RELATIONSHIPS WITH AFFILIATES INSURANCE COMPANY, OR AIC, AND FROM OUR PARTICIPATION IN INSURANCE PROGRAMS ARRANGED BY AIC,
• THE IMPACT OF THE PATIENT PROTECTION AND AFFORDABLE CARE ACT, AS AMENDED BY THE HEALTHCARE AND EDUCATION RECONCILIATION ACT, OR COLLECTIVELY, THE ACA, OR THE POSSIBLE FUTURE REPEAL, REPLACEMENT OR MODIFICATION OF THE ACA, AND OTHER EXISTING OR PROPOSED LEGISLATION OR REGULATIONS ON US,
• THE CURRENT EVALUATION BY OUR INDEPENDENT DIRECTORS AND THE INDEPENDENT TRUSTEES OF SENIOR HOUSING PROPERTIES TRUST, OR SNH, REGARDING OUR LEASE AND MANAGEMENT ARRANGEMENTS WITH SNH, 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,

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RESULTS OF OPERATIONS, FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND PROSPECTS INCLUDE, BUT ARE NOT LIMITED TO:

- THE IMPACT OF CONDITIONS IN THE ECONOMY AND THE CAPITAL MARKETS ON US AND OUR RESIDENTS AND OTHER CUSTOMERS,
- COMPETITION WITHIN THE SENIOR LIVING AND OTHER HEALTHCARE RELATED SERVICES BUSINESSES,
- OUR OPERATING LEVERAGE,
- SENIORS' DELAYING OR FORGOING MOVING TO SENIOR LIVING COMMUNITIES OR PURCHASING HEALTHCARE SERVICES FROM US,
- INCREASES IN TORT AND INSURANCE LIABILITY COSTS,
- INCREASES IN OUR LABOR COSTS OR IN COSTS WE PAY FOR GOODS AND SERVICES,
- ACTUAL AND POTENTIAL CONFLICTS OF INTEREST WITH OUR RELATED PARTIES, INCLUDING OUR MANAGING DIRECTORS, SNH, THE RMR GROUP LLC, OR RMR LLC, ABP TRUST, AIC AND OTHERS AFFILIATED WITH THEM,
- CHANGES IN MEDICARE OR MEDICAID POLICIES AND REGULATIONS, INCLUDING THOSE THAT MAY RESULT FROM THE ACA OR THE POSSIBLE FUTURE REPEAL, REPLACEMENT OR MODIFICATION OF THE ACA AND OTHER EXISTING OR PROPOSED LEGISLATION OR REGULATIONS,
- DELAYS OR NONPAYMENTS OF GOVERNMENT PAYMENTS TO US THAT COULD RESULT FROM GOVERNMENT SHUTDOWNS OR OTHER CIRCUMSTANCES,
- COMPLIANCE WITH, AND CHANGES TO, FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS THAT COULD AFFECT OUR SERVICES OR IMPOSE REQUIREMENTS, COSTS AND ADMINISTRATIVE BURDENS THAT MAY REDUCE OUR ABILITY TO PROFITABLY OPERATE OUR BUSINESS,
- CONTINUED EFFORTS BY THIRD PARTY PAYERS TO REDUCE HEALTHCARE COSTS, AND ACTS OF TERRORISM, OUTBREAKS OF SO CALLED PANDEMICS OR OTHER MANMADE OR NATURAL DISASTERS BEYOND OUR CONTROL.

FOR EXAMPLE:

ANY ACTIONS WE MAY TAKE TO ADDRESS THE CURRENT SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN MAY NOT BE SUCCESSFUL. FURTHER, ANY SUCH ACTIONS THAT MAY ADDRESS THAT CONCERN MAY ONLY PROVIDE RELIEF IN THE SHORT TERM AND COULD INCREASE OUR FUTURE COSTS AND THEREBY PREVENT OR LIMIT OUR ABILITY TO OPERATE PROFITABLY IN THE INTERMEDIATE OR LONGER TERM,

OUR LEASE AND MANAGEMENT ARRANGEMENTS WITH SNH ARE CURRENTLY BEING EVALUATED BY OUR INDEPENDENT DIRECTORS AND SNH'S INDEPENDENT TRUSTEES. AS A RESULT, THERE MAY BE AGREED CHANGES TO OUR ARRANGEMENTS WITH SNH IN THE FUTURE. ANY FUTURE CHANGES TO SUCH ARRANGEMENTS WILL BE SUBJECT TO THE APPROVAL OF OUR INDEPENDENT DIRECTORS. WE CANNOT BE SURE THAT ANY CHANGES TO THESE ARRANGEMENTS WILL BE AGREED TO OR OCCUR,

OUR CREDIT FACILITY MATURES ON JUNE 28, 2019, AND WE ARE CURRENTLY EVALUATING OPTIONS TO REFINANCE OUR CREDIT FACILITY. WE MAY BE UNABLE TO REPAY AMOUNTS OUTSTANDING ON OUR CREDIT FACILITY AT THAT TIME OR TO REFINANCE OUR CREDIT FACILITY OR OBTAIN ADDITIONAL DEBT FINANCING,

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OUR ABILITY TO OPERATE SENIOR LIVING COMMUNITIES PROFITABLY DEPENDS UPON MANY FACTORS, INCLUDING OUR ABILITY TO INTEGRATE NEW COMMUNITIES INTO OUR EXISTING OPERATIONS, AS WELL AS SOME FACTORS WHICH ARE BEYOND OUR CONTROL, SUCH AS THE DEMAND FOR OUR SERVICES ARISING FROM ECONOMIC CONDITIONS GENERALLY AND COMPETITION FROM OTHER PROVIDERS OF SENIOR LIVING SERVICES. WE MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE, OPERATE, COMPETE AND PROFITABLY MANAGE OUR SENIOR LIVING COMMUNITIES,

WE EXPECT TO ENTER ADDITIONAL OPERATING ARRANGEMENTS WITH SNH FOR ADDITIONAL SENIOR LIVING COMMUNITIES THAT SNH OWNS OR MAY ACQUIRE IN THE FUTURE. HOWEVER, WE CANNOT BE SURE THAT WE WILL ENTER ANY ADDITIONAL OPERATING ARRANGEMENTS WITH SNH,

OUR BELIEF THAT THE AGING OF THE U.S. POPULATION AND INCREASING LIFE SPANS OF SENIORS WILL INCREASE DEMAND FOR SENIOR LIVING COMMUNITIES AND SERVICES MAY NOT BE REALIZED OR MAY NOT RESULT IN INCREASED DEMAND FOR OUR SERVICES, OUR MARKETING INITIATIVES MAY NOT SUCCEED IN INCREASING OUR OCCUPANCY AND REVENUES, AND THEY MAY COST MORE THAN ANY INCREASED REVENUES THEY MAY GENERATE,

AT DECEMBER 31, 2018, WE HAD \$29.5 MILLION OF UNRESTRICTED CASH AND CASH EQUIVALENTS. IN ADDITION, WE HAVE SOLD IMPROVEMENTS TO SNH IN THE PAST AND EXPECT TO REQUEST TO SELL ADDITIONAL IMPROVEMENTS TO SNH FOR INCREASED RENT PURSUANT TO OUR LEASES WITH SNH. THESE STATEMENTS MAY IMPLY THAT WE MAY HAVE SUFFICIENT CASH LIQUIDITY. HOWEVER, WE HAVE BEEN INCURRING OPERATING LOSSES, HAVE A LARGE ACCUMULATED DEFICIT AND HAD NEGATIVE NET CASH FLOWS FROM OUR OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018. MOREOVER, OUR OPERATIONS AND BUSINESS REQUIRE SIGNIFICANT AMOUNTS OF WORKING CASH AND REQUIRE US TO MAKE SIGNIFICANT CAPITAL EXPENDITURES TO MAINTAIN OUR COMPETITIVENESS. FURTHER, SNH IS NOT OBLIGATED TO PURCHASE IMPROVEMENTS WE MAY MAKE TO THE LEASED COMMUNITIES. ACCORDINGLY, WE MAY NOT HAVE SUFFICIENT CASH LIQUIDITY,

CIRCUMSTANCES THAT ADVERSELY AFFECT THE ABILITY OF SENIORS OR THEIR FAMILIES TO PAY FOR OUR SERVICES, SUCH AS ECONOMIC DOWNTURNS, WEAKENING HOUSING MARKET CONDITIONS, HIGHER LEVELS OF UNEMPLOYMENT AMONG OUR RESIDENTS' OR POTENTIAL RESIDENTS' FAMILY MEMBERS, LOWER LEVELS OF CONSUMER CONFIDENCE, STOCK MARKET VOLATILITY AND/OR CHANGES IN DEMOGRAPHICS GENERALLY COULD AFFECT THE PROFITABILITY OF OUR SENIOR LIVING COMMUNITIES,

RESIDENTS WHO PAY FOR OUR SERVICES WITH THEIR PRIVATE RESOURCES MAY BECOME UNABLE TO AFFORD OUR SERVICES, RESULTING IN DECREASED OCCUPANCY AND DECREASED REVENUES AT OUR SENIOR LIVING COMMUNITIES AND OUR INCREASED RELIANCE ON LOWER RATES FROM GOVERNMENT AGENCIES AND OTHER PAYERS,

THE VARIOUS FEDERAL AND STATE GOVERNMENT AGENCIES WHICH PAY US FOR THE SERVICES WE PROVIDE TO SOME OF OUR RESIDENTS ARE CURRENTLY EXPERIENCING BUDGETARY CONSTRAINTS AND MAY LOWER THE MEDICARE, MEDICAID AND OTHER RATES THEY PAY US,

WE MAY BE UNABLE TO REPAY OR REFINANCE OUR DEBT OBLIGATIONS WHEN THEY BECOME DUE,

ACTUAL COSTS UNDER OUR CREDIT FACILITY WILL BE HIGHER THAN LIBOR PLUS A PREMIUM BECAUSE OF OTHER FEES AND EXPENSES ASSOCIATED WITH OUR CREDIT FACILITY,

IN DECEMBER 2017, WE SUBMITTED A FINAL SUPPLEMENTAL DISCLOSURE TO THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF INSPECTOR GENERAL, OR THE OIG, REGARDING OUR VOLUNTARY DISCLOSURE OF CERTAIN DOCUMENTATION DEFICIENCIES RELATED TO MEDICARE RECORDS AND OTHER MATTERS AT ONE OF OUR SKILLED NURSING FACILITIES. ALTHOUGH WE HAVE ACCRUED AN ESTIMATED REVENUE RESERVE FOR HISTORICAL

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MEDICARE PAYMENTS WE EXPECT TO REPAY AND WE HAVE ACCRUED AN ESTIMATED RESERVE FOR ADDITIONAL ASSOCIATED COSTS WE HAVE INCURRED OR EXPECT TO INCUR, INCLUDING OIG IMPOSED PENALTIES, WE CANNOT BE SURE THAT OUR RESERVES WILL BE ADEQUATE TO COVER THE FINAL REPAYMENT OBLIGATIONS WE ARE FINALLY DETERMINED TO OWE OR ANY ADDITIONAL ASSOCIATED COSTS. ALSO, OTHER DEFICIENCIES MAY BE DISCOVERED THAT COULD INCREASE OUR LIABILITY TO THE OIG AND THE ASSOCIATED COSTS,

OUR ACTIONS AND APPROACH TO MANAGING OUR INSURANCE COSTS, INCLUDING OUR OPERATING AN OFFSHORE CAPTIVE INSURANCE COMPANY AND SELF INSURING WITH RESPECT TO CERTAIN LIABILITY MATTERS, MAY NOT BE SUCCESSFUL AND COULD RESULT IN OUR INCURRING SIGNIFICANT COSTS AND LIABILITIES THAT WE WILL BE RESPONSIBLE FOR FUNDING, CONTINGENCIES IN OUR AND SNH'S APPLICABLE ACQUISITION AND SALE AGREEMENTS MAY NOT BE SATISFIED AND OUR AND SNH'S APPLICABLE PENDING ACQUISITIONS AND SALES AND ANY RELATED LEASES, MANAGEMENT OR POOLING ARRANGEMENTS WE MAY EXPECT TO ENTER MAY NOT OCCUR, MAY BE DELAYED OR THE TERMS OF SUCH TRANSACTIONS OR ARRANGEMENTS MAY CHANGE,

WE MAY BE UNABLE TO MEET COLLATERAL REQUIREMENTS RELATED TO OUR WORKERS' COMPENSATION INSURANCE PROGRAM FOR FUTURE POLICY YEARS, WHICH MAY RESULT IN INCREASED COSTS FOR SUCH INSURANCE PROGRAM,

WE MAY NOT BE ABLE TO SELL COMMUNITIES THAT WE MAY SEEK TO SELL ON TERMS ACCEPTABLE TO US OR OTHERWISE,

WE ARE NOT CURRENTLY IN COMPLIANCE WITH THE MINIMUM BID PRICE CONTINUED LISTING STANDARD OF THE NASDAQ STOCK MARKET LLC, OR NASDAQ, AND WE CANNOT BE SURE THAT WE WILL BE ABLE TO REGAIN AND/OR MAINTAIN COMPLIANCE WITH THIS LISTING STANDARD OR THAT WE WILL OTHERWISE BE IN COMPLIANCE WITH OTHER NASDAQ LISTING STANDARDS, WHICH COULD RESULT IN THE DELISTING OF OUR COMMON SHARES FROM NASDAQ, WE BELIEVE THAT OUR RELATIONSHIPS WITH OUR RELATED PARTIES, INCLUDING SNH, RMR LLC, ABP TRUST, AIC AND OTHERS AFFILIATED WITH THEM MAY BENEFIT US AND PROVIDE US WITH COMPETITIVE ADVANTAGES IN OPERATING AND GROWING OUR BUSINESS. HOWEVER, THE ADVANTAGES WE BELIEVE WE MAY REALIZE FROM THESE RELATIONSHIPS MAY NOT MATERIALIZE, AND

OUR SENIOR LIVING COMMUNITIES ARE SUBJECT TO EXTENSIVE GOVERNMENT REGULATION, LICENSURE AND OVERSIGHT. WE SOMETIMES EXPERIENCE DEFICIENCIES IN THE OPERATION OF OUR SENIOR LIVING COMMUNITIES, AND SOME OF OUR COMMUNITIES MAY BE PROHIBITED FROM ADMITTING NEW RESIDENTS, OR OUR LICENSE TO CONTINUE OPERATIONS AT A COMMUNITY MAY BE REVOKED. ALSO, OPERATING DEFICIENCIES OR A LICENSE REVOCATION AT ONE OR MORE OF OUR SENIOR LIVING COMMUNITIES MAY HAVE AN ADVERSE IMPACT ON OUR ABILITY TO OPERATE, OBTAIN LICENSES FOR, OR ATTRACT RESIDENTS TO, OUR OTHER COMMUNITIES.

CURRENTLY UNEXPECTED RESULTS COULD OCCUR DUE TO MANY DIFFERENT CIRCUMSTANCES, SOME OF WHICH ARE BEYOND OUR CONTROL, SUCH AS ACTS OF TERRORISM, NATURAL DISASTERS, CHANGED MEDICARE OR MEDICAID RATES, NEW LEGISLATION, REGULATIONS OR RULE MAKING AFFECTING OUR BUSINESS, OR CHANGES IN CAPITAL MARKETS OR THE ECONOMY GENERALLY.

THE INFORMATION CONTAINED IN THIS ANNUAL REPORT ON FORM 10 K OR IN OUR OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, OR SEC, INCLUDING UNDER THE CAPTION "RISK FACTORS", OR INCORPORATED HEREIN OR THEREIN, IDENTIFIES OTHER IMPORTANT FACTORS THAT COULD CAUSE DIFFERENCES FROM OUR FORWARD LOOKING STATEMENTS. OUR FILINGS WITH THE SEC ARE AVAILABLE ON THE SEC'S WEBSITE AT WWW.SEC.GOV.

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON OUR FORWARD LOOKING STATEMENTS.

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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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PART I

Item 1. Business

THE COMPANY

We are a corporation that was formed under the laws of the State of Maryland in 2001. As of December 31, 2018, we operated 284 senior living communities with 32,016 living units located in 32 states, including 255 primarily independent and assisted living communities with 29,511 living units and 29 skilled nursing facilities, or SNFs, with 2,505 living units. As of December 31, 2018, we owned and operated 20 of these senior living communities (2,108 living units), we leased and operated 188 of these senior living communities (20,142 living units) and we managed 76 of these senior living communities (9,766 living units). Our 284 senior living communities included 10,895 independent living apartments, 16,389 assisted living suites and 4,732 SNF units. The foregoing numbers exclude living units categorized as out of service.

As of December 31, 2018, we leased from Senior Housing Properties Trust or its subsidiaries, or SNH, 184 senior living communities pursuant to five long term leases and managed 76 senior living communities for the account of SNH pursuant to long term management agreements. Our Independent Directors and SNH's independent trustees are currently evaluating our lease and management arrangements with SNH. As a result, there may be agreed changes to our arrangements with SNH in the future. We cannot be sure that any changes to our arrangements with SNH will be agreed to or occur. For more information about our leases and management agreements with SNH, see "Properties—Our Leases and Management Agreements with SNH" in Part I, Item 2 of this Annual Report on Form 10-K.

Our present business plan contemplates the operation of owned, managed and leased independent and assisted senior living communities. Some of our senior living communities provide more than one type of service in a single building or campus.

Independent Living Communities. Independent living communities provide high levels of privacy to residents and require residents to be capable of relatively high degrees of independence. An independent living apartment usually bundles several non-healthcare services as part of a regular monthly charge. For example, the base charge may include one or two meals per day in a central dining room, weekly maid service or social director services. Additional non-healthcare services are generally available from staff employees on a fee for service basis. In some independent living communities, separate parts of the community are dedicated to assisted living or nursing services. As of December 31, 2018, our operations included 10,895 independent living apartments in 97 communities.

Assisted Living Communities. Assisted living communities are typically comprised of one bedroom units which include private bathrooms and efficiency kitchens. Services bundled within one charge usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living such as dressing and bathing. Professional nursing and healthcare services are usually available at the community as requested or at regularly scheduled times. We may also provide Alzheimer or memory care services at our assisted living communities. As of December 31, 2018, our operations included 16,389 assisted living suites in 230 communities.

Skilled Nursing Facilities. SNFs generally provide extensive nursing and healthcare services similar to those available in hospitals, without the high costs associated with operating theaters, emergency rooms or intensive care units. A typical purpose built SNF generally includes one or two beds per room with a separate bathroom in each room and shared dining facilities. SNFs are staffed by licensed nursing professionals 24 hours per day. As of December 31, 2018, our operations included 4,732 SNF units in 69 communities.

Our principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458, and our telephone number is (617) 796-8387.

OUR GROWTH STRATEGY

We believe that the aging of the U.S. population will increase demand for senior living communities and services. We plan to profit from this demand by: (1) improving the profitability of our existing operations by increasing revenues and improving operating margins and operating communities that provide high quality services to residents who pay with private resources; (2) entering arrangements for us to operate additional senior living communities; (3) growing

our ancillary services to complement existing senior living operations, including increasing our offerings of outpatient therapy services, including physical, occupational, speech and other specialized therapy services, as well as home healthcare and concierge services to our

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residents and to seniors living outside of our communities; and (4) continuing to develop public awareness of the Five Star Senior Living brand through various marketing efforts and initiatives.

We seek to improve the profitability of our existing senior living operations by increasing revenues through increases in occupancy and in the rates we charge, by improving our operating margins, by managing our expenses prudently and otherwise improving our operating efficiencies and by operating communities that provide high quality services to residents who pay with private resources. We have also sought to improve profitability through continued strategic capital investments at our senior living communities and by investing and developing our staff and working with our service providers to increase the desirability and competitiveness of our senior living communities. In addition to routine renovations and upgrades at our senior living communities, we have sought to expand our senior living communities when and as we believed demand supported opportunities for us to pursue possible additional revenues at our existing senior living communities. Since January 1, 2016, we have invested \$96.3 million in capital improvements in our senior living communities, net of amounts we sold to SNH for increased annual minimum rent. We also seek to grow our business by entering additional long term operating arrangements for senior living communities where residents' private resources account for all or a large majority of revenues. Since January 1, 2016, we have commenced leasing nine senior living communities, including seven senior living communities which we sold to SNH in June 2016 and simultaneously began leasing from SNH, and we have begun managing 16 senior living communities, including six senior living communities which we sold to SNH in December 2017, January 2018 and February 2018 and simultaneously began managing for the account of SNH. For more information about these sale transactions, see “—Our Dispositions” below. For more information about our management and leasing arrangements with SNH, see “Properties—Our SNH Leases and Management Agreements with SNH” in Part I, Item 2 of this Annual Report on Form 10-K and Note 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Through our ancillary services, we offer skilled rehabilitation services for short term inpatient stays, such as after joint replacement surgery; home healthcare in certain of our independent living and assisted living communities; outpatient rehabilitation for people of all ages; long term skilled nursing care by highly trained professionals; and concierge services. The therapy services we offer include physical, occupational, speech and other specialized therapy services. The home health services we provide include nursing, physical, occupational, speech and other specialized therapy services, home health aide services, and social services, as needed. In addition, we offer personalized concierge services to accommodate our residents' specific lifestyle and needs. Concierge services include personal shopping, companion services, enhanced transportation, bedtime assistance, and personalized dining and nutrition planning, delivery and consultation. By providing residents with a range of service options as their needs change, we provide greater continuity of care, which we believe may encourage our customers to maintain residency with us for a longer period of time. Since January 1, 2016, we have opened 49 rehabilitation and wellness outpatient clinics. We also expanded our rehabilitation and wellness services to senior living communities outside of our current operations. Along with this expansion initiative, in July 2017, our rehabilitation and wellness division rebranded itself as Ageility Physical Therapy Solutions.

We also continue to develop public awareness of the Five Star Senior Living brand through various marketing initiatives that we believe differentiate us from other senior living operators. For example, because an enjoyable dining experience is often a top priority for senior living community residents, in recent years we believe that we redefined the dining experience offered at our senior living communities by partnering with a celebrity chef and creating the “Five Star Culinary Institute” where the chefs at our senior living communities receive training. We also introduced “Lifestyle360”, a wellness program focused on five dimensions of wellness (social, intellectual, spiritual, emotional and physical). We believe these programs, among others, enhance the appeal of our senior living communities among current and prospective residents and their families, and provide us with an opportunity to improve our operating performance. Our corporate name change in 2017 further reflects our focus on not just providing high quality clinical care but also providing hospitality and other services to enhance the lifestyle of our

residents.

We currently expect that our expansion activities will be focused on internal growth from our existing senior living communities and the healthcare services that we may provide and not from our acquisition of senior living communities, although we may from time to time acquire additional senior living communities.

OUR DISPOSITIONS

We continually monitor our portfolio of senior living communities and our other assets, and we dispose of, or change our method of operating (e.g., from ownership to leasing or managing) certain of our senior living communities when we determine it is in our best interest to do so and are able to reach agreement with the other applicable party for the change. Since January 1, 2016, we have sold, or participated in the sale of, 16 senior living communities, including seven senior living communities that we sold to SNH in June 2016 and simultaneously leased back from SNH under a long term lease agreement. These 16 senior living communities also include six senior living communities that we sold to SNH and simultaneously began

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managing for SNH pursuant to a transaction agreement we entered with SNH in November 2017 and management and pooling agreements. For more information about our dispositions, see Note 11 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. For more information about our management and pooling and our leasing arrangements with SNH, see “Properties—Our Leases and Management Agreements with SNH” in Part I, Item 2 of this Annual Report on Form 10-K and Note 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

We also regularly sell certain capital improvements to SNH that we make to our senior living communities that we lease from SNH. We pay increased annual rent to SNH in accordance with the terms of our leases with SNH as a result of these sales. We expect to continue to make similar capital improvement sales to SNH in the future; however, SNH is not obligated to purchase these capital improvements from us.

FINANCING SOURCES

On December 18, 2018, we amended the agreement, or our credit agreement, governing our then \$100.0 million secured revolving credit facility, or our credit facility. As a result of the amendment to our credit agreement, which is now fully drawn and does not permit further borrowings, the aggregate amount of the commitments under our credit facility was reduced to \$54.0 million from \$100.0 million, and the stated maturity date of our credit facility was changed to June 28, 2019 from February 24, 2020. In addition, the amendment eliminated our options to extend the maturity date of our credit facility for two, one year periods, as well as request an increase in the aggregate amount of the commitments under our credit facility. The amendment also removed certain financial covenants we were previously required to comply with, including the leverage and fixed charge coverage ratios and the tangible net worth covenant. Certain other covenants and related definitions, among other provisions, included in our credit agreement were also modified pursuant to the amendment. Our credit facility, which is available for general business purposes, requires us to pay interest on outstanding borrowings under our credit facility at a rate based on, at our option, LIBOR or a base rate, plus a premium, per annum, and we are also required to pay a quarterly commitment fee of 0.35% per annum on the unused part of the available borrowings under our credit facility. Our credit facility is secured by real estate mortgages on 10 senior living communities with a combined 1,219 living units owned by our guarantor subsidiaries and our guarantor subsidiaries’ accounts receivable and related collateral. We are currently evaluating options to refinance our credit facility. We cannot be sure that we will obtain any renewed or restructured credit facility, and our ability to do so will likely depend on the lenders’ belief that our prospects, operating leverage and expected future operating results will permit us to continue as a going concern and to fund our operations, capital investments and debt service and other obligations. For more information about our credit facility, see Note 8 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

We may also place mortgages on properties we own, as well as seek to obtain other additional sources of financing in the future, including term debt or issuing equity or debt securities.

OPERATING STRUCTURE

We have five operating divisions. Four of these divisions are responsible for senior living communities located in specified geographic regions, with each region's management being responsible for independent living, assisted living and skilled nursing units within its specified region. Each of our senior living divisions is headed by a divisional vice president with extensive experience in the senior living industry, and is managed from our regional offices. Our regional offices are responsible for our senior living communities located within a specified geographic region and are headed by regional directors of operations that have extensive experience in the senior living industry. Each regional office is typically supported by a clinical or wellness director, a regional accounts manager, a human resources specialist, a food services specialist and a sales and marketing specialist. Regional office staff members are responsible for all of our senior living community operations, including:

- resident services;

Medicare and Medicaid billing;
sales and marketing;
hiring of community personnel;
compliance with applicable legal and regulatory requirements; and