FIVE STAR QUALITY CARE INC
Form 10-Q/A
April 16, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2013

or

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

Commission File Number 001-16817

FIVE STAR QUALITY CARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**04-3516029**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of registrant s shares of common stock, $.01 par value, outstanding as of July 30, 2013: 48,271,522.

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FORM 10-Q/A

JUNE 30, 2013

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

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EXPLANATORY NOTE

(dollars in thousands)

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, or this Amended Quarterly Report, to amend and restate financial statements and other financial information in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, or our Quarterly Report, which was filed with the Securities and Exchange Commission, or the SEC, on July 31, 2013.

As more fully described in Note 12 to the Notes to our Condensed Consolidated Financial Statements included in Item 1 of this Amended Quarterly Report, subsequent to the filing of our Quarterly Report our management and the Audit Committee of our Board of Directors, or our Audit Committee, concluded that our consolidated financial statements for the years ended December 31, 2012 and 2011 contained within our Annual Report on Form 10-K for the year ended December 31, 2012, or our 2012 Annual Report, and our condensed consolidated financial statements for the quarters ended March 31, 2013 and June 30, 2013 contained within our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and our Quarterly Report, respectively, should be restated, and that those financial statements previously filed with the SEC should no longer be relied upon. We are restating our condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012 contained within this Amended Quarterly Report to correct certain errors in the accounting for income taxes and other errors. Specifically, the accounting for income tax errors relate to, among other things, the measurement of deferred tax assets for net operating losses and tax credits and the measurement of deferred tax assets and liabilities for temporary differences related to fixed assets, intangible assets and investments. In addition, as part of the restatement we have corrected certain other errors related to insurance receivables, security deposits, accrual of fixed asset additions, classification of senior living operating expenses and certain other immaterial items. The net impact of correcting the errors resulted in an increase to our shareholders equity of $7,031 and $6,749 at June 30, 2013 and December 31, 2012, respectively, a decrease to net income of $27 and an increase to net income of $178 for the three and six months ended June 30, 2013, respectively, and an increase to net income of $272 and $375 for the three and six months ended June 30, 2012, respectively. We corrected the presentation and disclosure of our consolidated statements of cash flows to separately identify the net cash flows from discontinued operations, by category and in total and reflect the correction of other errors in the separate disclosures of cash flows for continuing operations and discontinued operations. These corrections increased cash provided by operating activities by $1,602 and $1,050 for the six months ended June 30, 2013 and 2012, respectively. We have also corrected the footnote presentation of the classification of $11,656 and $11,550 as of June 30, 2013 and December 31, 2012, respectively, of our available for sale debt securities from Level 1 assets to Level 2 assets as defined in the fair value hierarchy and corrected the disclosure of the fair value of our mortgage notes payable which increased $9,469 and $9,947 as of June 30, 2013 and December 31, 2012, respectively.

In the third quarter of 2013, in connection with entering into a purchase agreement with Senior Housing Properties Trust and certain unrelated parties, we reclassified our rehabilitation hospital business as discontinued operations and our rehabilitation hospital business is retrospectively presented as discontinued operations throughout this Amended Quarterly Report. Please see Note 12 to the Notes to our Condensed Consolidated Financial Statements included in Item 1 of this Amended Quarterly Report for more information regarding the effect of the retrospective adjustments to reflect discontinued operations and the correction of errors for the three and six months ended June 30, 2013 and 2012.

As a result of the errors described above, we determined that our disclosure controls and procedures were not effective as of June 30, 2013. In addition, we reassessed the effectiveness of our internal control over financial reporting as of December 31, 2012 and determined that we had material weaknesses in our internal controls over accounting for income taxes, that we lacked sufficient personnel with requisite technical accounting competencies and that we had an insufficient level of oversight in the financial statement close process. As a result, we concluded that our internal control over financial reporting was ineffective at December 31, 2012. Those material weaknesses continued to exist as of June 30, 2013.

Amendments to our Quarterly Report included in this Amended Quarterly Report

The following sections of our Quarterly Report are amended and being filed in their entirety in this Amended Quarterly Report:

- Part I, Item 1. Condensed Consolidated Financial Statements;
- Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations;
- Part I, Item 4. Controls and Procedures; and
- Part II, Item 6. Exhibits.

This Amended Quarterly Report contains only the items and exhibits to our Quarterly Report that are being amended and restated, and unaffected items are not included herein.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

		June 30, 2013 (Restated)		December 31, 2012 (Restated)
ASSETS				
Current assets:				
Cash and cash equivalents	$	19,311	$	24,638
Accounts receivable, net of allowance of $3,905 and $2,792 at June 30, 2013 and December 31, 2012, respectively		44,440		39,205
Due from related persons		5,810		6,881
Investments in available for sale securities, of which $3,699 and $3,684 are restricted at June 30, 2013 and December 31, 2012, respectively		16,352		12,920
Restricted cash		11,202		6,548
Prepaid expenses and other current assets		28,522		38,318
Assets of discontinued operations		20,205		30,100
Total current assets		145,842		158,610
Property and equipment, net		330,685		337,494
Equity investment in Affiliates Insurance Company		5,703		5,629
Restricted cash		11,196		12,166
Restricted investments in available for sale securities		6,979		10,580
Goodwill and other intangible assets		27,122		27,708
Other long term assets		40,736		40,382
	$	568,263	$	592,569
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Revolving credit facility, secured, principally by real estate	$		$	
Revolving credit facility, secured, principally by accounts receivable				
Convertible senior notes		24,872		24,872
Accounts payable		24,737		38,035
Accrued expenses		20,754		28,010
Accrued compensation and benefits		38,346		35,302
Due to related persons		19,790		19,484
Mortgage notes payable		1,125		1,092
Accrued real estate taxes		10,200		10,723
Security deposit liability		8,754		9,057

Other current liabilities		18,294		14,775
Liabilities of discontinued operations, of which $0 and $7,547 relate to mortgage notes payable at June 30, 2013 and December 31, 2012, respectively		8,255		16,977
Total current liabilities		175,127		198,327
Long term liabilities:				
Mortgage notes payable		37,050		37,621
Continuing care contracts		1,681		1,708
Accrued self-insurance obligations		31,786		34,647
Other long term liabilities		5,775		6,712
Total long term liabilities		76,292		80,688
Commitments and contingencies				
Shareholders equity:				
Common stock, par value $.01; 75,000,000 shares authorized, 48,271,522 and 48,234,022 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively		482		482
Additional paid in capital		354,752		354,164
Accumulated deficit		(41,517)		(44,455)
Accumulated other comprehensive income		3,127		3,363
Total shareholders equity		316,844		313,554
	$	568,263	$	592,569

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended June 30, 2013 (Restated)	Three months ended June 30, 2012 (Restated)	Six months ended June 30, 2013 (Restated)	Six months ended June 30, 2012 (Restated)
Revenues:				
Senior living revenue	$ 268,827	$ 269,093	$ 538,067	$ 535,898
Management fee revenue	2,281	1,302	4,583	2,390
Reimbursed costs incurred on behalf of managed communities	52,153	26,098	104,211	49,503
Total revenues	323,261	296,493	646,861	587,791
Operating expenses:				
Senior living wages and benefits	130,390	130,252	262,817	262,062
Other senior living operating expenses	65,752	63,797	132,090	128,057
Costs incurred on behalf of managed communities	52,153	26,098	104,211	49,503
Rent expense	48,279	47,431	96,292	94,792
General and administrative	15,451	15,434	30,583	30,933
Depreciation and amortization	6,585	6,203	12,955	12,021
Gain on settlement		(3,365)		(3,365)
Total operating expenses	318,610	285,850	638,948	574,003
Operating income	4,651	10,643	7,913	13,788
Interest, dividend and other income	211	234	408	439
Interest and other expense	(1,355)	(1,605)	(2,811)	(3,031)
Acquisition related costs	(41)		(41)	
Gain on early extinguishment of debt		45		45
Loss on sale of available for sale securities reclassified from other comprehensive income	(117)		(30)	(1)
Income from continuing operations before income taxes and equity in earnings of Affiliates Insurance Company	3,349	9,317	5,439	11,240
Provision for income taxes	(1,131)	(3,817)	(356)	(4,618)
Equity in earnings of Affiliates Insurance Company	79	76	155	121
Income from continuing operations	2,297	5,576	5,238	6,743
Loss from discontinued operations	(1,499)	(666)	(2,300)	(1,361)
Net income	$ 798	$ 4,910	$ 2,938	$ 5,382
Weighted average shares outstanding - basic	48,253	47,914	48,244	47,906
Weighted average shares outstanding - diluted	50,166	49,953	50,157	50,360

Basic income per share from:				
Continuing operations	$ 0.05	$ 0.12	$ 0.11	$ 0.14
Discontinued operations	(0.03)	(0.02)	(0.05)	(0.03)
Net income per share - basic	$ 0.02	$ 0.10	$ 0.06	$ 0.11
Diluted income per share from:				
Continuing operations	$ 0.05	$ 0.11	$ 0.11	$ 0.14
Discontinued operations	(0.03)	(0.01)	(0.05)	(0.03)
Net income per share - diluted	$ 0.02	$ 0.10	$ 0.06	$ 0.11

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three months ended June 30, 2013 (Restated)	Three months ended June 30, 2012 (Restated)	Six months ended June 30, 2013 (Restated)	Six months ended June 30, 2012 (Restated)
Net income	$ 798	$ 4,910	$ 2,938	$ 5,382
Other comprehensive income				
Unrealized (loss) gain on investments in available for sale securities, net of tax	(233)	56	(173)	168
Unrealized loss on equity investment in Affiliates Insurance Company	(73)	(3)	(81)	(4)
Realized loss on investments in available for sale securities reclassified and included in net income, net of tax	70		18	1
Other comprehensive (loss) income	(236)	53	(236)	165
Comprehensive income	$ 562	$ 4,963	$ 2,702	$ 5,547

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six months ended June 30, 2013 (Restated)	2012 (Restated)
Cash flows from operating activities:		
Net income	$ 2,938	$ 5,382
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	12,955	12,021
Gain on early extinguishment of debt		(45)
Loss from discontinued operations	3,902	2,411
Loss on sale of available for sale securities	30	1
Equity in earnings of Affiliates Insurance Company	(155)	(121)
Stock-based compensation	588	579
Provision for losses on receivables	2,740	1,828
Changes in assets and liabilities:		
Accounts receivable	(7,975)	(1,883)
Prepaid expenses and other assets	9,560	3,443
Accounts payable and accrued expenses	(15,750)	1,865
Accrued compensation and benefits	3,044	4,800
Due from (to) related persons, net	1,377	(2,622)
Other current and long term liabilities	(1,132)	775
Cash provided by operating activities	12,122	28,434
Cash flows from investing activities:		
Acquisition of property and equipment	(23,712)	(25,288)
Payments from restricted cash and investment accounts, net	(3,684)	(3,890)
Purchase of available for sale securities	(5,333)	(4,554)
Proceeds from disposition of property and equipment held for sale	13,334	11,067
Proceeds from sale of available for sale securities	5,213	772
Cash used in investing activities	(14,182)	(21,893)
Cash flows from financing activities:		
Proceeds from borrowings on credit facilities	20,000	47,500
Repayments of borrowings on credit facilities	(20,000)	(10,000)
Repayments of borrowings on bridge loan from Senior Housing Properties Trust		(38,000)
Purchase and retirement of convertible senior notes		(12,038)
Repayments of mortgage notes payable	(538)	(506)
Cash used in financing activities	(538)	(13,044)
Cash flows from discontinued operations:		
Net cash (used in) provided by operating activities	(3,822)	2,125
Net cash provided by (used in) investing activities	8,627	(291)
Net cash used in financing activities	(7,534)	(70)
Net cash (used in) provided by discontinued operations	(2,729)	1,764
Change in cash and cash equivalents during the period	(5,327)	(4,739)

Cash and cash equivalents at beginning of period		24,638		28,374
Cash and cash equivalents at end of period	$	19,311	$	23,635
Supplemental cash flow information:				
Cash paid for interest	$	1,788	$	2,751
Cash paid for income taxes	$	1,394	$	1,235

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Note 1. Basis of Presentation and Organization

General

The accompanying condensed consolidated financial statements of Five Star Quality Care, Inc. and its subsidiaries, which we refer to as we, us or our, have been prepared without audit. Certain information and disclosures required by U.S. generally accepted accounting principles for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying financial statements should be read in conjunction with the financial statements and notes contained in our Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2012, or our Amended 2012 Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. All material intercompany transactions and balances have been eliminated. Our operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior year s condensed consolidated financial statements to conform to the current year s presentation.

We operate senior living communities, including independent living communities, assisted living communities and skilled nursing facilities, or SNFs. As of June 30, 2013, we operated 250 senior living communities (excluding those senior living communities we have classified as discontinued operations) located in 31 states containing 29,698 living units, including 219 primarily independent and assisted living communities with 26,876 living units and 31 SNFs with 2,822 living units. As of June 30, 2013, we owned and operated 30 communities (2,946 living units), we leased and operated 181 communities (20,074 living units) and we managed 39 communities (6,678 living units). These 250 senior living communities included 10,319 independent living apartments, 14,190 assisted living suites and 5,189 skilled nursing units. We have classified as discontinued operations one assisted living community owned and operated by us containing 32 living units as well as seven SNFs and four assisted living communities we lease from Senior Housing Properties Trust or its subsidiaries, or SNH, and operate containing 824 living units.

As of June 30, 2013, we also leased and operated two rehabilitation hospitals with 321 beds that provide inpatient rehabilitation services to patients at the two hospitals and at three satellite locations. In addition, as of that date, we leased and operated 13 outpatient clinics affiliated with these rehabilitation hospitals. In the third quarter of 2013, in connection with entering into a purchase agreement with SNH and certain unrelated parties, we reclassified our rehabilitation hospital business as discontinued operations and our rehabilitation hospital business is retrospectively presented as discontinued operations throughout this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, or this Amended Quarterly Report.

Restatement of Previously Issued Financial Statements

As discussed further in Note 12, we are restating our condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012 contained within our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, or our Quarterly Report, to correct certain errors in the accounting for income taxes. In addition, as part of the restatement we have corrected certain other errors related to insurance receivables, security deposits, accrual of fixed asset additions, classification of senior living operating expenses and certain other immaterial items. We corrected the presentation and disclosure of our consolidated statements of cash flows to separately identify the net cash flows from discontinued operations, by category and in total. We have also corrected the footnote presentation of certain of our available for sale debt securities from Level 1 assets to Level 2 assets as defined in the fair value hierarchy and corrected the disclosure of the fair value of our mortgage notes payable.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* or ASU 2014-08. ASU 2014-08 changes the criteria for reporting a discontinued operation. Under the new pronouncement, a disposal of a part of an organization that has a major effect on its operations and financial results is a discontinued operation. We are required to adopt ASU 2014-08 prospectively for all disposals or components of our business classified as held for sale during fiscal periods beginning after December 15, 2014 and are currently evaluating what impact, if any, its adoption will have to the presentation of our condensed consolidated financial statements.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Segment Information

We have three operating segments: senior living communities, rehabilitation and wellness and rehabilitation hospitals. In the senior living community segment, we operate for our own account or manage for the account of SNH independent living communities, assisted living communities and SNFs that are subject to centralized oversight and provide housing and services to elderly residents. Our rehabilitation and wellness operating segment does not meet any of the quantitative thresholds of a reportable segment as prescribed under Financial Accounting Standards Board, or FASB, *Accounting Standards Codification*TM, or ASC, Topic 280, and as discussed further in Note 10, our rehabilitation hospital operating segment has been reclassified as discontinued operations. After the reclassification of our rehabilitation hospital business as discontinued operations, our business is comprised of one reportable segment, senior living.

Note 2. Property and Equipment

Property and equipment, at cost, consists of the following:

	June 30, 2013 (Restated)	December 31, 2012 (Restated)
Land	$ 21,714	$ 21,714
Buildings and improvements	274,215	277,330
Furniture, fixtures and equipment	108,573	103,707
	404,502	402,751
Accumulated depreciation	(73,817)	(65,257)
	$ 330,685	$ 337,494

We recorded depreciation expense of $6,298 and $5,193 for the three months ended June 30, 2013 and 2012, respectively, and $12,382 and $10,995 for the six months ended June 30, 2013 and 2012, respectively, relating to our property and equipment.

As of June 30, 2013, we had $5,199 of assets included in our property and equipment that we currently expect to request that SNH purchase from us for an increase in future rent pursuant to the terms of our leases with SNH; however, we are not obligated to make these sales and SNH is not obligated to purchase these assets.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Note 3. Accumulated Other Comprehensive Income

The following table details the changes in accumulated other comprehensive income for the six months ended June 30, 2013:

	Equity Investment in Affiliates Insurance Company	Investments in Available for Sale Securities (Restated)	Accumulated Other Comprehensive Income (Restated)
Balance at January 1, 2013	$ 99	$ 3,264	$ 3,363
Unrealized (loss) gain on investments, net of tax	(8)	60	52
Reclassification adjustment:			
Realized gain on investments, net of tax		(52)	(52)
Balance at March 31, 2013	91	3,272	3,363
Unrealized (loss) gain on investments, net of tax	(73)	(233)	(306)
Reclassification adjustment:			
Realized loss on investments, net of tax		70	70
Balance at June 30, 2013	$ 18	$ 3,109	$ 3,127

Accumulated other comprehensive income represents the net unrealized appreciation of investments and our share of other comprehensive income of Affiliates Insurance Company, or AIC.

Note 4. Income Taxes

For the six months ended June 30, 2013, we recognized tax expense from continuing operations of $356, which includes a tax benefit of $1,468 relating to a work opportunity tax credit program that expired in 2012 and which was retroactively reinstated on January 3, 2013 and extended by the American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013. As prescribed by FASB ASC Topic 740, Accounting for Income Taxes, the effects of tax law changes are recognized in the period in which new legislation is enacted; and the total effect of the reinstatement of the work opportunity tax credit program relating to 2012 employee wages is recorded as a component of income tax expense in continuing operations during the first quarter of 2013. For the six months ended June 30, 2013, we recognized a tax benefit from discontinued operations of $1,602. As of December 31, 2012, our federal net operating loss carry forward, which begins to expire in 2026 if unused, was approximately $70,765, and our tax credit carry forward, which begins to expire in 2022 if unused, was approximately $11,729. Our net operating loss carry forwards and tax credit carry forwards are subject to audit and adjustments by the Internal Revenue Service.

We maintain a partial valuation allowance against certain deferred tax assets related to impaired investments. When we believe that we will more likely than not realize the benefit of these deferred tax assets, we will record deferred tax assets as an income tax benefit in our condensed consolidated statements of income, which will affect our results of operations.

Note 5. Earnings Per Share

We computed basic earnings per common share, or EPS, for the three and six months ended June 30, 2013 and 2012 using the weighted average number of shares outstanding during the periods. Diluted EPS reflects the more dilutive earnings per common share amount calculated using the two-class method or the treasury stock method. The treasury stock method reflects dilutive potential common shares related to the Notes that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income applicable to common shareholders that would result from their assumed issuance. For the six months ended June 30, 2013, the effect of our convertible senior notes due in 2026, or the Notes, was not included in the computation of diluted EPS because to do so would have been antidilutive. Diluted EPS for the three months ended June 30, 2013 and for the three and six months ended June 30, 2012 reflects additional shares of our common stock, $.01 par value per share, or our common shares, related to the

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Notes that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income applicable to common shareholders that would result from their assumed issuance. The weighted average shares outstanding used to calculate basic and diluted EPS include 540 and 556 unvested common shares as of June 30, 2013 and 2012, respectively, issued to our officers and others under our equity compensation plan, or the Share Award Plan. Unvested shares issued under the Share Award Plan are deemed participating securities because they participate equally in earnings with all of our other common shares.

The following table provides a reconciliation of income from continuing operations to diluted loss from discontinued operations and a reconciliation of the number of common shares used in the computations of EPS from continuing operations to diluted EPS from continuing operations and diluted loss per share from discontinued operations:

	Three Months Ended June 30,					
	2013 (Restated)			2012 (Restated)		
	Income (loss)	Shares	Per Share	Income (loss)	Shares	Per Share
Income from continuing operations	$ 2,297	48,253	$ 0.05	$ 5,576	47,914	$ 0.12
Effect of the Notes	159	1,913		157	2,039	
Diluted income from continuing operations	$ 2,297	50,166	$ 0.05	$ 5,737	49,953	$ 0.11
Diluted loss from discontinued operations	$ (1,499)	50,166	$ (0.03)	$ (666)	49,953	$ (0.01)

	Six Months Ended June 30,					
	2013 (Restated)			2012 (Restated)		
	Income (loss)	Shares	Per Share	Income (loss)	Shares	Per Share
Income from continuing operations	$ 5,238	48,244	$ 0.11	$ 6,743	47,906	$ 0.14
Effect of the Notes	331			379	2,454	
Diluted income from continuing operations	$ 5,238	50,157	$ 0.11	$ 6,743	50,360	$ 0.14
Diluted loss from discontinued operations	$ (2,300)	50,157	$ (0.05)	$ (1,361)	50,360	$ (0.03)

Note 6. Fair Values of Assets and Liabilities

Our assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC Topic 820. We apply the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and quoted prices in inactive markets.

Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

The table below presents the assets measured at fair value at June 30, 2013 and December 31, 2012 categorized by the level of inputs used in the valuation of each asset.

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FIVE STAR QUALITY CARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

	As of June 30, 2013				As of December 31, 2012			
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1) (Restated)**	**Significant Other Observable Inputs (Level 2) (Restated)**	**Significant Unobservable Inputs (Level 3)**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1) (Restated)**	**Significant Other Observable Inputs (Level 2) (Restated)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents (1)	$ 19,603	$ 19,603	$	$	$ 22,149	$ 22,149	$	$
Available for sale securities: (2)								
Equity securities								
Financial services industry	3,860	3,860			6,025	6,025		
Non-equity investment instrument	536	536						
REIT industry	576	576			484	484		
Utilities industry	484	484						
Other	1,637	1,637			775	775		
Total equity securities	7,093	7,093			7,284	7,284		
Debt securities								
International bond fund (3)	2,308		2,308		2,345		2,345	
High yield fund (4)	2,191		2,191		2,168		2,168	
Industrial bonds	3,893		3,893		5,186		5,186	
Government bonds	4,871	4,582	289		4,666	4,666		
Financial bonds	964		964		982		982	
Other	2,011		2,011		869		869	
Total debt securities	16,238	4,582	11,656		16,216	4,666	11,550	
Total available for sale securities	23,331	11,675	11,656		23,500	11,950	11,550	
Total	$ 42,934	$ 31,278	$ 11,656	$	$ 45,649	$ 34,099	$ 11,550	$

(1) Cash equivalents, consisting of money market funds held principally for obligations arising from our self-insurance programs.

(2) Investments in available for sale securities are reported on our balance sheet as current and long term investments in available for sale securities and are reported at fair value of $16,352 and $6,979, respectively, at June 30, 2013 and $12,920 and $10,580, respectively, at December 31, 2012. We estimate the fair value of our available for sale securities by reviewing each security s current market price, the ratings

of the security, the financial condition of the issuer and our intent and ability to retain the investment during temporary market price fluctuations or until maturity. In evaluating the factors described above, we presume a decline in value to be an other than temporary impairment if the quoted market price of the security is below the security s cost basis for an extended period. However, this presumption may be overcome if there is persuasive evidence indicating the value decline is temporary in nature, such as when the operating performance of the obligor is strong or if the market price of the security is historically volatile. Additionally, there may be instances in which impairment losses are recognized even if the decline in value does not fall within the criteria described above, such as if we plan to sell the security in the near term and the fair value is below our cost basis. When we believe that a change in fair value of an available for sale security is temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains and losses. When we determine that an impairment in the fair value of an available for sale security is an other than temporary impairment , we record a charge to earnings.

(3) The investment strategy of this fund is to invest principally in fixed income securities. The fund invests in such securities or investment vehicles as it considers appropriate to achieve the fund s investment objective, which is to provide an above average rate of total return while attempting to limit investment risk by investing in a diversified portfolio of U.S. dollar investment grade fixed income securities. There are no unfunded commitments and the investment can be redeemed weekly.

(4) The investment strategy of this fund is to invest principally in fixed income securities. The fund invests in such securities or investment vehicles as it considers appropriate to achieve the fund s investment objective, which is to provide an above average rate of total return while attempting to limit investment risk by investing in a diversified portfolio of primarily fixed income securities issued by companies with below investment grade ratings. There are no unfunded commitments and the investment can be redeemed weekly.

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Our investments in available for sale securities had amortized costs of $21,812 and $21,720 as of June 30, 2013 and December 31, 2012, respectively, had unrealized gains of $1,850 and $2,050 as of June 30, 2013 and December 31, 2012, respectively, and had unrealized losses of $331 and $270 as of June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, 47 of the securities we hold, with a fair value of $7,448, have been in a loss position for less than 12 months. At June 30, 2013, three of the debt securities we hold, with a fair value of $2,181, have been in a loss position for 12 months or longer. The amount of the unrealized losses for these investments was approximately $68. We do not believe these securities are impaired primarily because the financial conditions of the issuers of these securities remain strong with solid fundamentals, we intend to hold these securities until recovery and other factors that support our conclusion that the loss is temporary. During the six months ended June 30, 2013 and 2012, we received gross proceeds of $5,213 and $772, respectively, in connection with the sales of available for sale securities and recorded gross realized gains totaling $264 and $2, respectively, and gross realized losses totaling $294 and $3, respectively. We record gains and losses on the sales of our available for sale securities using the specific identification method.

During the six months ended June 30, 2013, we did not change the type of inputs used to determine the fair value of any of our assets and liabilities that we measure at fair value; however as described in Note 12, we did correct the classification of $11,656 and $11,550 as of June 30, 2013 and December 31, 2012, respectively, of our available for sale debt securities from Level 1 assets to Level 2 assets and corrected the disclosure of the fair value of our mortgage notes payable which increased $9,469 and $9,947 as of June 30, 2013 and December 31, 2012, respectively. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the six months ended June 30, 2013.

The carrying values of accounts receivable and accounts payable approximate fair value as of June 30, 2013 and December 31, 2012. The carrying value and fair value of the Notes were $24,872 and $24,879, respectively, as of June 30, 2013 and $24,872 and $24,623, respectively, as of December 31, 2012 and are categorized in Level 2 of the fair value hierarchy in their entirety. We estimate the fair value of the Notes using an average of the bid and ask prices of our then outstanding Notes on or about June 30, 2013. The carrying value and fair value of our mortgage notes payable were $38,175 and $42,158, respectively, as of June 30, 2013 and $46,260 and $53,115, respectively, as of December 31, 2012 and are categorized in Level 3 of the fair value hierarchy in their entirety. We estimate the fair values of our mortgage notes payable by using discounted cash flow analyses and currently prevailing market terms as of the measurement date. Because these Level 3 inputs are unobservable, our estimated fair value may differ materially from the actual fair value. We measured the fair value of our equity investment in AIC, which is an Indiana insurance company that we currently own in equal proportion as each of the other seven shareholders of that company (see Note 9), and categorized that investment in Level 2 of the fair value hierarchy in its entirety, by considering, among other things, the individual assets and liabilities held by AIC, AIC s overall financial condition and earning trends, and the financial condition and prospects for the insurance industry generally.

Note 7. Indebtedness

We have a $35,000 revolving secured line of credit, or our Credit Agreement, that is available for general business purposes, including acquisitions. The maturity date of our Credit Agreement is March 18, 2016. Borrowings under our Credit Agreement typically bear interest at LIBOR plus a premium of 250 basis points, or 2.69% as of June 30, 2013. We may draw, repay and redraw funds under our Credit Agreement until maturity, and no principal repayment is due until maturity. We made no borrowings under our Credit Agreement during the three and six months ended June 30, 2013 and 2012. As of June 30, 2013 and July 30, 2013, we had $0 outstanding under our Credit Agreement. We incurred facility costs related to our Credit Agreement of $90 and $287 for the three months ended June 30, 2013 and 2012, respectively, and $242 and $463 for the six months ended June 30, 2013 and 2012, respectively.

We are the borrower under our Credit Agreement and certain of our subsidiaries guarantee our obligations under our Credit Agreement, which is secured by our and our guarantor subsidiaries accounts receivable and related collateral. Our Credit Agreement provides for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including a change of control of us and the termination of our business management and shared services agreement, or our business management agreement, with Reit Management & Research LLC, or RMR.

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We also have a $150,000 secured revolving credit facility, or our Credit Facility, that is available for general business purposes, including acquisitions. The maturity date of our Credit Facility is April 13, 2015, and, subject to the payment of extension fees and meeting certain other conditions, includes options for us to extend the stated maturity date of our Credit Facility for two one-year periods. Borrowings under our Credit Facility typically bear interest at LIBOR plus a premium of 250 basis points, or 2.69% as of June 30, 2013. We may draw, repay and redraw funds under our Credit Facility until maturity, and no principal repayment is due until maturity. The weighted average interest rate for borrowings under our Credit Facility was 4.75% for the six months ended June 30, 2013. We made no borrowings under our Credit Facility during the three and six months ended June 30, 2012. As of June 30, 2013 and July 30, 2013, we had $0 and $10,000, respectively, outstanding under our Credit Facility. We incurred interest expense and other associated costs related to our Credit Facility of $433 and $416 for the three months ended June 30, 2013 and 2012, respectively, and $900 and $416 for the six months ended June 30, 2013 and 2012, respectively.

We are the borrower under our Credit Facility, and certain of our subsidiaries guarantee our obligations under our Credit Facility, which is secured by real estate mortgages on 15 senior living communities with 1,549 living units owned by our guarantor subsidiaries and our guarantor subsidiaries accounts receivable and related collateral. Our Credit Facility provides for acceleration of payment of all amounts payable upon the occurrence and continuation of certain events of default, including a change of control of us.

Our Credit Agreement and our Credit Facility contain a number of financial and other covenants, including covenants that restrict our ability to incur indebtedness or to pay dividends or make other distributions under certain circumstances and require us to maintain financial ratios and a minimum net worth.

In October 2006, we issued $126,500 principal amount of the Notes. Our net proceeds from this issuance were approximately $122,600. The Notes bore interest at a rate of 3.75% per annum and were convertible into our common shares at any time. The conversion rate, which was subject to adjustment, was 76.9231 common shares per $1 principal amount of the Notes, which represented a conversion price of $13.00 per share. The Notes were guaranteed by certain of our wholly owned subsidiaries. The Notes were scheduled to mature on October 15, 2026. We could prepay the Notes at any time and the holders had rights to require us to purchase all or a portion of these Notes on each of October 15, 2013, 2016 and 2021 at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest. As of June 30, 2013 and December 31, 2012, we had $24,872 principal amount of the Notes outstanding, which are classified as current liabilities in our condensed consolidated balance sheets. We incurred interest expense and other associated costs related to the Notes of $245 and $264 for the three months ended June 30, 2013 and 2012, respectively, and $490 and $631 for the six months ended June 30, 2013 and 2012. We issued these Notes pursuant to an indenture which contained various customary covenants. As of June 30, 2013, we believe we were in compliance with all applicable covenants of this indenture. On July 8, 2013, we redeemed all of the $24,872 principal amount of the Notes outstanding at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest. We will record a loss on early extinguishment of debt, net of unamortized issuance costs, of $599 in the third quarter of 2013.

At June 30, 2013, four of our senior living communities were encumbered by mortgage notes with an aggregate outstanding principal balance of $38,175: (1) one of our communities was encumbered by a Federal National Mortgage Association, or FNMA, mortgage note and; (2) three of our communities were encumbered by Federal Home Loan Mortgage Corporation, or FMCC, mortgage notes. These mortgages contain FNMA and FMCC, respectively, standard mortgage covenants. We recorded a mortgage premium in connection with our assumption of the FNMA and FMCC mortgage notes as part of our acquisitions of the encumbered communities in order to record the assumed mortgage notes at their estimated fair value. We are amortizing the mortgage premiums as a reduction of interest expense until the maturity of the respective mortgage notes. The weighted average interest rate on these four notes was 6.91% as of June 30, 2013. Payments of principal and interest are due monthly until maturities at varying dates ranging from June 2023 to September 2032. We incurred mortgage interest expense, net of premium amortization, of $1,145 and $708 for the three months ended June 30, 2013 and 2012, respectively, and $1,844 and $1,425 for the six months ended June 30, 2013 and 2012, respectively, including some interest expense recorded in discontinued operations. Our mortgages require monthly payments into escrows for taxes, insurance and property replacement funds; withdrawals from these escrows require

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applicable FNMA and FMCC approval. As of June 30, 2013, we believe we were in compliance with all applicable covenants under these mortgages.

In May 2011, we entered into a bridge loan, or the Bridge Loan, agreement with SNH under which SNH agreed to lend us up to $80,000 to fund a part of the purchase price for our acquisitions of certain assets of six senior living communities located in Indiana, or the Indiana Communities. During 2011, we completed our acquisitions of the assets of the Indiana Communities and, in connection with the acquisitions, borrowed $80,000 under the Bridge Loan. During 2011, we repaid $42,000 of this advance with proceeds from a public offering of our common shares, or the Public Offering, and cash generated by operations. In April 2012, we repaid in full the principal amount then outstanding under the Bridge Loan, resulting in termination of the Bridge Loan. We funded the April 2012 repayment of the Bridge Loan with borrowings under our Credit Facility and cash on hand. We incurred interest expense and other associated costs related to the Bridge Loan of $39 and $314 for the three and six months ended June 30, 2012.

Note 8. Off Balance Sheet Arrangements

We have pledged our accounts receivable and certain other assets, with a carrying value, as of June 30, 2013, of $12,719 arising from our operation of 26 properties owned by SNH and leased to us to secure SNH s borrowings from its lender, FNMA. As of June 30, 2013, we had no other off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Note 9. Related Person Transactions

We were formerly a 100% owned subsidiary of SNH, SNH is our largest landlord and our largest stockholder and we manage senior living communities for SNH. In 2001, SNH distributed substantially all of our then outstanding common shares to its shareholders. As of June 30, 2013, SNH owned 4,235 of our common shares, or approximately 8.8% of our outstanding common shares. One of our Managing Directors, Mr. Barry Portnoy, is a managing trustee of SNH. Mr. Barry Portnoy s son, Mr. Adam Portnoy, also serves as a managing trustee of SNH.

As of June 30, 2013, we leased 188 senior living communities (including 11 senior living communities that we have classified as discontinued operations) and two rehabilitation hospitals (which we have classified as discontinued operations) from SNH. Under our leases with SNH, we pay SNH minimum rent plus percentage rent based on increases in gross revenues at certain properties. Our total minimum annual rent payable to SNH as of June 30, 2013 was $198,984, excluding percentage rent. Our total rent expense under all of our leases with SNH, net of lease inducement amortization, was $50,866 and $49,920 for the three months ended June 30, 2013 and 2012, respectively, and $101,466 and $99,723 for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, we had outstanding rent due and payable to SNH of $17,883 and $17,522, respectively. During the six months ended June 30, 2013, pursuant to the terms of our leases with SNH, we sold $15,901 of improvements made to properties leased from SNH, and, as a result, our annual rent payable to SNH increased by approximately $1,272. As of June 30, 2013, our property and equipment and assets in our discontinued operations included $5,679 for similar improvements we have made to properties we lease from SNH that we currently expect to request that SNH purchase from us for an increase in future rent; however, we are not obligated to make these sales and SNH is not obligated to purchase those assets.

As of June 30, 2013, we managed 39 senior living communities for the account of SNH. We manage these SNH communities pursuant to long term management agreements on substantially similar terms. In connection with the management agreements, we and SNH have entered into three pooling agreements, two pooling agreements which pool our management agreements with SNH for communities that include assisted living units, or the AL Pooling Agreements, and a third pooling agreement, which pools our management agreements with SNH for communities that include only independent living units, or the IL Pooling Agreement. One of our AL Pooling Agreements includes 20 identified communities. The second AL Pooling Agreement includes the management agreements for the remaining communities that include assisted living units that we currently manage for SNH (other than with respect to the senior living community in New York described below). Each of the AL Pooling Agreements and the IL Pooling Agreement

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aggregates the determinations of fees and expenses of the various communities that are subject to the applicable pooling agreement, including determinations of our incentive fees.

We earned management fees from SNH of $2,281 and $4,576 for the three and six months ended June 30, 2013, respectively, and $1,080 and $2,148 for the three and six months ended June 30, 2012, respectively, with respect to the communities we manage. We expect that we may enter additional management arrangements with SNH for senior living communities that SNH may acquire in the future on terms similar to those management arrangements we currently have with SNH. For example, on April 16, 2013, SNH entered an agreement to acquire a senior living community located in Georgia with 93 assisted living units; on July 15, 2013, SNH entered an agreement to acquire a senior living community located in Tennessee with 60 assisted living units; and on July 29, 2013, SNH entered an agreement to acquire two senior living communities located in Georgia with a total of 153 assisted living units. If these acquisitions are completed, we expect to manage these senior living communities pursuant to separate long term management agreements with SNH on terms similar to those management arrangements that we currently have with SNH for senior living communities that include assisted living units and that these management agreements would be added to the second AL Pooling Agreement. Each of these acquisitions is subject to due diligence and other conditions and there can be no assurance that any of these acquisitions will be completed or that we will manage any of these communities.

We manage a portion of a senior living community in New York that is not subject to the requirements of New York healthcare licensing laws, consisting of 198 living units, pursuant to a long term management agreement with SNH. The terms of this management agreement are substantially consistent with the terms of our other management agreements with SNH for communities that include assisted living units, except that the management fee payable to us is equal to 5% of the gross revenues realized at that portion of the community, and there is no incentive fee payable to us under this management agreement. In order to accommodate certain requirements of New York healthcare licensing laws, SNH subleases a portion of this senior living community that is subject to those requirements, consisting of 111 living units, to an entity, D&R Yonkers LLC, which is owned by SNH s President and Chief Operating Officer and its Treasurer and Chief Financial Officer. We manage this portion of the community pursuant to a long term management agreement with D&R Yonkers LLC. Pursuant to that management agreement, D&R Yonkers LLC pays us a management fee equal to 3% of the gross revenues realized at that portion of the community and we are not entitled to any incentive fee under that agreement.

We and SNH have agreed that SNH will offer for sale 10 senior living communities we lease from SNH, which we have classified as discontinued operations. Our rent payable to SNH will be reduced if and as these sales may occur pursuant to our leases with SNH. We can provide no assurance these communities will be sold or what the terms of any sale may provide. As of June 30, 2013, we and SNH had entered an agreement to sell one of these communities, a SNF with 112 living units, for a sales price of $2,550. This sale is subject to conditions and may not occur, may be delayed or the terms may change. If and when this SNF is sold, our annual minimum rent payable to SNH will decrease by 10% of the net proceeds of the sale to SNH, in accordance with the terms of our applicable lease with SNH.

As discussed above in Note 7, in May 2011, we and SNH entered into the Bridge Loan, under which SNH lent to us $80,000. In April 2012, we repaid in full the then outstanding principal amount under the Bridge Loan, resulting in the termination of the Bridge Loan. We incurred interest expense and other associated costs on the Bridge Loan of $39 and $314 for the three and six months ended June 30, 2012, respectively.

RMR provides business management and shared services to us pursuant to our business management agreement. RMR also provides management services to SNH. One of our Managing Directors, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Mr. Barry Portnoy s son, Mr. Adam Portnoy, is an owner of RMR and serves as President, Chief Executive Officer and a director of RMR. Our other Managing Director, Mr. Gerard Martin, is a director of RMR. Mr. Bruce Mackey, our President and Chief Executive Officer, is an Executive Vice President of RMR and Mr. Paul Hoagland, our Treasurer and Chief Financial Officer, is a Senior Vice President of RMR. SNH s executive officers are officers of RMR and SNH s President and Chief Operating Officer is a director of RMR. Our Independent Directors also serve as independent directors or independent trustees of other public companies to which RMR provide management services. Mr. Barry Portnoy serves as a managing director or managing trustee of those

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companies, including SNH, and Mr. Adam Portnoy serves as a managing trustee of a majority of those companies, including SNH. In addition, officers of RMR serve as officers of those companies.

Pursuant to our business management agreement with RMR, we recognized aggregate business management, administrative and information system service fees of $3,829 and $3,285 for the three months ended June 30, 2013 and 2012, respectively, and $7,161 and $6,578 for the six months ended June 30, 2013 and 2012, respectively. These amounts are included in general and administrative expenses in our condensed consolidated statements of income. We also lease our headquarters from an affiliate of RMR for annual rent as of July 2013 of approximately $767, which amount is subject to fixed increases. Our rent expense for our headquarters, which included our utilities and real estate taxes that we are required to pay as additional rent, under this lease, was $347 and $355 for the three months ended June 30, 2013 and 2012, respectively, and $694 and $709 for the six months ended June 30, 2013 and 2012, respectively.

We, RMR, SNH and five other companies to which RMR provides management services each currently own 12.5% of AIC, an Indiana insurance company. All of our Directors, all of the trustees and directors of the other publicly held AIC shareholders and nearly all of the directors of RMR currently serve on the board of directors of AIC. RMR provides management and administrative services to AIC pursuant to a management and administrative services agreement with AIC.

As of June 30, 2013, we have invested $5,209 in AIC since its formation in November 2008. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Directors are also directors of AIC. Our investment in AIC had a carrying value of $5,703 and $5,629 as of June 30, 2013 and December 31, 2012, respectively. We recognized income of $79 and $76 for the three months ended June 30, 2013 and 2012, respectively, and $155 and $121 for the six months ended June 30, 2013 and 2012, respectively, related to our investment in AIC. We and the other shareholders of AIC have purchased property insurance providing $500,000 of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. This program was modified and extended in June 2013 for a one year term, and we expect to pay a premium, including taxes and fees, of $5,428 in connection with that renewal, which amount may be adjusted from time to time as we acquire or dispose of properties that are included in this program. We periodically consider the possibilities for expanding our insurance relationships with AIC to include other types of insurance and may in the future participate in additional insurance offerings AIC may provide or arrange. We may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we are not obligated to do so. By participating in this insurance business with RMR and the other companies to which RMR provides management services, we expect that we may benefit financially by possibly reducing our insurance expenses or by realizing our pro rata share of any profits of this insurance business.

Note 10. Discontinued Operations

In 2011, we decided to offer for sale two SNFs we owned located in Michigan with a total of 271 living units. On April 30, 2013, we completed the sale of these two SNFs for an aggregate sales price of $8,000, which included as part of the sales price the prepayment by the buyer of the then outstanding $7,510 of United States Department of Housing and Urban Development mortgage debt that encumbered these SNFs.

In August 2011, we agreed with SNH that SNH should sell one assisted living community we lease from SNH located in Pennsylvania with 103 living units. We and SNH are in the process of offering this assisted living community for sale and, if sold, our annual minimum rent payable to SNH will decrease by 9.0% of the net proceeds of the sale to SNH, in accordance with the terms of our applicable lease with SNH.

In September 2012, we completed the sale of our pharmacy business to Omnicare. We received $34,298 in sale proceeds from Omnicare, including $3,789 in working capital and excluding transaction costs and taxes. We recorded a pre-tax capital gain on the sale of the pharmacy business of $23,347. In connection with the sale, Omnicare did not acquire the real estate we owned associated with one pharmacy located in South Carolina. We intend to sell this real estate and we

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recorded a $350 asset impairment charge during the third quarter of 2012 to reduce the carrying value of this property to its estimated fair value less costs to sell. The fair value of assets held for sale is determined based upon the use of appraisals, input from market participants, and our experience selling similar assets.

In June 2013, we agreed with SNH that SNH will offer for sale 10 senior living communities we lease from SNH with 721 living units. Seven of these 10 communities with 578 living units are SNFs and three of these 10 communities with 143 living units are assisted living communities. As of June 30, 2013, we and SNH had entered an agreement to sell one of the 10 communities, a SNF with 112 living units, for a sales price of $2,550. This sale is subject to conditions and may not occur, may be delayed or the terms may change. If and when this SNF is sold, our annual minimum rent payable to SNH will decrease by 10% of the net proceeds of the sale to SNH, in accordance with the terms of our applicable lease with SNH. We are in the process of offering the other nine communities for sale, and if sold, our annual minimum rent payable to SNH will decrease between 8.75% and 10% of the net proceeds of the sales to SNH, in accordance with the terms of our applicable leases with SNH. We recorded a $1,231 asset impairment charge during the second quarter of 2013 to reduce the assets we own relating to these 10 communities to their estimated fair market values.

Also in June 2013, we decided to offer for sale one assisted living community we own with 32 living units. We are in the process of offering this community for sale but we can provide no assurance that a sale of this community will occur.

In August 2013, we and SNH entered into a purchase agreement with certain unrelated parties, pursuant to which SNH agreed to sell the real estate associated with two rehabilitation hospitals and certain related assets, and in connection with such sale, we agreed to transfer the operations of those hospitals and several leased in-patient and out-patient clinics that are affiliated with those hospitals to those third parties. We and SNH completed the sale and transfer of our rehabilitation hospital business on December 31, 2013. Our rehabilitation hospital business, which we classified as discontinued operations during the third quarter of 2013, is retrospectively accounted for as discontinued operations throughout this Amended Quarterly Report.

We have reclassified the condensed consolidated balance sheets, the condensed consolidated statements of income and the consolidated statement of cash flows for all periods presented to show the financial position, results of operations and cash flows of our pharmacies, our rehabilitation hospital business and the communities that have been sold or are expected to be sold as discontinued. Below is a summary of the operating results of these discontinued operations included in the condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30,		**Six months ended June 30,**	
	2013 (Restated)	**2012 (Restated)**	**2013 (Restated)**	**2012 (Restated)**

Revenues	$ 38,055	$ 57,976	$ 80,134	$ 118,127
Expenses	(39,264)	(59,112)	(82,805)	(120,538)
Impairment of long-lived assets	(1,231)		(1,231)	
Benefit for income taxes	941	470	1,602	1,050
Net loss	$ (1,499)	$ (666)	$ (2,300)	$ (1,361)

Note 11. Litigation Settlement

On May 29, 2012, we entered into a settlement agreement, or the Settlement Agreement, with subsidiaries of Sunrise Senior Living, Inc., or Sunrise, pursuant to which we agreed to settle our long running litigation with Sunrise, involving amounts charged by Sunrise to us for certain insurance programs for senior living communities previously managed by Sunrise for us. Pursuant to the Settlement Agreement, Sunrise paid us $4,000 in cash and we recorded a gain of $3,365, net of legal fees, in our condensed consolidated statements of income.

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Note 12. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of our Quarterly Report, we identified certain errors primarily related to the accounting for income taxes. The Audit Committee of our Board of Directors, or our Audit Committee, after consideration of relevant facts and circumstances and after consultation with our management, concluded that our consolidated financial statements for the years ended December 31, 2012 and 2011 contained within our 2012 Annual Report, and our condensed consolidated financial statements for the quarters ended March 31, 2013 and June 30, 2013 contained within our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and our Quarterly Report, respectively, should be restated, and that those financial statements previously filed with the SEC should no longer be relied upon.

Our condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012 are restated to correct certain errors related to the accounting for income taxes and other errors. We have corrected our condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012 to reflect the effects of the restatement of our 2011 and 2012 annual financial statements. The accounting for income tax errors relate to, among other things, the measurement of deferred tax assets for net operating losses and tax credits and the measurement of deferred tax assets and liabilities for temporary differences related to fixed assets, intangible assets and investments.

Prior to 2011, we recognized a valuation allowance for most of our net deferred tax assets; therefore, errors in the measurement of our deferred tax assets and liabilities for years prior to 2011 were substantially offset by corresponding errors in the valuation allowance, with minimal net impact to our consolidated financial statements. We have corrected the errors relating to the quarter ended June 30, 2013 by decreasing the income tax provision by $133 and $277 for the three and six months ended June 30, 2013, respectively. We have corrected the errors for the three and six months ended June 30, 2012 by decreasing the income tax provision by $255 and $336, respectively.

In addition, as part of the restatement, our condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012 also have been adjusted to correct certain other errors in those periods, including:

- In 2013, we discovered certain errors relating to our security deposit liability. We have corrected the errors relating to 2013 by decreasing senior living revenues by $256 and $407 for the three and six months ended June 30, 2013, respectively. We have corrected the errors relating to the three and six months ended June 30, 2012 by increasing senior living revenues by $54 and $125, respectively.

- In the fourth quarter of 2013, we determined that certain assets acquired and placed into service as of June 30, 2013 and December 31, 2012 were not recorded in the proper time period. We have corrected the balance sheet error by recording $126 and $5,622 of fixed asset additions and related accrued liabilities as of June 30, 2013 and December 31, 2012, respectively.

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- We made certain other immaterial corrections that impacted our condensed consolidated statements of income, including adjustments to general and administrative and depreciation expense, and made other balance sheet classification changes that are not material, individually or in aggregate, in the restated condensed consolidated financial statements included herein.

The net impact of correcting the errors resulted in an increase to our shareholders equity of $7,031 and $6,749 at June 30, 2013 and December 31, 2012, respectively, and a decrease to net income of $27 and an increase to net income of $178 for the three and six months ended June 30, 2013, respectively, and an increase of $272 and $375 for the three and six months ended June 30, 2012, respectively.

We corrected the presentation and disclosure of our consolidated statements of cash flows to separately identify the net cash flows from discontinued operations, by category and in total, and corrected certain other immaterial errors in cash flow presentation. These corrections increased cash provided by operating activities by $1,602 and $1,050 for the six months ended June 30, 2013 and 2012, respectively.

We have also corrected the footnote presentation in Note 6 of the classification of $11,656 and $11,550 as of June 30, 2013 and December 31, 2012, respectively, of our available for sale debt securities from Level 1 assets to Level 2 assets as defined in the fair value hierarchy and corrected the disclosure of the fair value of our mortgage notes payable which increased $9,469 and $9,947 as of June 30, 2013 and December 31, 2012, respectively.

In the third quarter of 2013, in connection with entering into a purchase agreement with SNH and certain unrelated parties, we reclassified our rehabilitation hospital business as discontinued operations and our rehabilitation hospital business is retrospectively presented as discontinued operations throughout the financial statements. These reclassifications to discontinued operations had no impact upon our shareholders equity or net income but these reclassifications decreased our income from continuing operations by $626 and $866, and decreased our loss from discontinued operations by those same amounts for the three and six months ended June 30, 2013, respectively. These reclassifications decreased our income from continuing operations by $26 and $143, and decreased our loss from discontinued operations by those same amounts for the three and six months ended June 30, 2012, respectively.

The financial information included in the financial statements and the Notes thereto reflect the effects of the corrections and retrospective adjustments described above.

The following tables summarize the effect of the retrospective adjustments to reflect discontinued operations and the correction of errors by financial statement line item for the three and six months ended June 30, 2013 and 2012, and as of December 31, 2012:

Consolidated Balance Sheet data:

Accounts receivable	$ 56,763	$	$	$ (62)	$	$ 1,612	$ 1,550	$ 58,313	$ (13,873)	$ 44,440
Prepaid expenses and other current assets	19,382	10,450	(1,763)			1,045	9,732	29,114	(592)	28,522
Assets of discontinued operations	4,978				1		1	4,979	15,226	20,205
Total current assets	133,798	10,450	(1,763)	(62)	1	2,657	11,283	145,081	761	145,842
Property and equipment, net	331,172			149	125		274	331,446	(761)	330,685
Other long term assets	42,916	(2,180)					(2,180)	40,736		40,736
Total assets	558,886	8,270	(1,763)	87	126	2,657	9,377	568,263		568,263
Accounts payable	23,553					2,340	2,340	25,893	(1,156)	24,737
Accrued expenses	20,792	(277)			125	317	165	20,957	(203)	20,754
Accrued compensation and benefits	43,059							43,059	(4,713)	38,346
Due to related persons	18,840					950	950	19,790		19,790
Accrued real estate taxes	11,175					(950)	(950)	10,225	(25)	10,200
Security deposits	8,997			(243)			(243)	8,754		8,754
Liabilities of discontinued operations	2,175			(18)	1		(17)	2,158	6,097	8,255
Total current liabilities	172,882	(277)		(261)	126	2,657	2,245	175,127		175,127
Other long term liabilities	5,674	101					101	5,775		5,775
Total long term liabilities	76,191	101					101	76,292		76,292
Additional paid in capital	354,671			81			81	354,752		354,752
Accumulated deficit	(46,877)	6,856	(1,763)	267			5,360	(41,517)		(41,517)
Cumulative other comprehensive income	1,537	1,590					1,590	3,127		3,127
Total shareholders equity	309,813	8,446	(1,763)	348			7,031	316,844		316,844
Total liabilities and shareholders equity	$ 558,886	$ 8,270	$ (1,763)	$ 87	$ 126	$ 2,657	$ 9,377	$ 568,263	$	$ 568,263

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[redacted]

Consolidated Statement of Income data:							
Senior living revenue	$ 269,081	$	$ (253)	$ (253)	$ 268,828	$ (1)	$ 268,827
Rehabilitation hospital revenue	28,343				28,343	(28,343)	
Total revenues	351,858		(253)	(253)	351,605	(28,344)	323,261
Senior living wages and benefits	130,466		(76)	(76)	130,390		130,390
Rehabilitation hospital expense	24,710				24,710	(24,710)	
Rent expense	50,936				50,936	(2,657)	48,279
Depreciation and amortization	6,651		(20)	(20)	6,631	(46)	6,585
Total operating expenses	346,119		(96)	(96)	346,023	(27,413)	318,610
Operating income	5,739		(157)	(157)	5,582	(931)	4,651
Income from continuing operations before income taxes and equity in earnings of Affiliates Insurance Company	4,437		(157)	(157)	4,280	(931)	3,349
Provision for income taxes	(1,854)	418		418	(1,436)	305	(1,131)
Income from continuing operations	2,662	418	(157)	261	2,923	(626)	2,297
Loss from discontinued operations	(1,837)	(285)	(3)	(288)	(2,125)	626	(1,499)
Net income	$ 825	$ 133	$ (160)	$ (27)	$ 798	$	$ 798
Per Share Data:							
Basic income per share from:							
Continuing operations	$ 0.06				$ 0.06		$ 0.05
Discontinued operations	(0.04)				(0.04)		(0.03)
Net income per share - basic	$ 0.02				$ 0.02		$ 0.02
Diluted income per share from:							
Continuing operations	$ 0.06				$ 0.06		$ 0.05
Discontinued operations	(0.04)				(0.04)		(0.03)
Net income per share - diluted	$ 0.02				$ 0.02		$ 0.02

For the Three Months Ended June 30, 2013

As Reported **As Restated**

		Error Corrections	
Consolidated Statement of Comprehensive Income:			
Net income	$ 825	$ (27)	$ 798
Other comprehensive income (loss):			
Unrealized gain on investments in available for sale securities, net of tax	(390)	157	(233)
Realized loss (gain) on investments in available for sale securities reclassified and included in net income, net of tax	117	(47)	70
Unrealized gains on equity investment in Affiliates Insurance Company	(73)		(73)
Other comprehensive income (loss)	(346)	110	(236)
Comprehensive income	$ 479	$ 83	$ 562

[redacted]

Consolidated Statement of Income data:							
Senior living revenue	$ 538,471	$	$ (404)	$ (404)	$ 538,067	$	$ 538,067
Rehabilitation hospital revenue	55,824				55,824	(55,824)	
Total revenues	703,089		(404)	(404)	702,685	(55,824)	646,861
Senior living wages and benefits	263,086		(269)	(269)	262,817		262,817
Rehabilitation hospital expense	49,604				49,604	(49,604)	
Rent expense	101,129				101,129	(4,837)	96,292
Depreciation and amortization	13,089		(39)	(39)	13,050	(95)	12,955
Total operating expenses	693,792		(308)	(308)	693,484	(54,536)	638,948
Operating income	9,297		(96)	(96)	9,201	(1,288)	7,913
Income from continuing operations before income taxes and equity in earnings of Affiliates Insurance Company	6,823		(96)	(96)	6,727	(1,288)	5,439
Provision for income taxes	(850)	72		72	(778)	422	(356)
Income from continuing operations	6,128	72	(96)	(24)	6,104	(866)	5,238
Loss from discontinued operations	(3,368)	205	(3)	202	(3,166)	866	(2,300)
Net income	$ 2,760	$ 277	$ (99)	$ 178	$ 2,938	$	$ 2,938
Per Share Data:							
Basic income per share from:							
Continuing operations	$ 0.13				$ 0.13		$ 0.11
Discontinued operations	(0.07)				(0.07)		(0.05)
Net income per share - basic	$ 0.06				$ 0.06		$ 0.06
Diluted income per share from:							
Continuing operations	$ 0.13				$ 0.14		$ 0.11
Discontinued operations	(0.07)				(0.08)		(0.05)

Net income per share - diluted	$ 0.06		$ 0.06	$ 0.06

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	For the Six Months Ended June 30, 2013		
	As Reported	Error Corrections	As Restated
Consolidated Statement of Comprehensive Income:			
Net income	$ 2,760	$ 178	$ 2,938
Other comprehensive income (loss):			
Unrealized gain on investments in available for sale securities, net of tax	(289)	116	(173)
Realized loss (gain) on investments in available for sale securities reclassified and included in net income, net of tax	30	(12)	18
Unrealized gains on equity investment in Affiliates Insurance Company	(81)		(81)
Other comprehensive income (loss)	(340)	104	(236)
Comprehensive income	$ 2,420	$ 282	$ 2,702

[redacted]

Consolidated Statement of Cash Flows data:								
Net income	2,760	277	(99)		178	2,938		2,938
Depreciation and amortization	13,089		(39)		(39)	13,050	(95)	12,955
(Gain) loss from discontinued operations	3,368		3	1,819	1,822	5,190	(1,288)	3,902
Provision for losses on recievables	2,842		683		683	3,525	(785)	2,740
Changes in assets and liabilities:								
Accounts receivable	(9,719)		(269)	(221)	(490)	(10,209)	2,234	(7,975)
Prepaid expenses and other assets	9,377	(544)		636	92	9,469	91	9,560
Accounts payable and accrued expenses	(15,623)	267		(415)	(148)	(15,771)	21	(15,750)
Accrued compensation and benefits	3,088					3,088	(44)	3,044
Due to related persons, net	1,315			62	62	1,377		1,377
Other current and long term liabilities	(1,473)		404	(62)	342	(1,131)	(1)	(1,132)
Cash provided by operating activities	9,487		683	1,819	2,502	11,989	133	12,122
	(26,255)					(26,255)	2,543	(23,712)

Acquisition of property and equipment						
Proceeds from disposition of property and equipment held for sale	15,901			15,901	(2,567)	13,334
Cash used in investing activities	(14,158)			(14,158)	(24)	(14,182)
Repayments of mortgage notes payable	(575)	37	37	(538)		(538)
Cash used in financing activities	(575)	37	37	(538)		(538)
Net cash used in operating activities of discontinued operations	(81)	(3,608)	(3,608)	(3,689)	(133)	(3,822)
Net cash provided by investing activities of discontinued operations		8,603	8,603	8,603	24	8,627
Net cash used in financing activities of discontinued operations		(7,534)	(7,534)	(7,534)		(7,534)
Net cash used in discontinued operations	(81)	(2,539)	(2,539)	(2,620)	(109)	(2,729)

[redacted]							
Consolidated Statement of Income data:							
Senior living revenue	$ 269,040	$	$ 53	$ 53	$ 269,093	$	$ 269,093
Rehabilitation hospital revenue	26,386				26,386	(26,386)	
Total revenues	322,826		53	53	322,879	(26,386)	296,493
Senior living wages and benefits	130,240		12	12	130,252		130,252
Rehabilitation hospital expense	23,872				23,872	(23,872)	
Rent expense	49,849				49,849	(2,418)	47,431
General and administrative	15,389		45	45	15,434		15,434
Depreciation and amortization	6,276		(20)	(20)	6,256	(53)	6,203
Total operating expenses	312,156		37	37	312,193	(26,343)	285,850
Operating income	10,670		16	16	10,686	(43)	10,643
Income from continuing operations before income taxes and equity in earnings of Affiliates Insurance Company	9,344		16	16	9,360	(43)	9,317
Provision for income taxes	(4,108)	274		274	(3,834)	17	(3,817)
Income from continuing operations	5,312	274	16	290	5,602	(26)	5,576
Income from discontinued operations	(674)	(19)	1	(18)	(692)	26	(666)
Net income	4,638	255	17	272	4,910		4,910
Per Share Data:							
Basic income per share from:							
Continuing operations	$ 0.10				$ 0.12		$ 0.12
Discontinued operations	(0.01)				(0.02)		(0.02)
Net income per share - basic	$ 0.09				$ 0.10		$ 0.10
Diluted income per share from:							
Continuing operations	$ 0.10				$ 0.12		$ 0.11
Discontinued operations	(0.01)				(0.02)		(0.01)
Net income per share - diluted	$ 0.09				$ 0.10		$ 0.10

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	For the Three Months Ended June 30, 2012		
	As Reported	Error Corrections	As Restated
Consolidated Statement of Comprehensive Income:			
Net income	4,638	272	4,910
Other comprehensive income (loss):			
Unrealized gain on investments in available for sale securities, net of tax	94	(38)	56
Realized loss (gain) on investments in available for sale securities reclassified and included in net income, net of tax			
Unrealized gains on equity investment in Affiliates Insurance Company	(3)		(3)
Other comprehensive income (loss)	91	(38)	53
Comprehensive income	4,729	234	4,963

[redacted]

Consolidated Statement of Income data:							
Senior living revenue	$ 535,775	$	$ 123	$ 123	$ 535,898	$	$ 535,898
Rehabilitation hospital revenue	53,173				53,173	(53,173)	
Total revenues	640,842		123	123	640,965	(53,174)	587,791
Senior living wages and benefits	262,026		36	36	262,062		262,062
General and administrative	30,844		89	89	30,933		30,933
Rehabilitation hospital expense	47,991				47,991	(47,991)	
Rent expense	99,628				99,628	(4,836)	94,792
Depreciation and amortization	12,165		(39)	(39)	12,126	(105)	12,021
Total operating expenses	626,850		86	86	626,936	(52,933)	574,003
Operating income	13,992		37	37	14,029	(241)	13,788
Income from continuing operations before income taxes and equity in earnings of Affiliates Insurance Company	11,444		37	37	11,481	(241)	11,240
Provision for income taxes	(5,063)	347		347	(4,716)	98	(4,618)
Income from continuing operations	6,502	347	37	384	6,886	(143)	6,743
Income from discontinued operations	(1,495)	(11)	2	(9)	(1,504)	143	(1,361)
Net income	5,007	336	39	375	5,382		5,382
Per Share Data:							
Basic income per share from:							
Continuing operations	$ 0.14				$ 0.14		$ 0.14
Discontinued operations	(0.03)				(0.03)		(0.03)
Net income per share - basic	$ 0.11				$ 0.11		$ 0.11
Diluted income per share from:							
Continuing operations	$ 0.14				$ 0.14		$ 0.14

Discontinued operations		(0.03)			(0.03)		(0.03)
Net income per share - diluted	$	0.11		$	0.11	$	0.11

	For the Six Months Ended June 30, 2012		
	As Reported	Error Corrections	As Restated
Consolidated Statement of Comprehensive Income:			
Net income	5,007	375	5,382
Other comprehensive income (loss):			
Unrealized gain on investments in available for sale securities, net of tax	281	(113)	168
Realized loss (gain) on investments in available for sale securities reclassified and included in net income, net of tax	1		1
Unrealized gains on equity investment in Affiliates Insurance Company	(4)		(4)
Other comprehensive income (loss)	278	(113)	165
Comprehensive income	5,285	262	5,547

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[redacted]

Consolidated Statement of Cash Flows data:								
Net income	5,007	336	39		375	5,382		5,382
Depreciation and amortization	12,165		(39)		(39)	12,126	(105)	12,021
Loss from discontinued operations	1,495		(2)	1,159	1,157	2,652	(241)	2,411
Stock-based compensation	490		89		89	579		579
Provision for losses on receivables	2,153					2,153	(325)	1,828
Changes in assets and liabilities:								
Accounts receivable	(1,722)		36	90	126	(1,596)	(287)	(1,883)
Prepaid expenses and other assets	3,515	(389)		292	(97)	3,418	25	3,443
Accounts payable and accrued expenses	2,140	53		(1,433)	(1,380)	760	1,105	1,865
Accrued compensation and benefits	5,101					5,101	(301)	4,800
Due to related persons, net	(2,703)			81	81	(2,622)		(2,622)
Other current and long term liabilities	984		(123)	970	847	1,831	(1,056)	775
Cash provided by operating activities	28,460			1,159	1,159	29,619	(1,185)	28,434
Acquisition of property and equipment	(27,770)					(27,770)	2,482	(25,288)
Proceeds from disposition of property and equipment held for sale	13,967					13,967	(2,900)	11,067
Cash used in investing activities	(21,475)					(21,475)	(418)	(21,893)
Repayments of mortgage notes payable	(576)			70	70	(506)		(506)
Cash used in financing activities	(13,114)			70	70	(13,044)		(13,044)
Net provided by operating activities of discontinued operations	1,390			(450)	(450)	940	1,185	2,125
				(709)	(709)	(709)	418	(291)

Net cash used in investing activities of discontinued operations							
Net cash used in financing activities of discontinued operations			(70)	(70)	(70)		(70)
Net cash provided by discontinued operations	1,390		(1,229)	(1,229)	161	1,603	1,764

[redacted]

Consolidated Balance Sheet data:										
Accounts receivable	$ 53,134	$	$	$ (331)	$	$ 1,391	$ 1,060	$ 54,194	$ (14,989)	$ 39,205
Due from related persons						6,881	6,881	6,881		6,881
Prepaid and other current assets	29,644	9,507	(1,763)			1,681	9,425	39,069	(751)	38,318
Assets of discontinued operations	10,430				693		693	11,123	18,977	30,100
Total current assets	137,314	9,507	(1,763)	(331)	693	9,953	18,059	155,373	3,237	158,610
Property and equipment, net	335,612			110	4,929		5,039	340,651	(3,157)	337,494
Goodwill and other intangible assets	27,788							27,788	(80)	27,708
Other long term assets	42,267	(1,885)					(1,885)	40,382		40,382
Total assets	571,356	7,622	(1,763)	(221)	5,622	9,953	21,213	592,569		592,569
Accounts payable	36,920					2,768	2,768	39,688	(1,653)	38,035
Accrued expenses	22,996	(544)			4,929	827	5,212	28,208	(198)	28,010
Accrued compensation and benefits	40,986							40,986	(5,684)	35,302
Due to related persons	11,715					7,769	7,769	19,484		19,484
Accrued real estate taxes	11,905					(888)	(888)	11,017	(294)	10,723
Security deposits	9,727			(647)			(647)	9,080	(23)	9,057
Other current liabilities	15,299					(523)	(523)	14,776	(1)	14,775
Liabilities of discontinued operations	8,448			(21)	693		672	9,120	7,857	16,977
Total current liabilities	183,960	(544)		(668)	5,622	9,953	14,363	198,323	4	198,327
Other long term liabilities	6,615	101					101	6,716	(4)	6,712
Total long term liabilities	80,591	101					101	80,692	(4)	80,688
Additional paid in capital	354,083			81			81	354,164		354,164

Accumulated deficit	(49,637)	6,579	(1,763)	366	5,182	(44,455)	(44,455)
Cumulative other comprehensive income	1,877	1,486			1,486	3,363	3,363
Total shareholders equity	306,805						